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COMMISSION CLERK

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

DATE: February 1, 2007

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

FROM: Division of Economic Regulation (Revell, Rendell, Springer, Kyle, Edwards, Lingo)
Office of the General Counsel (Fleming)

RE: Docket No. 060257-WS – Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.
County: Polk

ALM

AGENDA: 02/13/07 – Regular Agenda – Proposed Agency Action except Issues 26, 27 and 28 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Pending

CRITICAL DATES: 02/13/07 (5-Month Effective Date-Extended by Utility (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060257.RCM.DOC

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Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation that owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently UI has ten separate rate case dockets before the Public Service Commission (Commission). These dockets are as follows:

Docket No.	Utility Subsidiary
060253-WS	Utilities, Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities, Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities, Inc. of Sandalhaven

This recommendation addresses Docket No. 060257-WS.

Cypress Lakes Utilities, Inc. (Cypress Lakes or utility) is a Class B utility providing water and wastewater service to approximately 1,287 residential and 43 general service customers in Polk County. Rates were last established for Cypress Lakes in its 2003 rate proceeding.[1]

On May 15, 2006, Cypress Lakes filed its Application for Rate Increase at issue in the instant docket. The utility requested the application be processed using the Proposed Agency Action (PAA) procedure. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

In its filing, Cypress Lakes requested interim rates. On July 18, 2006, the Commission approved interim rates designed to generate annual water revenues of $271,997, an increase of $23,640, or 9.52%; and annual wastewater revenues of $437,155, an increase of $76,918, or 21.35%.[2] The utility also asked for final rates designed to generate annual water revenues of $350,147, an increase of $101,790, or 40.99%; and annual wastewater revenues of $510,566, an increase of $150,329, or 41.73%.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0648-PCO-WS, issued August 2, 2006, in this docket. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

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[1] See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

[2] See Order No. PSC-06-0661-FOF-WS, issued August 7, 2006, in Docket No. 060257-WS, In re: Application for increase in wastewater rates in Polk County by Cypress Lakes, Inc.

Discussion of Issues

Quality of Service

Issue 1: Is the quality of service provided by Cypress Lakes Utilities, Inc. considered satisfactory?

Recommendation: Cypress Lakes' overall quality of service should be considered marginally satisfactory. (Edwards, Rendell)

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 a utility by evaluating three separate components of water operations. The components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and, (3) the utility's attempt to address customer satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Staff's analysis addresses each of these three components.

Cypress Lakes provides both water and wastewater service in Polk County and is located in Lakeland, Florida. The customer base consists of single-family residential (SFR) and general service customers. The water and wastewater treatment plants are located inside of the Cypress Lakes community and the water treatment facility is monitored by the Polk County Health Department (PCHD). The water treatment plant contains two wells, two hydro pneumatic tanks, a utility building, and transmission lines. The water treatment process consists of pumping, chlorine disinfection, and distribution, with no storage capability.

The wastewater treatment plant is an extended-aeration domestic wastewater treatment facility, with activated sludge. The DEP permitted capacity for the wastewater plant is 175,000 gallons per day on a 3 month average daily flow (3MADF) basis. The wastewater treatment plant processes the incoming waste, the activated sludge is removed and the effluent is routed to the reclaimed water processing system. The treated wastewater effluent is then transported, via a distribution line, to a holding pond to be used by two golf courses inside the Cypress Lakes community. The wastewater collection system consists of collection mains and lift stations that are located throughout the service area.

Staff reviewed the system maps, chemical analyses and use, monthly operation reports (MORs), the DEP and the Southwest Florida Water Management District (SWFWMD) permits, the water sanitary survey, the wastewater compliance inspection reports, field employees' records, vehicles, and customer complaint logs maintained by the utility. Staff also researched whether any customer complaints were filed with the Commission related to this utility. Staff conducted a field inspection of the water and wastewater facilities and spoke with DEP and PCHD officials regarding the quality of those facilities.

Quality of Product

Staff reviewed the records of the DEP, PCHD and the utility. The information contained in those records indicates the quality of both the water produced and wastewater treated meet environmental regulatory standards. However, on several occasions, since the 2005 inspection, the utility's product has not met the minimum chlorine residual requirement of 0.2 parts per million (ppm). Because its product did not meet standards, the utility was fined a total of $1,200 by PCHD and required to bring its product up to regulatory requirements. On December 21, 2006, the utility paid the fine. Currently, PCHD and DEP staff indicate the finished products of both plants meet regulatory standards. Therefore, staff believes the quality of the finished products for the water and wastewater plants is satisfactory.

Operating Condition of the Water and Wastewater Facilities

Staff conducted a field inspection of the water and wastewater treatment, water distribution, wastewater collection, and reclaimed water systems. Based on staff's investigation, the Cypress Lakes' plants appear to be in compliance with PCHD and DEP rules and regulations. In addition, the inspectors of both plants indicated the plants were in compliance with each agency's rules. Based on the above, staff recommends the operating condition of the utility's facilities be considered satisfactory.

Customer Satisfaction

On October 19, 2006, staff conducted a customer meeting in Lakeland, Florida, at the Cypress Lakes Clubhouse. There were approximately 350 customers that attended the meeting and twenty-one customers spoke. Staff also held an informal meeting earlier that day with members of the Cypress Lakes Homeowners Association (HOA). During the customer meeting, residents expressed numerous concerns, the majority of which dealt with the level of the rate increase, low/no chlorine residual, excessive line flushing and water quality.

Mr. Dennis McLaughlin, the president of the HOA, expressed concern about the excessive amount of line flushing by the utility. Mr. Richard Holzschuh and Mr. Robert Halleen, representatives of the HOA, sent staff several letters of concerns from the homeowners. They stated the majority of the homeowners believe the quality of the product, particularly the water, has deteriorated and they see no incentive for the utility to improve it. In addition, the homeowners have concerns regarding: justification for the interim rates granted by the Commission, who is paying for the water used for line flushing, and many others.

When staff met with the board members of the HOA prior to the customer meeting, staff explained the interim procedures mandated by Section 367.082, F.S. A HOA board member had a question regarding the appropriate test year. Staff's analysis of the test year approval indicated the historical test year did not have excessive customer growth or any other material anomaly that would make the 2005 test year not representative. In addition, staff responded to questions regarding the interim increase of 19% for water and 26% for wastewater. The customers also inquired whether the revenue requirement approved in the utility's last rate case was subsequently achieved by the utility. The HOA also requested an explanation as to how water and wastewater rates are determined. Staff addressed all customer questions at both meetings, as well as, numerous inquiries received by the HOA subsequent to the meetings.

Other questions discussed at the meeting concerned what new plant items were installed by the utility, extended line flushing, and water quality issues (bad odor and taste and clogged filters). Staff addressed the customers' questions and investigated these concerns by walking through the community to observe the fire hydrant flushing. At the time of the customer meeting, the lines were not being flushed; however, the next day line flushing resumed while staff was investigating the service area. Further, in a data request, staff asked the utility to explain why it was performing line flushing for extended periods of time and staff asked if installing a chlorine booster station would be a prudent solution to eliminate extensive flushing. In its response, the utility explained it was flushing lines in an effort to maintain adequate chlorine residual throughout the distribution system and stated "there is insufficient information available to answer the question. An engineering evaluation of the distribution system, water quality, and treatment options would need to be conducted before offering a response." Further, it stated, "The utility has not investigated the value of installing a booster station. Without having conducted an evaluation of the worth of installing a chlorine booster station or having initiated any engineering design efforts for such a project, it would be imprudent if not impossible to provide an estimate of probable cost." Staff is very concerned about the large quantity of water that is being used for flushing.

Regarding the customer water quality concerns, the utility stated it had initiated an analysis of the water produced from each of the two wells with particular attention to focus on total sulfide concentration. Further, the utility explained that one possibility under consideration is that sulfide levels have increased over time in the ground water and the water facility does not have the means to remove sulfides from the source water. The common procedure is to add chlorine in sufficient quantities to oxidize the sulfide compounds and produce a residual chlorine concentration. In certain circumstances, sulfide-reducing bacteria may grow on the interior surface of pipes causing discoloration of the water, produce strong odors, and precipitate out of solution in the form of elemental sulfur. Upon completion of the analysis, the utility expects to have a better understanding of the cause of the water quality problem and can then initiate a resolution.

Other customers expressed concerns regarding the capacity of the water treatment plant, since a new phase was about to be developed. In a data request, staff asked the utility whether it would be required to expand its plant to serve the new development. In its response, the utility stated it had reviewed the site for the new development (Phase 12), which will contain approximately 120 residential lots. In addition, a review of the historical water demand indicated sufficient permitted capacity is available to serve the proposed 120-lot subdivision. Further, the utility states it is not planning to expand the water plant's permitted capacity, at this time.

In its MFRs, the utility listed a total of 632 recorded customer complaints during the test year. These complaints were concerning water odor, low pressure, low chlorine, no water, black residue in toilets, billing and water meter readings. The majority of these complaints were billing and meter-related. In most cases, the utility's records indicate its response time was about 24 hours. Staff has reviewed the customer complaint logs and the records indicate the utility has attempted to satisfactorily address each complaint. However, the customers have strongly stated they are not satisfied with the utility. Based on the above, staff concludes the utility has been unable to fully satisfy its customers concerns.

<u>Summary</u>

Based on staff's review of the water and wastewater treatment, distribution, collection, and reclaimed water systems, it appears that all systems are operating properly and are in compliance with DEP and PCHD standards. Staff believes the majority of the customers are not satisfied with the current level of service provided by the utility. In addition, the customers stated the utility is not actively attempting to address their concerns. However, the utility has indicated it is in the process of connecting its current mains with the Phase 12 mains, and that would reduce the amount of flushing. Therefore, staff recommends the quality of service provided by Cypress Lakes be considered marginally satisfactory.

Rate Base

Issue 2: Should the rate base adjustments to which the utility agrees be made?

Recommendation: Yes. Based on audit adjustments which the utility agrees with, water plant in service should be reduced by $26,843, and wastewater plant in service should be increased by $217,552. Associated water accumulated depreciation should be decreased by $8,213, and wastewater accumulated depreciation should be increased by $53,726. (Revell)

Staff Analysis: Staff auditors recommended the following adjustments to rate base:

Audit Adjustments	Plant in Service		Accumulated Depreciation	
	Water	Wastewater	Water	Wastewater
Finding No. 1-Adjustment to Utility Plant in service		$200,004		($44,481)
Finding No. 2- Adj. to Accum. Depreciation			($3,968)	($163)
Finding No. 6-Adj. to Transportation Equipment-average adj.	($9,295)		$3,099	
Finding No. 6-Adj. to Transportation Equipment-average adj.	($17,548)	$17,548	$9,082	($9,082)
Adjustment Totals	($26,843)	$217,552	$8,213	($53,726)

The utility agrees with all of the above audit adjustments. Therefore, staff recommends that water plant in service be reduced by $26,843, and wastewater plant should be increased by $217,552. Associated water accumulated depreciation should be decreased by $8,213 and wastewater accumulated depreciation should be increased by $53,726.

Issue 3: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Cypress Lakes?

Recommendation: The appropriate WSC net rate base allocation for Cypress Lakes is $7,597 for water and $6,918 for wastewater. This represents an increase of $1,436 and $1,177 for water and wastewater, respectively. WSC depreciation expense should also be increased by $70 and $64, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Cypress Lakes is $11,089 for water and $10,364 for wastewater. This represents water plant and accumulated depreciation decreases of $17,841 and $5,181, respectively, and wastewater plant and accumulated depreciation increases of $14,637 and $4,274, respectively. In addition, depreciation expense should be decreased by $914 for water and increased by $469 for wastewater. (Fletcher)

Staff Analysis: On MFR Schedule A-3, the utility reflected a WSC rate base allocation of $6,161 for water and $5,741 for wastewater. Cypress Lakes also recorded $33,917 of its UIF rate base allocation to the water system only. Staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Cypress Lakes and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. As discussed below, staff believes several adjustments are necessary to the WSC and UIF rate bases before they should be allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS[3]. First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices the auditors had requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate simple average WSC rate base before any allocation is $2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, staff recommends that the appropriate simple average UIF rate base before any allocation is $1,113,433 as reflected in UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, the Commission found that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, the Commission found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

[3] 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.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one half; (2) If the customer is an availability customer only, the customer is counted as one half; (3) If the water company is a distribution company only, the customer is counted as one half; and, (4) If the wastewater company is a collection company only, the customer is counted as one half." Staff believes that these additional four factors unnecessarily complicate the allocation process versus the use of an ERC-only methodology. With this additional methodology, staff notes that WSC's ERC count will not conform to the ERC count in each Florida subsidiaries' annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by the Commission to set rates for water and wastewater utilities. Accordingly, staff recommends that UI should use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the above, staff recommends that the appropriate WSC net rate base allocation for Cypress Lakes is $7,597 for water and $6,918 for wastewater. This represents an increase of $1,436 and $1,177 for water and wastewater, respectively. WSC depreciation expense should also be reduced by $70 and $64, for water and wastewater, respectively. Further, staff recommends the appropriate UIF rate base allocation for Cypress Lakes is $11,089 for water and $10,364 for wastewater. This represents water plant and accumulated depreciation decreases of $17,841 and $5,181, respectively, and wastewater plant and accumulated depreciation increases of $14,637 and $4,274, respectively. In addition, depreciation expense should be decreased by $914 for water and increased by $469 for wastewater.

Issue 4: Should other rate base adjustments be made in calculating final rates?

Recommendation: Yes. Water pro forma plant should be reduced by $4,343, and wastewater pro forma plant should be reduced by $8,696. Water and wastewater accumulated depreciation and depreciation expense should be reduced by $203 and $483, respectively. (Revell)

Staff Analysis: In Schedule A-3 of its MFRs, the utility requested the inclusion of $4,343 of pro forma water plant and $8,696 of wastewater pro forma plant additions. Also included was $203 and $483 of water and wastewater accumulated depreciation.

Based on the MFR dollar amounts and the documentation provided by the utility, staff believes these additions are normal recurring plant additions. If normal recurring plant additions were allowed, a strong argument could be made that contributions in aid of construction (CIAC) and accumulated amortization of CIAC should also be projected forward another year due to the expected growth, as well as billing determinants and expenses. This would have the effect of changing the approved 2005 historical test year to a projected test year. Because of the utility's assertion in its test year request letter that the 2005 historical test period is representative of a full year of operation and the expected growth for the utility, staff recommends that these normal recurring plant additions be removed from plant.

Overall, staff recommends that water and wastewater pro forma plant be reduced by $4,343 and $8,696, respectively, and that accumulated depreciation and depreciation expense be reduced by $203 and $483 for water and wastewater, respectively.

Issue 5: What is the used and useful percentage for the water treatment plant?

Recommendation: The water treatment plant should be considered 100% used and useful. (Edwards)

Staff Analysis: In its MFRs, the utility reflected the U&U percentage for the water treatment plant in excess of 100%. The utility stated the system consists of simple chlorination and the only storage is in hydro pneumatic tanks with no high service pumping. Thus, the utility stated that all demands must be met by well pumping capacity and used and useful was calculated on peak demand. The utility stated that its peak demand was 410 gallons per minute (gpm).

The utility has two wells with a total capacity of 1,500 gpm. In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. By taking the largest 770 gpm well out of service, the utility reflected a firm reliable capacity of 730 gpm, which is the capacity of the smaller well. The utility's calculation of firm reliable capacity is consistent with Commission practice. See Order No. PSC-03-0647-PAA-WS (at 14), issued May 28, 2003, in Docket No. 020407-WS. The utility used the average of the five highest days (within a 30 day period in the test year) because an anomaly occurred on the single maximum day of the test year. Further, the utility included a 500 gpm fire flow requirement and it calculated a five-year growth margin of 71 gpm. The result exceeded 100% used and useful.

For small water systems that do not have storage capacity, the demand for the water system has to be supplied by the well capacity alone. The utility has to provide sufficient capacity to meet its maximum day, as well as its peak hour demands. Most smaller water utilities measure water gallons pumped on a daily basis, not on a per-minute or even per-hour basis. Daily measurements generate average demand and will not reflect what the peak demand is at a given minute or hour on that day. In determining the demand to use for U&U purposes, the Commission uses gallons per minute (gpm), as opposed to a gallons per day (gpd), as the basis for those water systems without storage. Without actual measurements for the peak hour or minute demand, some type of estimation is appropriate in order to recognize the utility's demand requirements based on the number of customers during the test year.

While staff agrees the water system is 100% U&U, we disagree with the utility's method to determine the water customer demand factor.

The Commission has recognized peaking factors of 2.0 applied to the maximum day demand to determine peak hour demands to calculated U&U water plant without storage. Further, the maximum day should be a day exclusive of any abnormal events such as fire flows and line breaks.[4] In its MFRs, the utility stated that the maximum day demand was 492,000 gpd which occurred on October 2005. However, an anomaly occurred on that date and the utility used the highest day (295,000 gpd) of the five highest days within a 30 day period of the test year. Thus, two times the maximum day is 590,000 gpd, or 410 gpm (590,000 gpd /1,440 minutes/day.) Staff believes the utility should have used the average of the highest five days in a 30 day period (264,000 gpd), which results in a peak demand of 367 gpm. Since the last rate case, the utility has not increased it plant capacity and at that time the facility was considered 100% U&U.

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[4] See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

Adding a fire flow allowance of 500 gpm to the 367 gpm peak demand equals 867 gpm, before a growth allowance. Since the firm reliable capacity of the system is 730 gpm, staff recommends that the water system should be considered 100% U&U.

Issue 6: What is the level of unaccounted for water, is any portion excessive, and, if so, should any adjustments be made?

Recommendation: The test year unaccounted for water level is 12.62%, of which 2.62% is excessive. No adjustment is necessary to the U&U calculation because the plant is 100% used and useful before consideration of growth. However, purchased power and chemical expenses should be reduced by $287 and $106, respectively, for a total reduction of $393. (Edwards, Revell)

Staff Analysis: It is the Commission's practice to allow 10% of the total water treated as an acceptable level of unaccounted for water for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc.[5] In its revised MFRs, the utility reported 66,278,000 gallons of water pumped during the test year and 8,364,000 gallons of water were unaccounted, or 2.62%. Since Cypress Lakes recorded a total of 12.62% of unaccounted for water, staff recommends, in accordance with Commission practice, that 2.62% be considered excessive. Accordingly, adjustments should be made to remove 2.62% of direct expenses associated with water treatment. Staff recommends that purchased power expenses should be reduced by $287 and chemicals by $106, respectively, for a total reduction of $393.

[5] See Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, and Order No. PSC- 00-2005-PAA-WU, issued June 7, 2000, in Docket No. 000331-WU.

Issue 7: What is the used and useful percentage for the utility's wastewater treatment plant?

Recommendation: Overall, the wastewater treatment plant should be considered 95.71% U&U. (Edwards)

Staff Analysis: In its MFRS, the utility calculated the U&U percentage of the wastewater treatment plant by taking the sum of the maximum 3 month average daily flows (3MADF) of 142,511 gpd and an allowance of 24,888 gpd for growth. It then divided that total by the plant's DEP permitted capacity of 175,000 gpd. The result was 95.66%. The utility did not make any adjustments for inflow and infiltration (I&I) in its calculations.

In calculating its growth allowance, the utility used the total gallons of water sold to single family residential (SFR) customers to estimate the wastewater customer growth on a total company basis for the years 2001-2005. It then used linear regression to project five years of growth beyond the test year. This resulted in a total wastewater growth allowance of 224 ERCs or 45 ERCs per year for five years. The utility calculated the 111 gpd consumption per ERC by taking the test year 3MADF of 142,511 gallons divided by average customers of 1,283. Thus, the utility's growth allowance was 24,888.

Rule 25-30.432, F.A.C., provides the U&U determination for a wastewater treatment plant should be based on, among other things, the DEP permitted capacity, the wastewater flows (using the same basis as the permitted capacity), an allowance for growth, infiltration and inflow, and whether the permitted capacity differs from the design capacity.

Staff reviewed the utility's calculation and agrees with the utility methodology with one exception. In calculating the growth allowance, the utility had a mathematical error and the correct amount should be 24,975 gpd/ERC (45 ERCs/year x 5 years x 111 gpd/ERC).

In addition, staff has reviewed the utility's MFRs and staff's analysis does not reflect excessive I&I. As such, staff does not believe that I&I is an issue in this case. Based on the above, staff recommends that the wastewater treatment plant be considered 95.71% U&U.

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

1)	Permitted Capacity of Plant (on Annual Average Daily Flow basis)	175,000	gallons per day (gpd)
2)	Max. 3 Month Average Daily Flow	142,511	gpd
3)	Growth		
	A) Average Test Year Consumption/ERCS:	111	ERCs
	B) Annual Customer Growth	45	ERCs
	C) Statutory Growth Period	5	Years
	Growth Margin (3A x 3B x 3C)	24,975	gpd

[(2)+(3)-(4)]/(1) = **95.71**% Used and Useful

Issue 8: What are the used and useful percentages for the utility's wastewater collection and water distribution systems?

Recommendation: With the exception of a portion of Account 354; the wastewater collection system and the water distribution systems should be considered 100% U&U. A portion of plant in Account 354 should be considered 95.71% U&U.

As a result of the used and useful adjustments discussed in Issue 7 and this issue, net rate base should be reduced by $25,755. Corresponding adjustments should also be made to reduce depreciation expense by $1,870 and property taxes by $217. (Edwards, Revell)

Staff Analysis: In its filing, the utility calculated the U&U percentage for the collection and distribution systems to be 100%. The utility stated that all residential wastewater customers are water customers; therefore, only one calculation was necessary for the distribution and collection systems. The utility's calculation took the average number of the test year residential connections of 1,263 and a growth margin of 208 (41.6 ERCs x 5 years), for a sum of 1,471 connections. Since the present number of lots which have service available is 1,260, the result is 100% U&U (1,471/1,260 connections).

Staff reviewed the utility's calculation and agrees with the conclusion. In its last rate case, the utility was considered 100% U&U.[6] Based on the above, staff recommends the distribution and collections systems, with the exception of a portion of Account 354, should be considered 100% U&U.

However, in a review of Schedule A-6 of the MFRs, staff discovered that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred in December 2005, the last month of the test year. This transfer has the effect of decreasing the simple average balance in Account 380, Treatment and Disposal, while increasing the simple average balance in Account 354, Structures and Improvements. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, staff has applied a 4.29% non-U&U adjustment to Account 380. No adjustment was approved in the last case for Account 354. Therefore, a transfer from Account 380 to Account 354 in December 2005 has the effect of increasing rate base and revenue requirement.

Furthermore, Account 380 is the primary account used by the utility to account for its facilities used in its wastewater treatment operations, while Account 354 is normally used to account for such items as the utility offices, landscaping, or out-buildings. Account 354 does not usually contain costs for treatment plant. The utility has not justified this transfer. Therefore, staff has applied the same 4.29% non-U&U percentage recommended by staff for Account 380 to the amount of plant staff calculated that was transferred to Account 354. A portion of plant in Account 354 should be considered 95.71% U&U.

As a result of the adjustments discussed in Issue 7 and this issue, net rate base should be reduced by $25,755. Corresponding adjustments should also be made to reduce depreciation expense by $1,870 and property taxes by $217.

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[6] See Order No. PSC-03-0647-PAA-WS, p.14, issued May 28, 2003, in Docket No. 020407-WS.

Issue 9: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is $18,402 for water and $33,782 for wastewater based on the formula method. (Revell)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the utility's balance of O&M expenses. Due to the adjustments recommended in other issues, staff recommends that working capital of $18,402 and $33,782 should be approved for water and wastewater, respectively. This reflects a decrease of $3,388 to the utility's requested working capital allowance of $21,790 for water and a decrease of $3,498 from the utility's request of $37,280 for wastewater.

Issue 10: What is the appropriate rate base?

Recommendation: The appropriate water rate base for the test year ending December 31, 2005, is $733,072. The appropriate wastewater rate base of the period ending December 31, 2005, is $1,249,100. (Revell)

Staff Analysis: Staff has calculated Cypress Lakes' water and wastewater rate base using the utility's MFRs with adjustments as recommended in the proceeding issues, as $733,072 and $1,249,100, respectively.

Capital Structure

Issue 11: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.45% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Springer)

Staff Analysis: The return on equity (ROE) included in the utility's filing is 11.77%. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS[7] and an equity ratio of 40.14%.

As noted in Audit Finding No. 14, Utilities, Inc.'s average common equity balance of $90,787,422 should be adjusted upward by $3,093,004 to $93,880,426. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 40.14% to 40.95%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.95%, the appropriate ROE is 11.45%.[8] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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[7] Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

[8] Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 12: 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 ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005 is 8.40%. (Springer, Kyle)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.40%. The weighted average cost of capital included in the utility's filing is 8.44%. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Cypress Lakes Utility's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 14, Utilities, Inc.'s average common equity balance should be adjusted upward by $3,093,004. In addition, staff made an adjustment of $18,425 to decrease the balance of deferred income taxes.

In Audit Finding No. 15, staff auditors noted that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by $240. Further, the auditors discovered that deferred taxes for intangible plant were overstated by $18,665 for federal tax purposes. Accordingly, staff recommends that the balance of deferred taxes be decreased by $18,425, the net of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.45% is discussed in Issue 11. In addition, the auditors in staff Audit Finding No. 14 recommended an adjustment to the cost rate for long-term debt. The long-term debt cost rate was reduced from the utility proposed rate of 6.81% to 6.73%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding this adjustment.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 8.40%. Schedule No. 2 details staff's recommendation.

Net Operating Income

Issue 13: What adjustments, if any, should be made to the utility's test year revenue?

Recommendation: Water revenues should be increased by $5,246 and wastewater revenues should be increased by $2,582. (Revell)

Staff Analysis: A utility is required to annualize test year revenues to reflect the effect of any rate increase that accrued during the test year. In its MFRs, the utility made annualized revenue adjustments of $2,384 and $6,717 for water and wastewater, respectively. However, staff determined the proper annualized adjustments for water and wastewater should be $7,630 and $9,299, respectively.

Therefore, staff recommends that annualized water test year revenues be increased by $5,246 ($7,630 - $2,384), and annualized wastewater revenues should be increased by $2,582 ($9,299-$6,717).

Issue 14: Should audit net operating income adjustments be made?

Recommendation: Yes. Water and wastewater O&M expense should be reduced by $3,464 and $6,531, respectively. Additionally water depreciation expense should be reduced by $3,365, and wastewater depreciation expense should be increased by $15,190. (Revell)

Staff Analysis: The audit findings and recommended adjustments are listed in the table below:

Audit Adjustments	O&M expense		Depreciation Expense	
	Water	Wastewater	Water	Wastewater
Finding No. 1- Adj. to plant in service				$11,120
Finding No. 2- Adj. to depreciation expense			$3,968	($163)
Finding No. 6-Adjustment to reflect proper transportation expense	($2,799)	($2,549)	($3,100)	
Finding No. 6- Adj. to allocate depreciation expense			($4,233)	$4,233
Finding No. 8- various adjs. to O&M expense	($665)	($3,982)		
Adjustment Totals	($3,464)	($6,531)	($3,365)	$15,190

The utility agrees with all of the above audit adjustments. Therefore, staff recommends that water and wastewater O&M expense be reduced by $3,464 and $6,531, respectively. Additionally, staff recommends that water depreciation expense be decreased by $3,365, and wastewater expense be increased by $15,190.

Issue 15: What is the appropriate amount of allocated WSC and UIF expenses for Cypress Lakes?

Recommendation: Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Cypress Lakes are $42,890 and $1,932, respectively. As such, water O&M expenses and taxes other than income should be decreased by $1,158 and $88, respectively, and wastewater O&M expenses and taxes other than income should be decreased by $1,055 and $80, respectively. Further, the appropriate UIF O&M expenses for Cypress Lakes are $2,003 for water and $1,824 for wastewater. As such, water and wastewater O&M expense should be increased by $9 and $8, respectively. (Fletcher)

Staff Analysis: On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of $45,103 and taxes other than income of $2,100. Cypress Lakes also recorded total UIF allocated O&M expenses of $3,810. As discussed below, staff believes adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors and officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate WSC expenses, before any allocation, are $7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, staff recommends that the appropriate UIF O&M expenses before any allocation are $266,650.

As recommended in Issue 3, UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, staff recommends that the appropriate WSC O&M expenses and taxes other than income for Cypress Lakes are $42,890 and $1,932, respectively. As such, water O&M expenses and taxes other than income should be decreased by $1,158 and $88, respectively, and wastewater O&M expenses and taxes other than income should be decreased by $1,055 and $80, respectively. Further, staff recommends that the appropriate UIF O&M expenses for Cypress Lakes are $2,003 for water and $1,824 for wastewater. As such, water and wastewater O&M expense should be increased by $9 and $8, respectively.

Issue 16: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Cypress Lakes' salaries and wages should be decreased by $10,349 for water and $9,531 for wastewater. Accordingly, pensions and benefits should be reduced by $873 and $790 for water and wastewater, respectively, and payroll taxes should be reduced by $662 and $607 for water and wastewater, respectively. (Fletcher)

Staff Analysis: On MFR Schedule B-5, Cypress Lakes reflected historical water salaries and wages and pensions and benefits of $13,054 and $12,700, respectively. On MFR Schedule B-6, the utility reflected historical wastewater salaries and wages and pensions and benefits of $62,048 and $12,683, respectively. On MFR Schedule B-15, Cypress Lakes reflected historical payroll taxes of $5,847 for water and $5,681 for wastewater.

On MFR Schedule B-3, the utility requested pro forma increases in water salaries and wages, pensions and benefits, and payroll taxes of $13,229, $1,462, and $926, respectively, and requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of $12,329, $1,362, and $863, respectively. The pro forma salaries and wages represents increases of 20.72% for water and 19.87% for wastewater. The pro forma pensions and benefits represents increases of 11.20% for water and 10.74% for wastewater.

In Staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees through September 2006. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to June 2006, while the total average salaries from 2005 to 2006 increased $74,616. Staff notes, however, the total requested pro forma salary increases in UI's current docketed rate cases in Florida is $332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be $105,776.

From the information provided by UI, staff is unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982) Staff believes that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 affect the respective rate cases.

On January 18, 2007, the utility hand delivered a two-page document reflecting the title and duties of two new employees. However, this document did not contain the annual salary for these two employees nor did it show the utility's calculation of how their respective salaries are allocated to the UI's Florida subsidiaries. Further, the utility has not provided any information regarding any other employee changes from July 1, 2006, to the present.

With the exception of Sandalhaven (a negative pro forma salary adjustment of $573), staff believes the requested pro forma salary increases in UI's other respective rate cases are excessive. Staff notes the historical 5-year average salary increase of 4.51% is 177 basis points above the Commission's 2006 Price Index of 2.74%. With the exception of Sandalhaven, staff recommends that pro forma salary increases in all of UI's respective cases should be limited to the 4.51% above the 2005 historical salary amounts. The Commission has previously limited pro forma salary adjustments to a utility's historical average salary increases.[9] Thus, staff recommends that Cypress Lakes' salaries and wages should be decreased by $10,349 for water and $9,531 for wastewater. Accordingly, pensions and benefits should be reduced by $873 and $790 for water and wastewater, respectively, and payroll taxes should be reduced by $662 and $607 for water and wastewater, respectively.

[9] By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

Issue 17: What is the appropriate amount of rate case expense?

Recommendation: As a result of an audit finding, $2,379 and $2,311 of overstated rate case expense for the prior rate case for water and wastewater, respectively, should be removed.

The appropriate total rate case expense for the current docket is $84,859. This expense should be recovered over four years for an annual expense of $21,215, or $12,715 less than requested. The allocated portion of the annual expense to water and wastewater is $11,104 and $10,111, respectively. Rate case expense should be reduced by a total of $16,273 ($3,558 to correct inclusion of prior rate case expense + $12,715 to adjust current rate case expense.) (Revell)

Staff Analysis: As discussed in detail below, in its determination of rate case expense, staff believes that adjustments are necessary to reflect the appropriate amount of test year amortization.

Rate Case Expense Audit Finding

In its response to Audit Finding No. 7, the utility disagreed with the removal of prior rate case expense of $2,379 and $2,311 for water and wastewater, respectively. The utility stated that, although the annual amount was only $14,236, Cypress Lakes would incur costs shortly before hearing, during the hearing, and post hearing. The utility asserted that, while these costs could not have been known and measurable at the time the rate case expense from the prior case was approved, those costs are known and measurable now and should remain in test year O&M expenses.

First, staff notes the utility confused the Commission's regular agenda with a formal hearing because the last rate case did not go to hearing. Second, Cypress Lakes did not protest Order No. PSC-03-0647-PAA-WS regarding the Commission's decision of the prior rate case expense, and that order was consummated by Order No. PSC-03-0738-CO-WS, issued June 20, 2003. Third, the approved $14,236 annual amortization included Cypress Lakes' estimated costs to complete the prior case. Fourth, the combined incremental increase of $4,690 would translate into a total amount of $18,760 above the total $56,943 amount approved in the prior case. Fifth, in response to the audit, the utility did not provide any invoices or other documentation in support of the additional $18,760. Based on the above, staff recommends that the test year Regulatory Commission Expense – Rate Case Amortization should be decreased by $2,379 and $2,311 for water and wastewater, respectively, for overstated rate case expense, in order to reflect the previously approved amortization amount of $14,236 in test year O&M expenses.

Rate Case Expense for Prior Rate Proceeding

On MFR Schedule B-10, the utility combined $14,236 for prior unamortized rate case expense with its estimated rate case expense of $135,720 for this docket. This represents a total combined requested amount of $149,956 with a requested annual amortization amount of $37,489 ($149,956/4). Of the $37,489 proposed amortization expense, the amount associated with the prior case is $3,559 ($14,236/4). However, Cypress Lakes has not made any MFR adjustment to remove the annual amortization of prior rate case expense from its test year O&M expenses. The appropriate annual amortization of $14,236 for the prior case is already included in approved test year O&M expenses. If the utility's request to reamortize prior rate case expense without an adjustment to remove the annual amortization of the prior case was approved, Cypress Lakes would double recover the remaining $3,559 mentioned above. Further, according to Section 367.0816, F.S., and Order No. PSC-03-0647-PAA-WS, the utility's rates will be reduced on May 20, 2007. It is Commission practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.[10] Therefore, staff recommends that the $14,236 amount should be removed and O&M expenses should be reduced by $1,842 and $1,716 for water and wastewater, respectively, for a total reduction of $3,558.

Rate Case Expense for Current Case

The utility included a $135,720 estimate in its 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 November 27, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of $182,586. The components of the utility's estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Legal and Filing Fees	$53,500	$24,590	$48,500	$73,090
Consultant Fees - Seidman	5,000	3,076	3,025	6,101
Consultant - Virchow	18,032	22,435	309	22,744
WS In-House Fees	41,600	17,014	26,049	43,063
Office Temp Fees	0	2,141	17,859	20,000
Travel - WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	632	11,368	12,000
Notices	2,388	687	1,701	2,388
Total R/C Expense	$135,720	$70,575	$112,011	$182,586

[10] Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997,in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

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. Also, it is the utility's burden to justify its requested costs.[11] Further, the Commission has broad discretion with respect to allowance of rate case expense; however, 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.[12] As such, 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 the invoices for expenses for the law firm representing Cypress Lakes and Mr. Frank Seidman, a consultant, no hours should be removed relating to correcting MFR deficiencies. However, invoices from Krause Virchow, the firm that prepared the MFRs, indicated that firm had billed a total of $3,758 for the correction of deficiencies. Additionally, this firm estimated that additional expenses of $309 would be incurred to complete this case. This firm was responsible for the preparation of the utility's MFRs with the exception of U&U data. Staff does not believe the additional $309 is prudent as the MFRs were completed and all deficiencies were corrected several months ago. Staff therefore recommends this amount also be disallowed. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[13] Accordingly, staff recommends that $4,067 in rate case expense for Krause Virchow be disallowed.

The second adjustment relates to the utility's estimated legal fees and expenses to complete the rate case. The utility's counsel estimated 150 hours or $41,250 in fees plus $6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time was associated with each item. The list provided only a total number of hours and the total cost. While the descriptions of the items appeared reasonable, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As noted in the case background, UI currently has ten pending rate cases with the Commission. In eight out of the ten rate cases, the same 150 hour amount to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, staff made the assumption it included November, 2006 through February, 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. Staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, staff is aware of numerous other pending dockets, including the two other remaining UI rate cases and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of

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

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

[13] Order Nos. 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.

approximately 18 hours every day exclusively for these eight rate cases. Staff does not believe this is a reasonable assumption.

As noted above, it is the utility's burden to justify its requested costs. Staff believes that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda and attend to miscellaneous post PAA matters. This is consistent with hours allowed for completion by the Commission in the 2004 Labrador Utilities, Inc. (Labrador) rate case.[14] This amounts to a reduction in expense of $30,250.

Further, there was no breakdown provided for the $6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, staff calculated a travel allowance. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is $414. This was the amount of travel expense the Commission allowed for this law firm in the Labrador rate case supra. Staff calculated travel expenses of $389, using the current state mileage rate (215 miles x 2 trips x $.455 = $215), hotel rates from a website ($109) and a meal allowance ($65), but recommends $414 consistent with the 2004 Labrador case. Further, because legal counsel will also represent Sanlando Utilities, Inc., in Docket No. 060258-WS, and Lake Placid Utilities, Inc, in Docket No. 060260-WS, at this same agenda, staff believes that travel expenses should be allocated equally between the three rate cases. Therefore, staff believes $138 is the appropriate travel expense. In addition to travel expense, staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, staff believes $1,916 is a reasonable amount for miscellaneous disbursements. Therefore, staff believes disbursements should be decreased by $3,946 ($6,000 - $138 - $1,916). Accordingly, staff recommends that rate case expense be decreased by $34,196 ($30,250 + $3,946).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or $3,000 plus $25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. Staff believes that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.[15] However, staff is only aware of one subsequent data request from OPC regarding the U&U percentage. Staff believes that no more than two hours at $125 per hour is reasonable for this data request. Therefore, staff recommends that rate case expense be decreased by $2,250 (18 hours x $125).

The fourth adjustment relates to the costs by WSC employees to complete the case. In its rate case, the utility provided timesheets for WSC employees. WSC timesheets reflected 440.07 total actual hours for 12 employees totaling $17,012 in salaries. The timesheets indicated that Mr. Bill Thomas spent three hours, or $117, for Cypress Lakes Indexing, and Mr. Steven Dihel spent seven hours on "Cypress Lakes-Quarterly Consumption", 28 hours on "Cypress Lakes Index & Pass Through", and seven hours on Cypress Lakes Roll Forward", totaling $1,488. Staff believes that the

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[14] See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

[15] See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

utility has not met its burden of proof that these hours relate to the utility's current rate case. As such, staff recommends that the 51 hours or $1,605 should be disallowed.

Furthermore, in its rate case expense update, the utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the WSC employees estimated hours of 920.10 related to assistance with data requests and audit facilitation. Using these hours, the utility asserted that the WSC employees estimates to complete are $27,848, based on MFR rates of pay. Staff has two concerns regarding these estimated hours. First, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.[16] Staff believes a reasonable method to estimate WSC employee hours to complete the case is to utilize the average monthly hours of staff's adjusted actual hours. Using this method, staff calculated an estimate for WSC employees to complete the case of 88.3 hours, which represents a reduction of 831.8 hours or $22,746. Thus, staff recommends that rate case expense associated with WSC employees should be decreased by $24,353 ($1,605 + $22,346).

The fifth adjustment relates to WSC expenses for Office Temps. The utility did not include this expense in its MFRs; however, in its update, $20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests was not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable, although as mentioned above, the estimated hours appear to be excessive. As discussed above, it is the utility's burden to justify its requested costs. The utility indicated that it had incurred $2,141 in expenses for Office Temps, and provided invoices in support of this total. Staff believes that the additional $17,859 estimated by Cypress Lakes is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, staff recommends that rate case expense be decreased by $17,859.

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated $3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is $750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. Staff calculated travel expenses of $507, using a coach airfare for Delta Airlines in January ($229), current rental car rates ($104), hotel rates from a website ($109) and a meal allowance ($65), but recommends $750 consistent with the last Labrador case. Further, because WSC will be present on behalf of Sanlando Utilities, Inc., and Lake Placid Utilities, Inc., at this same agenda, staff believes that travel expenses should be allocated between the three utilities. Therefore, staff believes $250 is the appropriate travel expense. Accordingly, staff recommends that rate case expense be decreased by $2,950.

The seventh adjustment relates to WSC expenses for Federal Express Corporation (Fed Ex), copies and other miscellaneous costs. In its MFRs, the utility estimated $12,000 for these items. In support of this expense, the utility provided only $632 in identifiable costs for Cypress Lakes for

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

FedEx invoices for services through October 16, 2006. There was no breakdown or support for the remaining $11,368. UI has requested and received authorization from the Commission to keep its books and records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., the Commission found the following: "The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988."

Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then these are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by $12,000.

. The eighth adjustment relates to postage and customer notice costs. In its MFRs, the utility estimated that total costs for postage and notices would total $2,388. In its revised estimate, the estimated total to complete was $1,701. However, staff believes that due to an error in calculation, the utility intended the actual and estimated amount to be $3,075 ($687 actual to date + $2,388 estimated to complete). Staff has calculated that postage costs for three notices will total $1,449 using a bulk postage rate. The utility has incurred $687 in actual printing charges, and has estimated remaining charges for printing the customer notice for final rates will be $284. Based on a submitted invoice for an earlier, similarly-sized notice, staff believes that the cost to print the notice of final rates will total $200, for total printing costs of $887. Thus, total costs for postage and notices will total $2,336 ($1,449 + $887). Thus, staff recommends that rate case expense be decreased by $52 for expenses related to customer notices and mailing.

In summary, staff recommends that the utility's requested rate case expense be decreased by $50,860 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is $84,859. A breakdown of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual &Estimated	Staff Adjustments	Total Allowed
Legal and Filing Fees	$53,500	$73,090	($34,196)	$38,894
Consultant Fees- Seidman	5,000	6,101	(2,250)	3,851
Consultant Fees -Virchow	18,032	22,744	(4,067)	18,677
WSC In-house Fees	41,600	43,063	(24,353)	18,710
Office Temp Fees	0	20,000	(17,859)	2,141
Travel-WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	2,388	2,388	(52)	2,336
Total Rate Case Expense	$135,720	$182,586	($97,727)	$84,859
Annual Amortization	$33,930	$45,647	($24,432)	$21,215
Disallowed Yearly Expense				$12,715

As a result of an audit finding, $2,379 and $2,311 of overstated rate case expense for the prior rate case for water and wastewater, respectively, should be removed.

The appropriate total rate case expense for the current docket is $84,859. This expense should be recovered over four years for an annual expense of $21,215, or $12,715 less than requested. The allocated portion of the annual expense to water and wastewater is $11,104 and $10,111, respectively. Rate case expense should be reduced by a total of $16,273 ($3,558 to correct inclusion of prior rate case expense + $12,715 to adjust current rate case expense.)

Issue 18: Was rainfall during the 2005 test year abnormally high, and, therefore, result in understated test year consumption?

Recommendation: No. Rainfall during the 2005 test year was not abnormally high and did not result in understated test year consumption. (Lingo)

Staff Analysis: The Directors of the Cypress Lakes Homeowners Association (Directors) have expressed their concern and belief that 2005 test year consumption is understated due to abnormally high rainfall. These concerns were expressed during customer meetings held on October 19, 2006. Staff explained that 2005 test year rainfall had been analyzed and that it was within 6% of the preceding 30-year average. Therefore, staff did not believe adjustments to increase consumption were appropriate. The Directors disputed staff's calculated 30-year average rainfall value of 53 inches. The Directors stated that the correct average annual rainfall for Lakeland is 49 inches as reported in the Lakeland Ledger newspaper, and asked staff to either: a) determine and explain the reason for the difference in data; or b) accept the data from the Lakeland newspaper. Staff assured the Directors that we would revisit our rainfall analysis and include a discussion on the topic in the recommendation.

Staff has received several letters from the Directors subsequent to the customer meeting, reiterating their position that based on information in the Lakeland Ledger, there had been abnormally high rainfall in 2005. In a letter to the Directors dated December 6, 2006, staff provided the source of our weather data, which is the Southeast Regional Climate Center (SERCC). Overall direction of the Center is provided by the National Climatic Data Center and the National Environmental Satellite, Data, and Information Service of the National Oceanographic and Atmospheric Administration. The Commission pays a subscription fee in order to obtain various forms of weather data from the SERCC.

Staff re-analyzed the rainfall issue, and the results are presented in Table 1.

TABLE 1

ANALYSIS OF LAKELAND'S AVERAGE ANNUAL RAINFALL vs. LAKELAND'S TEST YEAR RAINFALL

	Sources of Weather Data			
	Lakeland Ledger	**SERCC: Lakeland Station 1**	**SERCC: Lakeland Station 2**	**Combined Data: Lakeland 1 + Lakeland 2**
Months included in reporting period	Unknown	Jan '48 – Aug '95 + Jan '98 – Apr '98	Nov '95 to present	Jan '48 to present (missing Sept, Oct '95)
Average rainfall: Jan '48 – Dec '95	Unknown	49.1 inches	N/A	N/A
Reported average annual rainfall	49.1 inches	N/A	N/A	30-yr avg (Jan '75 – Dec '04) = 53 inches
Reported rainfall: 2005 test year				56 inches (within 6% of 30-yr avg)

Sources: Lakeland Ledger, October 19, 2006; Information provided by the Southeast Regional Climate Center, January 15, 2007.

Lakeland 1 went off-line in mid-1995 and was replaced by another station, Lakeland 2. Staff's original request for average annual rainfall in Lakeland using the SERCC database resulted in a compilation of data from Lakeland 1 only, for the 1948 through 1995 time period. As shown in Table 1, the average annual rainfall reported in the Lakeland Ledger of 49.1 inches matches the annual average rainfall data from January 1948 through December 1995 as reported from Lakeland 1. It is possible that the source of the annual rainfall data for the Lakeland newspaper is unaware that a data query for average annual rainfall would only reflect data from 1948 through 1995. Staff subsequently requested all rainfall data available for both Lakeland 1 (1948 through 1995) and Lakeland 2 (1995 to the present). In order to correctly calculate Lakeland's average annual rainfall, data from both Lakeland 1 and Lakeland 2 must be combined, which results in a 30-year average rainfall value for Lakeland of 53 inches for the years 1975 through 2004.

As shown in the last column of Table 1, the reported rainfall during the 2005 test year was 56 inches, which is within 6% of Lakeland's preceding 30-year average annual rainfall of 53 inches. Based on the foregoing, rainfall during the 2005 test year was not abnormally high and therefore did not result in understated test year consumption.

Issue 19: What is the test year operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is $34,989 and $18,284 for water and wastewater, respectively. (Revell)

Staff Analysis: As shown on Schedule No. 3-A, after applying staff's adjustments, the test year net operating income before any revenue increase is $34,989 and $18,284 for water and wastewater, respectively. Staff's adjustments to operating income and expenses are shown on Schedule No. 3-B.

Revenue Requirement

Issue 20: What is the appropriate pre-repression revenue requirements for water and wastewater?

Recommendation: The following pre-repression revenue requirement should be approved: (Revell)

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Water	$253,603	$44,585	$298,188	17.58%
Wastewater	$362,819	$145,367	$508,186	40.07%

Staff Analysis: Cypress Lakes requested final rates designed to generate annual revenues of $350,147 and $510,566 for water and wastewater, respectively. These revenues exceed test year revenues by $101,790 (40.99%), and $150,329 (41.73%) for water and wastewater, respectively.

Based on 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 $298,188 and a wastewater revenue requirement of $508,186. These revenues exceed staff's adjusted test year revenues by $45,585, or 17.58%, for water and $145,367, or 40.07%, for wastewater. These increases are shown on attached Schedule Nos. 3-A and 3-B. These increases will allow the utility the opportunity to recover its expenses and earn an 8.40% return on its investment in water and wastewater rate base.

Rates and Rate Structure

Issue 21: What are the appropriate rate structures for the utility's various customer classes?

Recommendation: The appropriate rate structure for the water system's residential class is a continuation of its three-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The appropriate rate structure for the water system's non-residential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 30%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The current residential wastewater monthly gallonage cap should be lowered to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%. (Lingo)

Staff Analysis: The utility's current water system rate structure for the residential class consists of a three-tier inclining block rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was $6.49 per month, with usage blocks for monthly consumption of: a) 0-6 kgals in the first block; b) 6-12 kgals in the second block, and c) usage in excess of 12 kgals in the third block. The monthly usage charges prior to filing were $2.47 for usage in the first block, $3.72 for usage in the second block, and $4.95 for usage in the third block. The usage block rate factors are 1.0, 1.5, and 2.0 respectively. The general service usage charge prior to filing for rate relief was a uniform kgal charge of $2.69 for each kgal sold.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Specific data presented at the hearing included but was not limited to: 1) rainfall data indicating that several counties, including Polk County, were categorized as critically abnormal; and 2) both the U.S. Drought Monitor and the Long Term Palmer Index indicates that Polk County was experiencing severely abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.

Based on staff's analysis of the utility's billing data, coupled with the current declared severe water shortage, staff does not believe it is appropriate to recommend a less aggressive water rate structure than what is currently in place. Staff believes that the utility's current three-tiered rate structure, usage blocks and usage block rate factors are appropriate and recommends that they be retained. However, staff recommends that the BFC cost recovery allocation be reduced from its original accounting allocation of 45.1% to 30%, with the remaining 70% of costs recovered through the gallonage charge. By increasing the amount to be recovered through the gallonage charge, staff is able to design more effective water conserving rate structure that targets usage above 6 kgals per month while minimizing the rate impact on usage below 6 kgals per month.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, nonresidential customers would continue to pay their fair share of the cost of service.

The utility's current wastewater system rate structure consists of a BFC/gallonage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was $14.36 per month. The corresponding monthly gallonage charge for residential service was $2.92, capped at monthly usage of 6 kgal, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at $3.50 per kgal, with no usage cap.

Based on initial accounting allocations, the wastewater BFC cost recovery percentage was 32%. However, due to the capital-intensive nature of wastewater plants and the seasonality of the utility's customer base, staff recommends that the BFC cost recovery allocation be changed to 50%. Currently, the residential wastewater gallonage cap is 8 kgal per month. However, based on staff's analysis of the residential wastewater billing data, and estimated non-discretionary consumption per household per month, staff believes it is appropriate to lower the cap to 6 kgal per month.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's residential class is a continuation of its three-tier inclining-block rate structure. The current usage blocks and usage block rate factors should also remain unchanged. The appropriate rate structure for the water system's non-residential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 30%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The current residential wastewater monthly gallonage cap should be lowered to 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

Issue 22: Are repression adjustments appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, repression adjustments are appropriate for this utility. For the water system, test year kgals sold should be reduced by 828 kgals, purchased power expense should be reduced by $165, chemicals expense should be reduced by $61, and regulatory assessment fees (RAFs) should be reduced by $10. The final post-repression revenue requirement for the water system, excluding miscellaneous revenues of $2,017, should be $296,198. For the wastewater system, test year kgals sold should be reduced by 737 kgals, purchased power expense should be reduced by $875, chemicals expense should be reduced by $125, sludge removal expense should be reduced by $974, and RAFs should be reduced by $89. The final post-repression revenue requirement for the wastewater system, excluding miscellaneous revenues of $2,898, should be $503,226.

In order to monitor the effect of the rate changes, the utility should be ordered to file quarterly reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that a substantial portion (28.7%) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that approximately half of the utility's residential customers are seasonal. This analysis also showed that average residential consumption per customer, after excluding those bills below 1 kgal per month, was 4.4 kgals per month. This level of consumption indicates that there is a moderate amount of discretionary, or non-essential, consumption of approximately 1.4 kgals per month per customer while the utility's customers are in residence. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 828 kgals, purchased power expense should be reduced by $165, chemicals expense should be reduced by $61, and regulatory assessment fees (RAFs) should be reduced by $10. The final post-repression revenue requirement for the water system excluding miscellaneous revenues of $2,017, should be $296,198. For the wastewater system, test year kgals sold should be reduced by 737 kgals, purchased power expense should be reduced by $875, chemicals expense should be reduced by $125, sludge removal expense should be reduced by $875, and RAFs should be reduced by $89. The final post-repression revenue requirement for the wastewater system excluding miscellaneous revenues of $2,898, should be $503,226.

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

Issue 23: What are the appropriate water and wastewater rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A, and the appropriate wastewater monthly rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of $296,198, and the recommended wastewater rates produce revenues of $503,226. The utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. 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. In addition, the approved 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, Revell)

Staff Analysis: The appropriate pre-repression revenue requirements, excluding miscellaneous service charges, are $296,435 for the water system and $505,288 for the wastewater system. As discussed in Issue 21, staff recommends that the appropriate rate structure for the water system's residential class is a continuation of its three-tier inclining-block rate structure, with no changes made to the usage blocks or usage block rate factors. The BFC cost recovery percentage should be set at 30%. Staff recommends that the traditional BFC/uniform gallonage charge rate structure be applied to the general service class. As also discussed in Issue 21, staff recommends that the residential wastewater gallonage cap be lowered to 6 kgal, and that the BFC cost recovery percentage be set at 50%. As discussed in Issue 22, staff recommends that repression adjustments be made to the water and wastewater systems. Applying these rate design and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedules No. 4-A and No. 4-B. These rates are designed to recover a post-repression revenue requirement for the water system of $298,198, and a post-repression revenue requirement for the wastewater system of $503,226.

Staff notes that the recommended wastewater rates, and resulting bills at various usage levels, are greater than the utility's requested rates. The utility calculated their proposed rates based on the wastewater billing determinants originally filed in this case. During an analysis of this data, and as a result of a staff data request, the utility provided updated usage data that properly reflected temporary service connections and meter rereads. This revision to the original data resulted in fewer gallons used in staff's calculations to set rates, and therefore higher gallonage charges.

The utility should file revised water and wastewater 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 25-30.475(1), F.A.C. The approved 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 24: Should the utility be authorized to revise its water and wastewater miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its water and wastewater miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Revell)

Staff Analysis: The water and wastewater miscellaneous service charges currently in effect were approved for Cypress Lakes in 2000, and have not changed since that date. Similar charges have been the standard charge in other cases since at least 1990-a period of 16 years. Staff believes these charges should be updated to reflect current costs. Staff recommends that Cypress Lakes be allowed to increase its wastewater miscellaneous service charges from $15 to $21 for normal hours and from $15 to $42 for after hours. The current and recommended charges are shown below.

Water and Wastewater Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	$15	$21	$42
Normal Reconnection	$15	$15	$21	$42
Violation Reconnection	$25	$25	Actual Cost	Actual Cost
Premises Visit	$15	$15	$21	$42

Even though the service charges for Cypress Lakes have only been in effect since 2000, these charges are similar to other miscellaneous service charges that have not been updated in over 16 years, and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 60% in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,[17] the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff believes a $21 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,[18] and by Order No. PSC-05-0776-TRF-WS, issued July

[17] Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

[18] Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

26, 2005,[19] the Commission approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for Mad Hatter Utility, Inc.

In summary, staff recommends the utility's water and wastewater miscellaneous service charges of \$21 and after hours charges of \$42, be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date the notice was sent.

[19] Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

Issue 25: In determining whether any portion of the 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. Using these principles, staff recommends that no refund of water or wastewater revenues is required. (Revell)

Staff Analysis: By Order No. PSC-06-0661-FOF-WS, issued August 7, 2006, in Docket No. 060257-WS, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements are shown below:

	Revenue Requirement	Revenue Increase	Percentage Increase
Water	$271,997	423,640	9.52%
Wastewater	$437,155	$76,918	21.35%

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 and final rates is the twelve-month period ended December 31, 2005. Cypress Lakes 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 and the pro forma adjustments 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 $286,669 for water and $496,349 for wastewater. The water and wastewater revenue levels in the table above are greater than the interim revenues which were granted in Order No. PSC-06-0661-FOF-WS. Therefore, staff recommends that no interim refund for water or wastewater is required.

Issue 26: 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, F.S.?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $11,627 for water and $10,587 for 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 one month prior to the actual date of the required rate reduction. (Revell)

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 $11,627 for water and $10,587 for wastewater. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 one month 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.

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

Issue 27: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Order Nos. PSC-04-0358-FOF-WS and PSC-04-1275-AS-WS, to adjust its books to reflect the adjustments to all the applicable primary accounts required by these Orders?

Recommendation: Yes. Cypress Lakes Utilities, Inc. should be ordered to show cause in writing, within 21 days, why it should not be fined a total of $3,000 for its apparent failure to timely comply with the requirements of Order Nos. PSC-04-0358-FOF-WS and PSC-04-1275-AS-WS. The order to show cause should incorporate the conditions stated below in the staff analysis. (Fleming, Revell)

Staff Analysis: By Order No. PSC-03-0647-PAA-WS, issued on May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., (Show Cause Order) the Commission found that the utility's failure to keep its books and records was an apparent violation and ordered the utility to show cause why it should not be fined $3000. The utility responded to the show cause order and committed to changes that would improve its books and records. In Order No. PSC-04-0358-FOF-WS, issued on April 5, 2004, in Docket No. 020407-WS, (Final Order) the Commission ordered that the $3000 not be imposed based on the commitments made by the utility to adjust its books and records. In that same order, the Commission opened a separate docket to address the issue of noncompliance with regard to all Florida subsidiaries of Utilities, Inc. By Order No. PSC-04-1275-AS-WS, issued on December 23, 2004, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code (Settlement Order), the Commission approved the settlement whereby Cypress Lakes would adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order. Based on the settlement order, the appropriate adjustments to all the applicable primary accounts should have been accomplished no later than December 31, 2004.

In Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, the utility was ordered to make several accounting adjustments. According to the utility's general ledger, the ordered entries were not made until February 15, 2006. Staff believes that, because these adjustments were made at such a late date, this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to Order No. PSC-04-1275-AS-WS. Based on the audit, staff believes that the required adjustments to plant in service and accumulated depreciation were made in February 2006, effective for the calendar year ending December 31, 2005. Therefore, it appears that the appropriate adjustments were not made until almost 14 months after the due date of December 31, 2004.

Additionally, the utility has added several new developments since its last rate case. The utility's records, however, did not reflect any new additions to UPIS or CIAC for wastewater mains or lift stations. The auditors requested that the utility provide information about any additions since the last case. The requested information was included in the audit work papers. Staff's review of the documentation provided by the utility during the audit indicated that one addition was completed in late 2004, and two other additions were completed in 2005.

In its response to the audit, the utility agreed with the auditors, and indicated that it recognized certain assets were contributed by a developer and in service that were not recorded in either CIAC or the utility's general ledger. The utility indicated it would properly record these assets in UPIS and CIAC accordingly. While it appears the failure to make these accounting entries have little or no impact on revenue requirement or rates, the utility again failed to properly update its books and records in a timely manner.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 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, or any lawful order of the Commission. By failing to comply with the above-noted requirements of the Final and Settlement Orders in a timely manner, the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled 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 "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings should be initiated. Staff is especially concerned with Cypress Lakes' apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the Final Order and the subsequent Settlement Order. Staff notes that in the Settlement Order, issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the Final Order, issued approximately eight months apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, see Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., where staff notes that another Utilities, Inc. utility has failed to adjust its books and records. Staff believes that the continued pattern of disregard for the Commission's rules, statutes, and orders warrants more than just a warning. Accordingly, staff recommends that Cypress Lakes be made to show cause in writing, within 21 days, why it should not be fined $3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the Final Order and provide proof of such adjustments within 90 days of the Consummating Order.

Based on the above, staff recommends that Cypress Lakes be made to show cause in writing, within 21 days, why it should not be fined a total of $3,000 for its apparent violations noted above. Staff recommends that the show cause order incorporate the following conditions:

1. The utility's response to the show cause order should contain specific allegations of fact and law;

2. Should Cypress Lakes file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Cypress Lakes fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Further, the utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Issue 28: Should the utility be required to provide proof that is has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Cypress Lakes should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Revell)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Cypress Lakes should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 29: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, 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 the disposition of the show cause recommendation in Issue 27. When the PAA issues are final, the tariff and notices actions are complete, and the show cause has been resolved, this docket may be closed administratively. (Fleming, Revell)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, 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 the disposition of the show cause recommendation in Issue 27. When the PAA issues are final, the tariff and notices actions are complete, and the show cause has been resolved, this docket may be closed administratively.

Cypress Lakes Utilities, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/05

Schedule No. 1-A
Docket No. 060257-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	$1,394,454	$10,504	$1,404,958	($47,592)	$1,357,366
2	Land and Land Rights	509	0	509	0	509
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(441,149)	(203)	(441,352)	13,597	(427,755)
5	CIAC	(288,599)	0	(288,599)	0	(288,599)
6	Amortization of CIAC	73,149	0	73,149	0	73,149
7	Net Debit Deferred Income Taxes	0	0	0	0	0
8	Advances for Construction	0	0	0	0	0
9	Working Capital Allowance	0	21,790	21,790	(3,388)	18,402
10	**Rate Base**	$738,364	$32,091	$770,455	($37,383)	$733,072

Cypress Lakes Utilities, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/05

Schedule No. 1-B
Docket No. 060257-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	$2,323,319	$14,437	$2,337,756	$224,670	$2,562,426
2	Land and Land Rights	2,610	0	2,610	0	2,610
3	Non-used and Useful Components	0	(9,310)	(9,310)	(25,755)	(35,065)
4	Accumulated Depreciation	(701,311)	(483)	(701,794)	(57,517)	(759,311)
5	CIAC	(711,034)	0	(711,034)	0	(711,034)
6	Amortization of CIAC	155,692	0	155,692	0	155,692
7	CWIP	200,004	(200,004)	0	0	0
8	Advances for Construction	0	0	0	0	0
9	Working Capital Allowance	0	37,280	37,280	(3,498)	33,782
11	**Rate Base**	1,269,280	(158,080)	1,111,200	137,900	1,249,100

Cypress Lakes Utilities, Inc.
Adjustments to Rate Base
Test Year Ended 12/31/05

Schedule No. 1-C
Docket No. 060257-WS

	Explanation	Water	Wastewater
	Plant In Service		
1	Adjustment to UPIS. (AF 1).	$0	$200,004
2	To reflect the appropriate net WSC rate base.	$1,436	$1,177
4	To reflect the appropriate allocated plant from UIF.	($17,841)	$14,637
5	Adjustments to Pro Forma Plant.	($4,343)	($8,696)
6	To reflect simple average adjustment (AF 6)	($9,295)	$0
7	Adjustment to Transportation Equipment (AF 6).	($17,548)	$17,548
	Total	($47,592)	$224,670
	Non-used and Useful		
	To reflect net non-used and useful adjustment.	$0	($25,755)
	Accumulated Depreciation		
1	Adjustment to UPIS. (AF 1).	$0	($44,481)
2	To reflect the appropriate allocated plant from UIF.	$5,181	($4,274)
3	Adjustment to Pro Forma Plant.	$203	$483
4	Adjustment to Accumulated Depreciation (AF 2).	($3,968)	($163)
5	To reflect simple average adjustment (AF 6)	$3,099	$0
6	Adjustment to Transportation Equipment (AF 6).	$9,082	($9,082)
	Total	$13,597	($57,517)
	Working Capital		
	To reflect proper working capital	($3,388)	($3,498)

Cypress Lakes Utilities, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/05

Schedule No. 2
Docket No. 060257-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Pro rata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$124,044,203	$0	$124,044,203	($123,030,942)	$1,013,261	53.84%	6.81%	3.67%
2	Short-term Debt	11,347,000	0	$11,347,000	(11,254,311)	$92,689	4.93%	2.00%	0.10%
3	Preferred Stock	0	0	$0	0	$0	0.00%	0.00%	0.00%
4	Common Equity	90,787,422	0	$90,787,422	(90,045,821)	$741,601	39.41%	11.77%	4.64%
5	Customer Deposits	12,150	0	$12,150	0	$12,150	0.65%	6.00%	0.04%
6	Deferred Income Taxes	22,295	0	$22,295	0	$22,295	1.18%	0.00%	0.00%
10	**Total Capital**	$226,213,070	$0	$226,213,070	($224,331,074)	$1,881,996	100.00%		8.44%
Per Staff									
11	Long-term Debt	$124,044,203	$0	$124,044,203	($122,980,444)	$1,063,759	53.67%	6.73%	3.61%
12	Short-term Debt	11,347,000	0	$11,347,000	(11,249,692)	97,308	4.91%	2.00%	0.10%
13	Preferred Stock	0	0	$0	0	0	0.00%	0.00%	0.00%
14	Common Equity	90,787,422	3,093,004	$93,880,426	(93,075,341)	805,085	40.62%	11.45%	4.65%
15	Customer Deposits	12,150	0	$12,150	$0	12,150	0.61%	6.00%	0.04%
16	Deferred Income Taxes	22,295	(18,425)	$3,870	$0	3,870	0.20%	0.00%	0.00%
20	**Total Capital**	$226,213,070	$3,074,579	$229,287,649	($227,305,477)	$1,982,172	100.00%		8.40%

	LOW	HIGH
RETURN ON EQUITY	10.45%	12.45%
OVERALL RATE OF RETURN	7.99%	8.80%

Cypress Lakes Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/05

Schedule No. 3-A
Docket No. 060257-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requiremen t
1	**Operating Revenues:**	$245,865	$104,282	$350,147	($96,544)	$253,603	$44,585	$298,188
							17.58%	
	Operating Expenses							
2	Operation & Maintenance	$134,677	$39,639	174,316	(27,104)	147,212	0	147,212
3	Depreciation	47,869	0	47,869	(4,412)	43,457	0	43,457
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	22,994	5,506	28,500	(5,094)	23,406	2,006	25,412
6	Income Taxes	7,289	26,222	33,511	(28,972)	4,539	16,023	20,561
7	**Total Operating Expense**	212,829	71,367	284,196	(65,582)	218,614	18,029	236,642
8	**Operating Income**	$33,036	$32,915	$65,951	($30,962)	$34,989	$26,557	$61,546
9	**Rate Base**	$738,364		$770,455		$733,072		$733,072
10	**Rate of Return**	4.47%		8.56%		4.77%		8.40%

Cypress Lakes Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/05

Schedule No. 3-B
Docket No. 060257-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:**	$353,217	$157,349	$510,566	($147,747)	$362,819	$145,367 40.07%	$508,186
	Operating Expenses							
2	Operation & Maintenance	$260,454	$37,784	$298,238	($27,985)	$270,253	0	$270,253
3	Depreciation	44,979	483	45,462	13,370	58,832	0	58,832
4	Amortization	87	(87)	0	0	0	0	0
5	Taxes Other Than Income	32,579	7,628	40,207	(7,552)	32,655	6,542	39,196
6	Income Taxes	(23,234)	54,774	31,540	(48,745)	(17,205)	52,240	35,035
7	**Total Operating Expense**	314,865	100,582	415,447	(70,912)	344,535	58,782	403,316
8	**Operating Income**	38,352	56,767	95,119	(76,835)	18,284	86,586	104,869
9	**Rate Base**	$1,269,280		$1,111,200		$1,249,100		$1,249,100
10	**Rate of Return**	3.02%		8.56%		1.46%		8.40%

Cypress Lakes Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/05

Schedule 3-C
Docket No. 060257-WS

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase.	($101,790)	($150,329)
2	To reflect the appropriate amount of annualized revenues.	$5,246	$2,582
	Total	($96,544)	($147,747)
	Operation and Maintenance Expense		
1	Adjustment to transportation equipment (AF6).	($2,799)	($2,549)
2	Adjustment to prior rate case expense (AF7).	($2,379)	($2,311)
3	Various adjustments to O&M expenses (AF8).	($665)	($3,982)
5	Excessive unaccounted for water adjustments	($393)	$0
4	To reflect the appropriate WSC allocated expenses.	($1,158)	($1,055)
6	To reflect the appropriate UIF allocated expenses.	$9	$8
7	To reflect appropriate pro forma salaries and pension & benefits.	($11,222)	($10,321)
8	To adjust new rate case expense.	($6,655)	($6,060)
9	To adjust old rate case expense.	($1,842)	($1,716)
	Total	($27,104)	($27,985)
	Depreciation Expense - Net		
1	Adjustment to UPIS. (AF 1).	$0	$11,120
2	Adjustment to depreciation expense (AF 2).	$3,968	($163)
3	To reflect proper transportation expense (AF 6)	($3,100)	$0
4	Adjustment to allocate transportation equipment (AF6).	($4,233)	$4,233
5	To reflect the appropriate net WSC rate base.	$70	$64
6	To reflect the appropriate allocated plant from UIF.	($914)	$469
7	Adjustment to pro forma plant.	($203)	($483)
8	To remove net depreciation on non-U&U adjustment above.	$0	($1,870)
	Total	($4,412)	$13,370
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($4,344)	($6,649)
2	To the appropriate WSC allocated property taxes.	($88)	($80)
3	To reflect the appropriate pro forma payroll taxes.	($662)	($607)
4	To reflect property tax adjustment for non-U&U plant.	$0	($217)
	Total	($5,094)	($7,552)

Cypress Lakes Utilities, Inc.
Water Monthly Service Rates
Test Year Ended 12/31/05

Schedule No. 4-A
Docket No. 060257-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$6.49	$7.11	$8.73	$5.41	$0.21
1"	$16.22	$17.78	N/A	$13.53	$0.53
1 1/2"	$32.44	$35.55	N/A	$27.05	$1.05
2"	$51.89	$56.87	N/A	$43.28	$1.69
3"	$103.78	$113.74	N/A	$86.56	$3.38
4"	$162.15	$177.71	N/A	$135.25	$5.27
6"	$324.32	$355.43	N/A	$270.50	$10.55
Gallonage Charge, per 1,000 Gallons					
0-6,000 gallons	$2.47	$2.71	$3.47	$3.65	$0.14
6,001-12,000 gallons	$3.72	$4.08	$5.20	$5.48	$0.21
over 12,000 gallons	$4.95	$5.43	$6.93	$7.31	$0.29
General Service and General Service Irrigation					
Base Facility Charge by Meter Size:					
5/8"	$6.49	$7.11	$8.73	$5.41	$0.21
1"	$16.22	$17.78	$21.81	$13.53	$0.53
1 1/2"	$32.44	$35.55	$43.63	$27.05	$1.05
2"	$51.89	$56.87	N/A	$43.28	$1.69
3"	$103.78	$113.74	N/A	$86.56	$3.38
4"	$162.15	$177.71	N/A	$135.25	$5.27
6"	$324.31	$355.43	N/A	$270.50	$10.55
Gallonage Charge, per 1,000 Gallons	$2.69	$2.95	$3.81	$3.88	$0.15
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$13.90	$15.24	$19.14	$16.36	
5,000 Gallons	$18.84	$20.66	$26.08	$23.66	
10,000 Gallons	$36.19	$39.69	$50.35	$49.23	

Cypress Lakes Utilities, Inc. **Schedule No. 4-B**
Wastewater Monthly Service Rates **Docket No. 060257-WS**
Test Year Ended 12/31/05

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$14.36	$17.45	$13.33	$16.59	$0.35
Gallonage Charge - Per 1,000 gallons (6,000 gallon cap)	$2.92	$3.55	$6.37	$5.50	$0.11
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$14.36	$17.45	$13.33	$16.59	$0.35
1"	$35.92	$43.65	$33.32	$41.48	$0.86
1-1/2"	$71.86	$87.33	$66.64	$82.95	$1.73
2"	$114.97	$139.72	N/A	$132.72	$2.77
3"	$229.93	$279.42	N/A	$265.44	$5.53
4"	$359.26	$436.59	N/A	$414.75	$8.64
6"	$718.52	$873.18	N/A	$829.50	$17.28
Gallonage Charge, per 1,000 Gallons	$3.50	$4.25	$7.64	$6.60	$0.14
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$23.12	$28.10	$32.44	$33.09	
5,000 Gallons	$28.96	$35.20	$45.18	$44.09	
10,000 Gallons	$43.56	$52.95	$77.03	$49.59	
(Wastewater Gallonage Cap - 6,000 Gallons)					