

STATE OF FLORIDA

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TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

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COMMISSION
CLERK

Public Service Commission

May 12, 2009

Mr. Rodney Davis
Damon Utilities, Inc.
47 Lake Damon Drive
Avon Park, FL 33825

Re: Docket No. 080709-WS – Application for Staff-Assisted Rate Case in Highlands County by Damon Utilities, Inc.

Dear Mr. Davis:

This will confirm that Commission Staff will hold a customer meeting at the River Greens Club House on June 10, 2009. Staff will conduct a general customer meeting beginning at 6:00 p.m.

We ask that, if at all possible, you or another knowledgeable representative of the utility attend all scheduled meetings in order to answer customer questions. The location of the general meeting and the customer group meeting, if any, will be as follows:

River Greens Club House
47 W. Lake Damon Drive
Avon Park, Florida 33825

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 calendar days' notice of the meeting, calculated from the day that they receive the notice as required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.). Please furnish to me a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Two copies of the Staff Report are also enclosed. Please ensure that a copy of the completed application for a Staff-Assisted rate case and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

DOCUMENT NUMBER-DATE

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Mr. Davis
May 12, 2009

Damon Utilities, Inc.
47 Lake Damon Drive
Avon Park, Florida 33825

For your convenience, I have also enclosed a copy of Rule 25-22.0407(9), F.A.C.

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6076. In addition, you may contact Lydia Roberts at (850) 413-6877, with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Williams', written over a horizontal line.

Anna Williams
Attorney

Enclosures

cc: Division of Economic Regulation (Roberts, Bulecza-Banks, Fletcher, Walden)
Office of General Counsel (Williams)
Office of Commission Clerk (Docket No. 080709-WS)

Mr. Davis
May 12, 2009

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETINGS

TO THE CUSTOMERS OF DAMON UTILITIES, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 080709-WS

APPLICATION OF DAMON UTILITIES, INC.

FOR A STAFF-ASSISTED RATE CASE IN
HIGHLANDS COUNTY

Issued: May 11, 2009

Notice is hereby given that the Staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Damon Utilities, Inc. (Damon or utility) for a staff-assisted rate case in Highlands County. The meeting will be held at the following time and place:

6:00 p.m., Wednesday, June 10, 2009
River Greens Club House
47 W. Lake Damon Drive
Avon Park, Florida 33825

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Florida Public Service Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

If a named storm or other disaster requires cancellation of the meeting, Commission staff will attempt to give timely direct notice to the parties. Notice of cancellation of the meeting will also be provided on the Commission's website (<http://www.psc.state.fl.us/>) under the Hot Topics link found on the home page. Cancellation can also be confirmed by calling the Office of the General Counsel at 850-413-6199.

DOCUMENT NUMBER-DATE

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Any person requiring some accommodation at the customer meeting(s) because of a physical impairment should call the Office of Commission Clerk at (850)413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Damon's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Damon Utilities, Inc. (Damon or Utility) is a Class C utility which is currently providing water service to approximately 278 customers and wastewater service to approximately 101 customers. The Utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the utility's 2007 annual report, the Utility had operating revenues of \$47,897 water and \$38,027 wastewater. The test period for setting rates is the historical twelve month period ending December 31, 2008.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. The utility's current and staff's preliminary rates and charges are as follows:

Residential and General Service Water Rates

<u>Base Facility Charge By Meter Size</u>	<u>Existing BFC Converted to a Monthly Rate</u>	<u>Preliminary Monthly Rate</u>
5/8" x 3/4"	\$8.83	10.42
3/4"	\$13.24	15.63
1"	\$22.09	26.05
1-1/2"	\$44.15	52.10
2"	\$70.84	83.36
3"	\$141.31	166.72
4"	\$220.78	260.50
6"	\$441.55	521.00
<u>Gallonge Charge</u>		
RS Gallonge charge (Per 1,000 gallons)	\$1.82	\$3.18
GS Gallonge charge (Per 1,000 gallons)	\$1.82	\$3.14

Residential Wastewater Rates

<u>Base Facility Charge By Meter Size</u>	<u>Existing BFC Converted to a Monthly Rate</u>	<u>Preliminary Monthly Rate</u>
All Meter Sizes	\$16.59	16.89
<u>Gallonge Charge</u>		
Per 1,000 gallons	\$6.77	\$6.81

General Service Wastewater Rates

<u>Base Facility Charge By Meter Size</u>	<u>Existing BFC Converted to a Monthly Rate</u>	<u>Preliminary Monthly Rate</u>
5/8" x 3/4"	\$16.59	16.89
3/4"	\$24.89	25.34
1"	\$41.48	42.23
1-1/2"	\$82.97	84.45
2"	\$132.73	135.12
3"	\$265.50	270.24
4"	\$414.84	422.25
6"	\$829.67	844.50
<u>Gallonge Charge</u>		
Per 1,000 gallons	\$8.11	\$8.17

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated May 1, 2009. Copies of the report may be examined by interested members of the public from 8:00am to 4:00pm, Monday through Friday at the following location:

Damon Utilities, Inc.
47 Lake Damon Drive
Avon Park, Florida 33825

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on August 6, 2009. The Public Service Commission will then vote on staff's recommendation at its August 18, 2009 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 080709-WS, Damon Utilities, Inc."

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Consumer Affairs at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution by the utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: May 11, 2009

TO: Cheryl R. Bulecza-Banks, Chief of Rate Filings, Division of Economic Regulation

FROM: Lydia Roberts, Regulatory Analyst, Division of Economic Regulation *LR*
Tom Walden, Engineering Specialist, Division of Economic Regulation *TW*
Sonica Bruce, Economic Analyst, Division of Economic Regulation *SB*

RE: Docket No. 080709-WS – Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed August 6, 2009 for the August 18, 2009 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Damon Utilities, Inc. (Damon or Utility) is a Class C utility which is currently providing water service to approximately 278 customers and wastewater service to approximately 101 customers. Damon is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2008 annual report, Damon had operating revenues of \$50,214 for water and \$39,143 for wastewater. The test period for setting rates is the historical twelve month period ending December 31, 2008.

The Utility was granted Water Certificate No. 499-W and Wastewater Certificate No. 433-S, pursuant to Order No. 19655, issued July 11, 1988, in Docket No. 871026-WS. Damon was originally designed and constructed to provide both water and wastewater service to Casa Del Lago. Originally, Casa Del Lago was to be made up of 106 residential units consisting of triplexes and quadruplexes. Currently, there are 93 units and a clubhouse constructed. All Casa Del Lago units have certificates of occupancy. As the area has become more populated, the certificated territory for the Utility was extended to provide water only service to an adjacent development known as River Green. River Green is a golf course community of 197 plotted lots designated for single family homes and one four-unit condominium. The condominium are fully occupied, and there are 173 single family occupants in the River Green development. In addition, both water and wastewater service is being extended to a 12-lot development known as The Village Green. The Village Green is a strip of property between two golf fairways within the River Green development. The Village Green, designed to serve 12 single family homes, currently has seven homes constructed and occupied. There are also two general service customers, both of which are clubhouses.

The Utility's current rates and charges were set in a Staff Assisted Rate Case (SARC) by Order No. PSC-03-0845-PAA-WS, issued July 21, 2003.

On January 30, 2009, Damon filed an application for a SARC and paid the appropriate filing fee on February 11, 2009. Staff has also conducted a field investigation of the Utility's plant and service area. The Commission has jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Is the quality of service provided by Damon satisfactory?

Preliminary Recommendation: The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 10, 2009 customer meeting. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by evaluating the quality of the utility's product, the operational condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Damon's compliance with the Florida Department of Environmental Protection (DEP) regulations and customer comments or complaints received by the Commission are also reviewed. Staff conducted a field inspection of the Utility's facilities on March 26, 2009.

Quality of the Product

Highlands County is under the purview of the South District of the DEP. According to that office, the water quality meets the standards set forth by the DEP and the Utility is current in all required chemical analyses. In reviewing the data available on the water and wastewater quality, it appears that the quality of the product is satisfactory.

Operational Conditions at the Plant

In the last Sanitary Survey conducted by the DEP on April 11, 2007, it was suggested that Damon obtain battery backup for its telemetry system should there be a power failure and the generator fail to start. The Utility has upgraded its system to include battery backup, which is a safety issue, so that if the plant loses power, notification will be made to the plant operator. Damon contracts with Short Utility Service, Inc. for plant operation and testing of samples. There were several instances of failed bacteriological samples in summer 2008, about the time the pump at the second well was being replaced. Resampling and retesting showed new samples were in compliance.

For the wastewater plant, the Utility will be submitting an application for renewal of its operating permit in 2009. The plant is about twenty years old and is functioning in accordance with its original design. The site is fenced and has some landscaping to partially obscure the plant from view. Plant effluent runs through a sand filter and then to an on-site drainfield. There were no offensive odors or excessive noise observed at the time of staff's inspection. The plant flows do not exceed the permitted capacity, and there are no outstanding operational issues with the DEP.

Customer Satisfaction

Damon received six complaints during 2008. Three of the complaints involved discolored water, one was an odor complaint, one involved low pressure, and the last was a high

Docket No. 080709-WS

Date: May 11, 2009

bill complaint. All complaints have been resolved. No complaints have been filed with the Commission since 2000. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 10, 2009 customer meeting.

Issue 2: What are the used and useful percentages of the utility's water treatment plant and distribution system?

Preliminary Recommendation: The water plant and distribution system should be considered 100 percent used and useful. (Walden)

Staff Analysis: In the last two rate cases, the water plant was found to be 100 percent used and useful. The Utility has two wells rated at 100 gpm each and a new pump for the second well was installed during the test year. The peak day on May 15, 2008 (67 gpm) exceeds the firm reliable capacity of 100 gpm. Unaccounted for water is less than 10 percent, which is an acceptable amount. Therefore, staff recommends that the water plant be found 100 percent used and useful.

The service area is essentially built out, although in the last five years Damon has added 18 water customers according to the annual reports filed with the Commission. While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be nine ERCs per year, and average growth has been less than that per year. The distribution system has not been enlarged since the last rate case when the Commission found it 95.6 percent used and useful. Staff recommends that the Commission find the distribution system 100 percent used and useful because the service area appears to be built out.

Issue 3: What are the used and useful percentages of the utility's wastewater treatment plant and collection system?

Recommendation: The wastewater treatment plant and collection system should be considered 100 percent used and useful. (Walden)

Staff Analysis: The Utility's wastewater plant is permitted for 50,000 gpd based upon three months average daily flow (TMADF). The Commission found the wastewater plant 22.3 percent used and useful in the last rate case, based upon TMADF of 9,750 gpd for 71 ERCs, or 137 gpd/ERC.

Current wastewater flows are 9,989 TMADF for 101 ERCs, or 99 gpd/ERC. Damon calculates flows through the treatment plant using a time clock and pump capacity rating in gallons per minute. Staff has suggested that the Utility recheck the pump capacity to make sure that the correct flow rate is being used when calculations are being made. There does not appear to be excessive infiltration or inflow.

There is some seasonality of flows, with higher flows in January, February, and March. Eleven customers have been added in the last five years comprised of single family homes, triplexes, or quadplexes. Only a portion of the service area has a collection system, while the majority of water customers have septic tanks. Customers in Casa Del Lago and Village Green are connected to the wastewater system. A few more connections can be added in Casa Del Lago and in Village Green. The plant and collection system were designed to serve the current development and it appears that nearly all customers that could be served are on line, even though additional capacity is available at the treatment plant.

While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be 2 ERCs per year. The collection system has not been enlarged since the last rate case when the Commission found it to be 86.2 percent used and useful. Staff recommends that the Commission find the wastewater treatment plant and collection system 100 percent used and useful because there has been a significant reduction in flows and the service area appears to be built out.

Issue 4: What is the appropriate average test year rate base for the Utility?

Preliminary Recommendation: The appropriate average test year rate base for the Utility is \$35,719 for water and \$40,057 for wastewater. (Roberts)

Staff Analysis: Damon's rate base was last established by Order No. PSC-03-0845-PAA-WS.¹ Staff selected a test year ending December 31, 2008 for this rate case. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$143,548 for water and \$232,739 for wastewater UPIS for the test year ended December 31, 2008. Staff has made the following adjustments to UPIS.

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To reflect the correct plant additions and retirements to UPIS	(\$366)	(\$570)
2. Remove office furniture reflected in monthly rental agreement	(1,517)	(1,250)
3. To reflect an averaging adjustment	(500)	0
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>

Staff's net adjustments to UPIS are decreases of \$2,383 and \$1,820 for water and wastewater, respectively. Staff's recommended UPIS balance are \$141,165 for water and \$230,919 for wastewater.

Non-used and Useful Plant: As discussed in Issue No. 2 of this recommendation, Damon's water and wastewater treatment plants are built out and are considered 100 percent used and useful. Therefore, no adjustments are necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC for the test year ending December 31, 2008 of \$67,992 for water and \$65,866 for wastewater. The staff auditor compiled additions to CIAC from January 1, 2003 through December 31, 2008 to determine Damon's CIAC balance for this rate case proceeding. In addition, staff made an averaging adjustment of \$229 for water and an adjustment of \$69 for wastewater. Staff recommends CIAC should be \$67,764 for water and \$65,797 for wastewater.

Accumulated Depreciation: The Utility recorded test year balances for accumulated depreciation of \$86,089 and \$164,303 for water and wastewater, respectively. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account was decreased by \$109 for water and increased by \$2,463 for wastewater to reflect depreciation calculated per staff. These adjustments results in average accumulated depreciation of \$86,198 for water and \$161,840 for wastewater.

Accumulated Amortization of CIAC: Damon recorded amortization of CIAC of \$42,088 for water and \$36,524 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$898 for water and \$3,690 for

¹ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for a staff assisted rate case in Highlands County by Damon Utilities, Inc.

wastewater to reflect amortization of CIAC as calculated by staff. Staff's net adjustments to this account results in amortization of CIAC balances of \$41,191 for water and \$32,834 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C. staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$7,324 for water and \$3,941 for wastewater.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$35,719 for water and \$40,057 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule 1-C.

Issue 5: What is the appropriate return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity is 9.88 percent with a range of 8.88 percent to 10.88 percent. The appropriate overall rate of return is 9.11 percent. (Roberts)

Staff Analysis: The Utility's capital structure consists of a negative common equity balance of \$25,451, and a loan from Highlands Independent Bank at a stated interest rate of 5.00 percent. Also, pursuant to Audit Finding No. 7, Damon has a loan of \$87,251 from the owner of the Utility. There is no interest on this loan, no loan documents, and Damon is not making any payments on the principal. Because the loan payments are not paid and it is from a related party, staff believes this loan should be treated as equity capital in accordance with Commission practice.² The Utility's capital structure has been reconciled with staff's recommended rate base.

Damon's last authorized rate of return on equity was 11.10 percent.³ Staff has updated the return on equity for the Utility using the current leverage graph formula.⁴ Therefore, staff recommends a return on equity of 9.88 percent with a range of 8.88 percent to 10.88 percent, and an overall rate of return of 9.11 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

² See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

³ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁴ See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-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), F.S.

Issue 6: What are the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenue for this Utility is \$49,364 for water and \$39,157 for wastewater. (Roberts, Bruce)

Staff Analysis: Per Audit Finding No. 4, Damon recorded total revenues of \$50,213 for water and \$39,142 for wastewater for the 12 month period ended December 31, 2008. During the audit, the staff auditor discovered that the Utility recorded \$175 for residential wastewater service revenues which actually should have been applied to the general service wastewater revenues. The change in the way Damon recorded the revenues did not impact the test year total operating revenues. Staff analyzed the Company's reported revenues and determined that water revenues were overstated by \$849 and wastewater rates were understated by \$15. Based on the above, staff recommends test year revenue of \$49,364 for water and \$39,157 for wastewater. Test year revenue is shown on Schedule No. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 7: What are the appropriate operating expenses?

Preliminary Recommendation: The appropriate amount of operating expenses for the Utility is \$65,336 for water and \$35,758 for wastewater. (Roberts)

Staff Analysis: The Utility recorded operating expenses of \$80,265 for water and \$37,005 for wastewater during the test year ending December 31, 2008. Adjustments have been made to reflect unrecorded test year expenses and to adjust annual operating costs. The test year operating and maintenance expense (O&M) have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to Damon's operating expenses, as summarized below:

Salaries and Wages Employees (601/701) – The Utility signed a contract with a related party, River Green South Golf Course (River Green) for different services River Green is to perform for Damon. The services consist of, but are not limited to, management, maintenance, administrative support, meter reading, flow meter reporting, and groundskeeping. This contract gives a very brief description of hours, duties and responsibilities of each employee and officer. The contract specifies the Utility has two office employees, and four maintenance personnel all who work for Damon but are employed by River Green. River Green pays their employees an annual salary of \$24,174 for water and \$7,976 for wastewater.

The staff auditor recommended the Utility's wastewater salaries be reduced by \$614 that was not supported by invoice. Staff asked River Green for the monthly invoices in connection with the duties performed by each employee. However, River Green could not provide any monthly invoices for the test year, just a contract that was signed by both parties. Based on the Utility's last rate case, salaries were \$12,912 for water and \$4,304 for wastewater.⁵ Staff believes that the salaries and wages Damon has requested in their current rate case are excessive. Staff believes that operating circumstances have not changed appreciably since the last rate case, and staff does not anticipate a substantial change on a prospective basis. In determining appropriate salaries, staff believes it is appropriate to escalate the 2002 salary by the Commission-approved price index rate adjustment factors for 2003 to 2008. This methodology is consistent with the Commission's decisions in two prior SARCs for Sunshine Utilities of Central Florida, Inc. and Betmar Utilities, Inc.⁶

Damon's 2002 expenses have been escalated to the 2008 test year, using the appropriate price indices for each year. Based on the above calculations, staff recommends a decrease in water and wastewater employee salaries of \$9,073 and \$2,942, respectively.

Salaries and Wages – Officers – (603/703) – During the last rate case in 2002, no expense were recorded for salaries and wages for officers. The Utility entered into a contract, January 1, 2008

⁵ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County Damon Utilities, Inc.

⁶ See Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; and PSC-95-0986-FOF-WS, issued August 10, 1995, in Docket No. 941280-WS, In re: Application for rate increase in Pasco County by Betmar Utilities, Inc.

with River Green, a related party. In this contract, it states Damon has two managers. One receives a yearly salary of \$6,000, and the other receives a yearly salary of \$3,000.

The Utility recorded \$6,900 in water and \$2,588 for wastewater in this account during the test year. The staff auditor reviewed Damon's trial balances and determined that the wastewater account was overstated by \$188. Therefore, staff recommends \$6,900 for water and \$2,400 for wastewater.

Employee Pensions and Benefits (604/704) – The Utility recorded an expense of \$6,665 for water and \$2,407 for wastewater. The wastewater account has been decreased by \$185 as this amount was not supported by any documentation. Therefore, staff recommends \$6,665 for water and \$2,222 for wastewater.

Sludge Removal Expense (711) – The Utility recorded \$2,030 in this account. Damon must regularly pump out and dispose of excess sludge. Based on the staff engineer's review, staff finds that \$2,030 for sludge removal expense is reasonable.

Purchased Power Expense (615/715) – The Utility recorded \$3,024 for water and \$3,274 for wastewater. However, the staff auditor determined electric expenses were recorded in the wastewater account and should have been split between both water and wastewater. Therefore, staff has decreased wastewater by \$75 and increased water by \$75. In addition, staff recommends Damon increase water by \$254 and wastewater by \$360 for 2008 invoices that were paid in 2009 but should have been recorded in 2008.

Fuel for Power Production (616) – Damon recorded \$87 in this account during the test year. Staff believes this amount is appropriate.

Chemicals (618/718) – Damon recorded chemical expense of \$3,649 for water and \$1,515 for wastewater. Staff decreased wastewater by \$142 for out of period expenses. In addition, staff increased chemical expense for wastewater by \$162. Finally, staff increased water by \$378 to add 2008 expenses that were paid in 2009. Therefore, staff recommends an increase in test year chemical expenses of \$378 for water and \$20 for wastewater.

Materials and Supplies (620,720) – The Utility recorded \$2,024 for water and \$871 for wastewater. Staff increased water by \$125 to reclassify items previously capitalized to plant. In addition, staff increased water by \$63 to reclassify the painting and cleaning of the tank. Moreover, staff has increased wastewater by \$130 to allocate SARC fees. As a result, staff recommends a increase of \$188 for water and \$130 for wastewater.

Contractual Services - Billing (630, 730) – Damon recorded \$1,125 for water and \$536 for wastewater. Staff recommends a reduction of wastewater by \$130 for SARC fees that were classified to the wrong account. In addition, staff believes wastewater should be reduced by \$31 to remove 2008 expenses paid in 2009. Therefore, staff recommends reducing wastewater by \$161.

Contractual Services - Professional (631, 731) – The Utility recorded \$10,080 for water and \$505 for wastewater. Staff decreased water by \$170 to reclassify the painting and cleaning of

the water tank. In addition, staff believes water should be reduced by \$6,908 to amortize the painting and cleaning of the tank over five years. Furthermore, staff believes water should be decreased by \$213 and wastewater increased by \$213. Therefore, Staff recommends decreasing water by \$7,290 and increasing wastewater by \$213.

Contractual Services - Testing (635, 735) – Damon recorded \$3,958 for water and \$3,170 for wastewater. Staff decreased water by \$1,264 to amortize testing over five years. Staff made an adjustment to decrease water by \$192 and wastewater by \$243 to remove out of period expenses. In addition, staff increased water by \$212 and wastewater by \$267 for 2008 expenses paid in 2009. Staff believes that the new monthly wastewater rates need to be annualized and increased by \$168. Staff recommends reducing contractual services - testing water by \$1,244 and increasing wastewater by \$192.

Contractual Services - Other (636,736) – The Utility recorded \$5,409 for water and \$4,712 for wastewater. Staff increased water by \$475 to add invoices that were not recorded in the general ledger. Staff increased water and wastewater by \$328 to add expenses paid in 2009 that related to 2008. In addition, staff believes water and wastewater monthly rates need to be annualized and increased by \$209. Furthermore, staff believes that \$100 of wastewater expenses that do not have supporting invoices should be removed. Therefore, staff recommends an increase in water and wastewater contractual services – other by \$1,011 and \$436, respectively.

Rents (640,740) – Damon recorded \$3,000 for water and \$2,150 for wastewater. Staff decreased wastewater by \$50 to remove unsupported expenses.

Transportation Expense (650,750) – The Utility recorded \$2,138 for water and \$768 for wastewater. Staff decreased wastewater by \$55 to remove unsupported expenses.

Insurance Expense (655,755) – Damon recorded \$1,173 for water and \$456 for wastewater. These amounts reflect the policy charges that the Utility has for blanket liability insurance. Staff believes this amount is reasonable.

Regulatory Commission Expense (665,765) – During the test year, the Utility recorded \$0 in regulatory commission expense for water and wastewater. Damon paid a \$1,000 filing fee for water and \$500 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. The Utility was required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting in this case to its customers. Therefore, staff has increased regulatory expense for water by \$340 and \$194 for wastewater.

Miscellaneous Expense – (675/775) – Damon recorded \$194 for water and \$557 for wastewater for the test year. Staff has made adjustments to increase water by \$107 to reclassify an expense and to increase water by \$250 and wastewater by \$125 to amortize water and wastewater SARC fees. Staff recommends miscellaneous expense for the test year of \$551 for water and \$682 for wastewater.

Operation and Maintenance Expense (O&M Summary) – The total O&M for the Utility has been decreased by \$(15,004) for water and (1,986) for wastewater. Staff recommends O&M expense

of \$58,595 for water and \$31,529 for wastewater. O&M expenses are shown on Schedules 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Depreciation Expense – Damon recorded \$5,472 in water and \$4,032 in wastewater during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff increased test year depreciation expense by \$108 for water and \$14 for wastewater. In addition, staff removed depreciation expense of \$1,007 and \$1,250 for water and wastewater, respectively, for office furniture that was also included in a rental agreement. Therefore, staff has decreased water by \$899 and wastewater by \$1,236. Staff recommends a net depreciation expense of \$4,573 for water and \$2,796 for wastewater.

Amortization of CIAC – Damon recorded amortization expense for water of \$2,508 and \$ 2,736 for wastewater. This expense has been reduced by \$143 for water and increased by \$1,589 for wastewater to reflect staff's calculated test year amortization of CIAC expense. Staff recommends an Amortization of CIAC of \$2,651 for water and \$1,147 for wastewater.

Taxes Other Than Income (TOTI) – The Utility's records reflect a TOTI balance for water of \$3,702 and \$2,194 for wastewater. Based on staff recommended test year revenues in Issue 5, regulatory assessment fees (RAFs) should be reduced by \$39 for water and increased by \$1 for wastewater. Based on staff recommended salaries above, staff calculated the appropriate payroll taxes of \$1,155 for water and \$385 for wastewater. Staff recommends TOTI of \$5,725 for water and \$2,592 for wastewater.

Issue 8: What is the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$69,496 for water and \$39,419 for wastewater. (Roberts)

Staff Analysis: Damon should be allowed an annual increase of \$20,132 (40.78%) for water and an annual increase in wastewater of \$262. This will allow the Utility the opportunity to recover its expenses and earn a 9.11 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$35,719	\$40,057
Rate of Return	9.11%	9.11%
Return on Rate Base	\$3,254	\$3,649
Adjusted O & M Expense	\$58,595	\$31,529
Depreciation expense (Net)	\$4,573	\$2,796
Taxes Other Than Income	\$5,725	\$2,592
Income Taxes	\$0	\$0
Revenue Requirement	\$69,496	\$39,419
Less Adjusted Test Year Revenues	\$49,364	\$39,157
Annual Increase	\$20,132	\$262
Percent Increase/(Decrease)	40.78%	0.67%

Issue 9: What is the appropriate rate structure for the utility's water and wastewater system?

Preliminary Recommendation: The appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class should also be a continuation of the monthly BFC/uniform gallonage charge rate structure. The non-residential 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 51 percent. The residential wastewater cap should remain at the 6,000 gallons (6 kgal). (Bruce)

Staff Analysis: The utility's current rate structure consists of a monthly BFC/uniform gallonage charge rate structure for the water systems' residential and non-residential class. The monthly BFC is \$8.83 and usage charge is \$1.82 per kgal.

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 water system's residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) setting the BFC between 25 percent and 40 percent whenever possible.

Damon is located in a water use caution area (WUCA) in the Southwest Florida Water Management District. Over the past few years, the District has requested whenever possible that an inclining block rate structure be implemented. Staff evaluated the utility to determine if an inclining block was appropriate. Based on staff's analysis, the customer base is very seasonal and the monthly overall average consumption is 3.3 kgal. Also, staff's analysis indicates high percentage of bills and gallons captured at 5 kgal and under which indicates little, if any, excessive consumption. Staff believes that an inclining block rate is not appropriate at this time due to the relatively low levels of consumption. Therefore, staff recommends a continuation of the BFC/uniform gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Staff's recommended rate design for the water system is shown on Table 8-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate and Alternatives 1 and 2 result in price increases at all levels of consumption.

DAMON UTILITIES, INC.			
STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 58%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$8.83	BFC	\$10.42
All kgals	\$1.82	All kgals	\$3.18
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.83	0	\$10.42
1	\$10.65	1	\$13.60
3	\$14.29	3	\$19.96
5	\$17.93	5	\$26.32
10	\$27.03	10	\$42.22
20	\$45.23	20	\$74.02
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 40%		Monthly BFC/ uniform kgal charge BFC = 30%	
BFC	\$8.33	BFC	\$6.25
All kgals	\$3.81	All kgals	\$4.45
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.33	0	\$6.25
1	\$12.14	1	\$10.70
3	\$19.76	3	\$19.60
5	\$27.38	5	\$28.50
10	\$46.43	10	\$50.75
20	\$84.53	20	\$95.25

Furthermore, staff recommends that staff's initial BFC cost recovery of 63.19 percent be reduced to 50 percent. The Commission typically sets the BFC no greater than 40 percent. In this case, however, the customer base is seasonal and setting the BFC cost recovery at 40 percent or lower would jeopardize the utility's cash flow to recover the fixed costs while seasonal customers are not in residence. Therefore, staff recommends that a 50 percent BFC cost

recovery allocation is appropriate. In recent cases, the Commission has approved a BFC allocation greater than 40 percent.⁷

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent.

⁷See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In Re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; Order No. PSC-08-0812-PAA-WS, issued in December 12, 2008, in Docket No. 070695-WS, In Re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

Wastewater Rates: The Utility's current rate structure consists of a BFC/gallorage rate structure for the wastewater systems' residential and non-residential class. The monthly BFC is \$16.59 and the usage charge is \$6.77.

It is Commission practice to set the BFC cost recovery at least 50 percent due to the capital intensive nature of wastewater plants. The initial allocation for the wastewater BFC cost recovery for the residential class was 57 percent which falls within Commission's practice; however, the utility receives price decreases rather than price increases at discretionary levels of consumption. Based on staff's analysis, staff recommends setting the BFC cost recovery at 51 percent. This BFC cost recovery allows the utility to receive a very small price increase in the BFC and gallorage charge due the utility's relatively low revenue requirement increase for the wastewater system. Furthermore, a review of the billing data indicates that setting the residential monthly wastewater cap at 6 kgal is appropriate. Therefore, staff recommends that the Utility's current residential monthly wastewater cap of 6 kgal remains unchanged. Also, staff recommends that general service gallorage charge is 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 8-2 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate and Alternatives 1 and 2 result in price increases at all levels of consumption.

DAMON UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC =50%		Monthly BFC/ uniform kgal charge BFC = 51%	
BFC	\$16.59	BFC	\$16.89
All kgals	\$6.77	All kgals	\$6.81
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$16.59	0	\$16.89
1	\$23.36	1	\$23.70
3	\$36.90	3	\$37.32
5	\$50.44	5	\$50.94
6	\$57.21	6	\$57.75
8	\$57.21	8	\$57.75
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 60%		Monthly BFC/ uniform kgal charge BFC =50%	
BFC	\$19.83	BFC	\$16.47
All kgals	\$5.55	All kgals	\$6.99
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$19.83	0	\$16.47
1	\$25.38	1	\$23.46
3	\$36.48	3	\$37.44
5	\$47.58	5	\$51.42
6	\$53.13	6	\$58.41
8	\$53.13	8	\$58.41

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential is a continuation of the monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap shall remain at 6 kgals per month. The general service gallonage charge should be set at 1.2 times greater than the residential charge, and the BFC allocation for the wastewater BFC cost recovery percentage should be set at 51 percent.

Issue 10: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment?

Recommendation: No, a repression adjustment is not appropriate for this Utility. However, in order to monitor the effects resulting from the changes in revenues, Damon should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports should be prepared by customer class 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, Damon should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 3.3 kgals and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 4.3 kgals. This is an indication that there is very little consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports should be filed with the Commission, 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 11: What are the appropriate rates for the utility?

Preliminary Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule No. 4-A and 4-B. The recommended rates should be designed to produce revenue of \$69,496 for water and \$39,419 for wastewater, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, 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 and the notice has been received by the customers. Damon should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

Staff Analysis: The recommended rates should be designed to produce of revenue \$69,496 for the water system and \$39,419 for the wastewater system. There are no miscellaneous service revenues for the water and wastewater systems.

As discussed in Issue 8, the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class should also be a continuation of the monthly BFC/uniform gallonage charge rate structure. The non-residential 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 51 percent. The residential wastewater cap should remain at the 6,000 gallons (6 kgals).

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, 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 and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedules 4-A and 4-B.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Preliminary Recommendation: The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and 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. Damon 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. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Roberts)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$360 for water and \$205 for wastewater. Using Damon's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4-A and 4-B.

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

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

Issue 13: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Roberts)

Staff Analysis: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount \$14,024 for water and wastewater. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

- 1) The letter of credit is irrevocable for the period it is in effect, and.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

DAMON UTILITIS, INC. TEST YEAR ENDING 12/31/07 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 080709-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$143,548	(\$2,383)	\$141,165
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(67,992)	229	(67,764)
5. ACCUMULATED DEPRECIATION	(86,089)	(109)	(86,198)
6. AMORTIZATION OF CIAC	42,088	(898)	41,191
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,324</u>	<u>7,324</u>
8. WATER RATE BASE	<u>\$31,555</u>	<u>\$4,164</u>	<u>\$35,719</u>

DAMON UTILITIS, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$232,739	(\$1,820)	\$230,919
LAND & LAND RIGHTS	0	0	0
NON-USED AND USEFUL COMPONENTS	0	0	0
CIAC	(65,866)	69	(65,797)
ACCUMULATED DEPRECIATION	(164,303)	2,463	(161,840)
AMORTIZATION OF CIAC	36,524	(3,690)	32,834
WORKING CAPITAL ALLOWANCE	0	<u>3,941</u>	<u>3,941</u>
WASTEWATER RATE BASE	<u>\$39,094</u>	<u>\$963</u>	<u>\$40,057</u>

DAMON UTILITIS, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1 To reflect the correct plant additions and retirements to UPIS	(\$366)	(\$570)	
2 Remove office furniture reflected in monthly rental agreement	(1,517)	(1,250)	
3 To reflect averaging adjustment	(500)	0	
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>	
<u>CIAC</u>			
To reflect an averaging adjustment.	<u>\$229</u>	<u>\$69</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1 To reflect accumulated depreciation per Rule 25-30.0140	(\$443)	\$1,690	
2 Remove office furniture reflected in monthly rental agreement	(957)	(1,250)	
3 To reflect averaging adjustment.	1,291	2,023	
Total	<u>(\$109)</u>	<u>\$2,463</u>	
<u>AMORTIZATION OF CIAC</u>			
1 To reflect the appropriate amort of CIAC	\$428	(\$3,117)	
2 To reflect an averaging adjustment	(1,326)	(573)	
Total	<u>(\$898)</u>	<u>(\$3,690)</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$7,324</u>	<u>\$3,941</u>	

DAMON UTILITIS, INC.						SCHEDULE NO. 2		
TEST YEAR ENDING 12/31/07						DOCKET NO. 080709-WS		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
2. RETAINED EARNINGS	(25,451)	25,451	0	0	0			
3. PAID IN CAPITAL	0	0	0	0	0			
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>			
5. TOTAL COMMON EQUITY	(\$25,451)	\$25,451	\$0	\$0	\$0	0.00%	9.88%	0.00%
6. LONG TERM DEBT	16,386	0	16,386	0	5,648	15.81%	5.00%	0.79%
7. LONG TERM DEBT	<u>87,251</u>	<u>0</u>	<u>87,251</u>	<u>0</u>	<u>30,071</u>	<u>84.19%</u>	<u>9.88%</u>	<u>8.32%</u>
TOTAL LONG TERM DEBT	103,637	0	103,637	0	35,719	100.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>6.00%</u>	<u>0.00%</u>
9. TOTAL	<u>\$78,186</u>	<u>\$25,451</u>	<u>\$103,637</u>	<u>\$0</u>	<u>\$35,719</u>	<u>100.00%</u>		<u>9.11%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.88%</u>	<u>10.88%</u>	
OVERALL RATE OF RETURN						<u>9.11%</u>	<u>9.11%</u>	

DAMON UTILITIS, INC. TEST YEAR ENDING 12/31/07 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 080709-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$50,213</u>	<u>(\$849)</u>	<u>\$49,364</u>	<u>\$20,132</u> 40.78%	<u>\$69,496</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	73,599	(15,004)	58,595	0	58,595
3. DEPRECIATION (NET)	5,472	(899)	4,573	0	4,573
4. AMORTIZATION	(2,508)	(143)	(2,651)	0	(2,651)
5. TAXES OTHER THAN INCOME	3,702	1,117	4,819	906	5,725
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$80,265</u>	<u>(\$14,929)</u>	<u>\$65,336</u>	<u>\$766</u>	<u>\$66,242</u>
8. OPERATING INCOME/(LOSS)	<u>(\$30,052)</u>		<u>(\$15,972)</u>		<u>\$3,254</u>
9. WATER RATE BASE	<u>\$31,555</u>		<u>\$35,719</u>		<u>\$35,719</u>
10. RATE OF RETURN	<u>-95.24%</u>		<u>-44.72%</u>		<u>9.11%</u>

DAMON UTILITIS, INC.		SCHEDULE NO. 3-B			
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
OPERATING REVENUES	<u>\$39,142</u>	<u>\$15</u>	<u>\$39,157</u>	<u>\$262</u> 0.67%	<u>\$39,419</u>
OPERATING EXPENSES:					
OPERATION & MAINTENANCE	33,515	(1,986)	31,529	0	31,529
DEPRECIATION (NET)	4,032	(1,236)	2,796	0	2,796
AMORTIZATION	(2,736)	1,589	(1,147)	0	(1,147)
TAXES OTHER THAN INCOME	2,194	386	2,580	12	2,592
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$37,005</u>	<u>(\$1,247)</u>	<u>\$35,758</u>	<u>\$12</u>	<u>\$35,770</u>
OPERATING INCOME/(LOSS)	<u>\$2,137</u>		<u>\$3,399</u>		<u>\$3,649</u>
WASTEWATER RATE BASE	<u>\$39,094</u>		<u>\$40,057</u>		<u>\$40,057</u>
RATE OF RETURN	<u>5.47%</u>		<u>8.49%</u>		<u>9.11%</u>

DAMON UTILITIS, INC.

TEST YEAR ENDING 12/31/07

ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To reclassify Wastewater Residential Revenues to General Service	\$0	(\$175)
To reflect correct Wastewater General Service Revenues	0	175
To reflect the appropriate test year revenues	<u>(849)</u>	<u>15</u>
Subtotal	<u>(\$849)</u>	<u>\$15</u>
OPERATION AND MAINTENANCE EXPENSES		
Salaries and Wages - Employees (601,701)		
a. To remove the difference of the indexed salary expense	(\$9,073)	(\$2,328)
b. To remove salary expense that has no type of Invoice	0	(614)
Subtotal	<u>(\$9,073)</u>	<u>(\$2,942)</u>
Salaries and Wages - Officers (603,703)		
a. To remove officer expense that has no type of Invoice	\$0	(\$188)
Subtotal	<u>\$0</u>	<u>(\$188)</u>
Employee Pensions and Benefits (604,704)		
a. To remove benefit expense that has no type of Invoice	\$0	(\$185)
Subtotal	<u>\$0</u>	<u>(\$185)</u>
Purchased Power (615,715)		
a. To allocate expenses related to electric between water and wastewater	\$75	(\$75)
b. To add 2008 expenses paid in 2009	<u>254</u>	<u>360</u>
Subtotal	<u>\$329</u>	<u>\$285</u>
Chemicals (618, 718)		
a. To remove out of period expense for Sodium Hypochlorite	\$0	(\$142)
b. To reflect a increase in chemical expense	0	162
c. To add 2008 expenses paid in 2009	<u>378</u>	<u>0</u>
Subtotal	<u>\$378</u>	<u>\$20</u>
Materials and Supplies (620,720)		
a. To reflect items capitalized	\$125	\$0
b. To reclassify painting and cleaning	63	0
d. To allocated wastewater SARC fees classified to wrong account	<u>0</u>	<u>130</u>
Subtotal	<u>\$188</u>	<u>\$130</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

DAMON UTILITIS, INC.

TEST YEAR ENDING 12/31/07

ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
Contractual Services - billing (630, 730)		
a. To allocated wastewater SARC fees	\$0	(\$130)
b. To remove expenses related to 2008 expenses paid in 2009	<u>0</u>	<u>(31)</u>
Subtotal	<u>\$0</u>	<u>(\$161)</u>
Contractual Services - Professional (631, 731)		
a. To reclassify painting and cleaning	(\$170)	\$0
b. To amortize water tank cleaning & painting over 5 years	(6,908)	0
c. To allocate accounting fees	<u>(213)</u>	<u>213</u>
Subtotal	<u>(\$7,290)</u>	<u>\$213</u>
Contractual Services - Testing (635, 735)		
a. To amortize testing over 5 years	(\$1,264)	\$0
b. To remove out of period expenses	(192)	(243)
c. To add 2008 expenses paid in 2009	212	267
d. To annualize new monthly rate	<u>0</u>	<u>168</u>
Subtotal	<u>(\$1,244)</u>	<u>\$192</u>
Contractual Services - Other (636,736)		
a. To add invoices that were not recorded on general ledger	\$475	\$0
b. To add 2008 expenses paid in 2009	328	328
c. To annualize new monthly rate	209	209
d. To remove expenses with no invoice	<u>0</u>	<u>(100)</u>
Subtotal	<u>\$1,011</u>	<u>\$436</u>
Rents (640,740)		
a. To remove expenses with no invoice	<u>\$0</u>	<u>(\$50)</u>
Subtotal	<u>\$0</u>	<u>(\$50)</u>
Transportation Expense (650,750)		
a. To remove expenses with no invoice	<u>\$0</u>	<u>(\$55)</u>
Subtotal	<u>\$0</u>	<u>(\$55)</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

SCHEDULE NO. 3-C

DAMON UTILITIS, INC.

DOCKET NO. 080709-WS

TEST YEAR ENDING 12/31/07

PAGE 3 OF 3

ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
Regulatory Commission Expense (665,765) To reflect the 4 year amortization of rate case expense (\$1,920.48/4)/(63.67%)(36.33%)	<u>\$340</u>	<u>\$194</u>
Miscellaneous Expense (675,775)		
a. To reclassify expense	\$107	\$0
b. To Amortize SARC fees	<u>250</u>	<u>125</u>
Subtotal	<u>\$357</u>	<u>\$125</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$15,004)</u>	<u>(\$1,986)</u>
DEPRECIATION EXPENSE		
To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$108	\$14
Remove office furniture that was bought when a monthly rental agreement exist	<u>(1,007)</u>	<u>(1,250)</u>
Subtotal	<u>(\$899)</u>	<u>(\$1,236)</u>
CIAC Amortization		
To reflect test year CIAC amortization expense	<u>(\$143)</u>	<u>\$1,589</u>
	<u>(\$143)</u>	<u>\$1,589</u>
TAXES OTHER THAN INCOME		
To reflect the appropriate RAFs	(\$39)	\$1
To reflect the appropriate payroll taxes	1,155	385
To reflect the appropriate property taxes per annual report	<u>0</u>	<u>0</u>
Subtotal	<u>\$1,117</u>	<u>\$386</u>

DAMON UTILITIS, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$24,174	(\$9,073) [1]	\$15,101
(603) SALARIES AND WAGES - OFFICERS	6,900	0 [2]	6,900
(604) EMPLOYEE PENSIONS AND BENEFITS	6,665	0 [3]	6,665
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,024	329 [5]	3,353
(616) FUEL FOR POWER PRODUCTION	87	0 [6]	87
(618) CHEMICALS	3,649	378 [7]	4,027
(620) MATERIALS AND SUPPLIES	2,024	188 [8]	2,212
(630) CONTRACTUAL SERVICES - BILLING	1,125	0 [9]	1,125
(631) CONTRACTUAL SERVICES - PROFESSIONAL	10,080	(7,290)	2,790
(635) CONTRACTUAL SERVICES - TESTING	3,958	(1,244) [10]	2,714
(636) CONTRACTUAL SERVICES - OTHER	5,409	1,011 [11]	6,420
(640) RENTS	3,000	0 [12]	3,000
(650) TRANSPORTATION EXPENSE	2,138	0 [13]	2,138
(655) INSURANCE EXPENSE	1,173	0 [14]	1,173
(665) REGULATORY COMMISSION EXPENSE	0	340 [15]	340
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>194</u>	<u>357</u> [16]	<u>551</u>
	\$73,599	(\$15,004)	\$58,595

DAMON UTILITIS, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$7,976	(\$2,942)	\$5,034
(703) SALARIES AND WAGES - OFFICERS	2,588	(188)	2,400
(704) EMPLOYEE PENSIONS AND BENEFITS	2,407	(185)	2,222
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,030	0	2,030
(715) PURCHASED POWER	3,274	285	3,559
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,515	20	1,535
(720) MATERIALS AND SUPPLIES	871	130	1,001
(730) CONTRACTUAL SERVICES - BILLING	536	(161)	375
(731) CONTRACTUAL SERVICES - PROFESSIONAL	505	213	718
(735) CONTRACTUAL SERVICES - TESTING	3,170	192	3,362
(736) CONTRACTUAL SERVICES - OTHER	4,712	436	5,149
(740) RENTS	2,150	(50)	2,100
(750) TRANSPORTATION EXPENSE	768	(55)	713
(755) INSURANCE EXPENSE	456	0	456
(765) REGULATORY COMMISSION EXPENSES	0	194	194
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>557</u>	<u>125</u>	<u>682</u>
	<u>\$33,515</u>	<u>(\$1,986)</u>	<u>\$31,529</u>

DAMON UTILITIS, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$8.83	\$13.16	\$0.12
3/4"	\$13.24	\$19.75	\$0.18
1"	\$22.09	\$32.91	\$0.30
1-1/2"	\$44.15	\$65.82	\$0.59
2"	\$70.84	\$105.32	\$0.95
3"	\$141.31	\$210.64	\$1.90
4"	\$220.78	\$329.12	\$2.97
6"	\$441.55	\$658.24	\$5.95
Gallage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$2.34	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$8.83	\$13.16	\$0.12
3/4"	\$13.24	\$19.75	\$0.18
1"	\$22.09	\$32.91	\$0.30
1-1/2"	\$44.15	\$65.82	\$0.59
2"	\$70.84	\$105.32	\$0.95
3"	\$141.31	\$210.64	\$1.90
4"	\$220.78	\$329.12	\$2.97
6"	\$441.55	\$658.24	\$5.95
Gallage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$2.34	\$0.02

DAMON UTILITIS, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDING 12/31/07		DOCKET NO. 080709-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
All Meter Size	\$16.59	\$18.85	\$0.10
Gallage Charge			
(Per 1,000 Gallons; Maximum 10,000 Gallons)	\$6.77	\$5.91	\$0.03
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$16.59	\$18.85	\$0.10
3/4"	\$24.89	\$28.27	\$0.15
1"	\$41.48	\$47.12	\$0.24
1-1/2"	\$82.97	\$94.25	\$0.49
2"	\$132.73	\$150.79	\$0.78
3"	\$265.50	\$301.59	\$1.55
4"	\$414.84	\$471.23	\$2.43
6"	\$829.67	\$942.46	\$4.86
Gallage Charge (all gallons)	\$8.11	\$7.09	\$0.04