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STATE OF FLORIDA



MARSHALL WILLIS, DIRECTOR  
DIVISION OF ECONOMIC REGULATION  
(850) 413-6900

# Public Service Commission

April 8, 2010

Ms. Sandy Seyffart  
CWS Communities d/b/a Palm Valley Utilities  
3700 Palm Valley Circle  
Oviedo, FL 32765

**Docket No. 090447-WS; Application for staff-assisted rate case in Seminole County by CWS Communities d/b/a Palm Valley Utilities**

Dear Ms. Seyffart:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance 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:

Palm Valley Clubhouse  
500 East Palm Valley Drive  
Oviedo, FL

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7021.

Sincerely,

A handwritten signature in black ink that reads "Shannon J. Hudson".

Shannon J. Hudson  
Regulatory Analyst IV

Enclosures

/SH

cc: Division of Economic Regulation (Maurey, Fletcher, Daniel, Simpson)  
Office of General Counsel (Bennett)  
Office of Commission Clerk (090447-WS)

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State of Florida



## Public Service Commission

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

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**DATE:** April 1, 2010

**TO:** Andrew Maurey, Bureau Chief, Bureau of Rate Filings

**FROM:** Shannon Hudson, Regulatory Analyst IV *SH*  
Robert Simpson, Engineering Specialist II *RS*  
Sonica Bruce, Regulatory Analyst III *SB*  
Jennie Lingo, Economic Analyst *JL*

**RE:** Docket No. 090447-WS – Application for staff-assisted rate case in Seminole County by CWS Communities d/b/a Palm Valley Utilities.

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**- 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 June 3, 2010 for the June 15, 2010, 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.

CWS Communities LP d/b/a Palm Valley Utilities (Palm Valley or Utility) is a Class C utility providing water and wastewater service in Seminole County to 55 individually metered customers and one general service customer (641 unit mobile home park). This location is in the St. Johns River Water Management District (SJRWMD), all of which is considered a water use caution area. The Utility was granted Certificates Nos. 277-W and 223-S by Order No. 7518, issued November 22, 1976, in Docket No. 750660-WS. The certificates have been amended several times.<sup>1</sup> Also, the certificates have been transferred twice.<sup>2</sup> Palm Valley's 2008 annual report lists total gross revenues of \$170,904 for water and \$229,163 for wastewater with net income of \$10,934 for water and a net loss of \$95,378 for wastewater.

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<sup>1</sup> See Order No. 9626, issued November 5, 1980, in Docket No. 7901519-WS; Order No. 12714, issued November 30, 1983, in Docket No. 830530-WS; Order No. 14480, issued June 18, 1985, in Docket No. 850040-WS; Order No. 23094, issued June 20, 1990, in Docket No. 900166-WS; and Order No. PSC-00-2243-PAA-WS, issued November 27, 2000, in Docket No. 001138-WS.

<sup>2</sup> See Order No. 16360, issued July 16, 1986, in Docket No. 860583-WS and Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS.

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Palm Valley considered satisfactory?

**Preliminary Recommendation:** The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the March 25, 2010, customer meeting. (Simpson)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Florida Department of Environmental Protection (DEP) and the St. Johns River Water Management District (SJRWMD) are also considered.

Palm Valley Utilities (Palm Valley) is regulated by DEP's Central District located in Orlando. DEP conducted a sanitary survey of the water treatment plant on February 12, 2009, and a wastewater compliance inspection on November 12, 2008. Both surveys had some deficiencies which were corrected. DEP indicated that the water and wastewater systems have met all monitoring requirements. Consequently, the quality of drinking water and the wastewater effluent quality are considered satisfactory by the DEP.

A staff field investigation of Palm Valley's service area was conducted on December 15, 2009. The water and wastewater treatment facilities appeared to be operating normally. A review of flow data during the test year indicates that the wastewater system may have excessive infiltration and inflow. The Utility has implemented a repair program to address this issue; therefore, no adjustment is necessary. In addition, the Utility is reviewing the finished water and treated wastewater reported to DEP and the amount of water pumped that was reported to the WMD for the test year to address what appears to be discrepancies or incomplete data in those reports. The Utility has also requested help from the Florida Rural Water Association in recalibrating the raw water meter.

Customer complaints received by the Commission within the last three years deal with replacement of meter covers, repair of water leaks, replacement and/or repair of shut-off valves, and meter testing. All of the customer complaints have been resolved. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the April 22, 2010 customer meeting.

**Issue 2:** What are the used and useful percentages for the water treatment plant, the distribution system, the storage tanks, the wastewater treatment plant, the collection system, and the reuse facilities?

**Preliminary Recommendation:** The Palm Valley water treatment plant should be considered 78 percent used and useful. The wastewater treatment plant should be considered 81 percent used and useful. The distribution system, the two storage tanks, the collection system, and the reuse facilities should be considered 100 percent used and useful. (Simpson)

**Staff Analysis:** The Utility's records for the test year ending September 30, 2009 were utilized in analyzing the used and usefulness of the water and wastewater facilities.

#### Water Treatment Plant and Storage

Rule 25-30.4325, Florida Administrative Code, provides that in calculating used and useful for a water treatment system, the peak demand in gallons per minute (gpm) is divided by the firm reliable capacity of the system based on 16 hours of pumping. Consideration is also given to fire flow, unaccounted for water, growth, changes in flow due to conservation, and other factors.

Palm Valley's water treatment system has two wells each rated at 820 gpm. The firm reliable capacity is 787,200 gallons per day (gpd). The raw water is aerated to remove iron and manganese and then injected with liquid chlorine and discharged into a ground storage tank before it enters the water distribution system. The Utility's peak day of 143,000 gallons occurred on April 1, 2009. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's fire flow requirement is 1250 gpm for 2 hours or 150,000 gallons. Projected growth in the service area is 18 equivalent residential connections (ERCs) a year for five years or 16,148 gpd. The water treatment plant is 39.27 percent used and useful based on a peak day of 143,000 gpd, a growth allowance of 16,148 gpd, and fire flow of 150,000 gpd divided by the firm reliable capacity of 787,200 gpd. However, in the Utility's last rate case, Palm Valley's water treatment plant was found to be 78 percent used and useful. The calculation was based on a five maximum day average of 327,000 gpd, a growth allowance 48,141 gpd, and fire flow of 150,000 gpd. The SJRWMD permitted water withdrawal allowance of 675,000 gpd was used as a limiting factor for the capacity of the system.

A review of test year data for the last rate case indicates that 48,920,000 gallons of finished water were produced as compared to 25,239,000 gallons of finished water in the current test year; therefore, it appears that there has been a significant effort to conserve water in the area. Staff recommends that the water treatment plant be considered 78 percent used and useful, consistent with the last rate case, to recognize that, while there has been significant conservation, the service area is close to build out, although there is vacant land adjacent to the service area that could potentially be developed in the future.

#### Storage

The Utility's two ground storage tanks have a usable capacity of 145,800 gpd. Based on a peak day demand of 143,000 gallons, a fire flow demand of 150,000 gpd, and a growth allowance of 16,148 gpd, staff recommends that the two storage tanks be considered 100 percent used and useful.

### Wastewater Treatment Plant

Palm Valley's wastewater treatment system consists of a 150,000 gpd extended aeration treatment plant with flow equalization, influent screening, aeration, secondary clarification, filtration, and chlorination. Rule 25-30.432, F.A.C., provides that the wastewater plant used and useful should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, infiltration and infiltration, conservation, and whether flows have decreased due to conservation.

The current DEP permitted capacity is 150,000 gpd based on annual average daily flow (AADF). The customer demand for the test year is 102,416 gpd. The Utility's projected growth is 11,565 gpd over the next five years. There appears to be a significant amount of infiltration and inflow, although the Utility has made repairs to the collection system to address that issue. The wastewater treatment plant is approximately 76 percent used and useful based on the current customer demand and a growth allowance. However, in the last rate case, the wastewater treatment plant was found to be 81 percent used and useful. Staff recommends that, consistent with the last rate case, the wastewater treatment plant should be considered 81 percent used and useful to recognize the amount of water conservation experienced in the service area and that the service area is close to build out.

### Water distribution and wastewater collection systems

The used and useful calculations for the water distribution and wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the lines. Consideration is also given to growth. In this case, the service area is close to build out, although there is vacant land adjacent to the service area that could potentially be developed in the future. Staff recommends that the Utility's current distribution and collection systems are needed to serve existing customers and, therefore, should be considered 100 percent used and useful.

### Reuse facilities

The Utility treats wastewater to reuse quality standards and the treated effluent is disposed of in a reclaimed water system consisting of a public irrigation system, discharges to decorative ponds, and a subsurface application consisting of a sprayfield, dripper systems, exfiltration trenches, and a percolation pond. The total permitted disposal capacity is 165,100 gpd. Pursuant to Section 367.0817, F.S., all reuse facilities are 100 percent used and useful. Therefore, staff recommends that all of the Utility's reuse facilities should be considered 100 percent used and useful.

**Issue 3:** What is the appropriate average test year rate base for Palm Valley?

**Preliminary Recommendation:** The appropriate average test year rate base for the Utility is \$622,811 for water and \$1,450,725 for wastewater. (Hudson)

**Staff Analysis:** Palm Valley's rate base was last established in 2002.<sup>3</sup> Staff has selected a test year ended September 30, 2009 for this rate case. Rate base components established, in the above-mentioned Order, have been updated through September 30, 2009, using information obtained from staff's audit. A summary of each component and the adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded \$1,264,170 and \$2,810,092 of UPIS for water and wastewater, respectively. Staff has decreased UPIS by \$12,835 for water and increased UPIS by \$243,357 for wastewater to reflect plant additions and retirements since rate base was last established. Also, staff has decreased UPIS by \$22,185 and \$30,482 to reflect averaging adjustments for water and wastewater, respectively. Staff's net adjustment to UPIS is a decrease of \$35,020 for water and increase of \$212,876 for wastewater. Staff's recommended UPIS balance is \$1,229,151 and \$3,022,968 for water and wastewater, respectively.

**Non-used and Useful Plant:** The used and useful percentages for each system was discussed in Issue 2 of this staff report. Applying the non-used and useful percentages to the plant accounts results in non-used and useful plant of \$66,331 for the water system and \$242,016 for wastewater system. The non-used and useful accumulated depreciation is \$37,800 for the water plant and \$150,625 for the wastewater plant. This results in a net non-used and useful adjustment of \$28,531 for the water plant and \$91,391 for the wastewater plant.

**Contribution in Aid of Construction (CIAC):** Palm Valley recorded CIAC of \$335,999 and \$543,472 for water and wastewater, respectively. Based on CIAC approved in the last rate case and CIAC additions, staff has determined the appropriate CIAC to be \$352,139 for water and \$562,161 for wastewater. Therefore, staff has increased this account by \$16,140 and \$18,689 for water and wastewater, respectively. Also, staff has decreased CIAC by \$1,195 and \$974 to reflect averaging adjustments for water and wastewater, respectively. Staff's recommended CIAC balance is \$350,944 and \$561,187 for water and wastewater, respectively.

**Accumulated Depreciation:** The Utility recorded balances for accumulated depreciation of \$682,897 for water and \$1,087,070 for wastewater. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$306,782 for water and increased \$337,784 for wastewater to reflect depreciation calculated per staff. Staff has decreased this account by \$21,574 and \$66,430 to reflect averaging adjustments for water and wastewater, respectively. These adjustments results in average accumulated depreciation of \$354,541 for water and \$1,358,424 for wastewater.

**Accumulated Amortization of CIAC:** Palm Valley recorded \$99,426 and \$284,063 for amortization of CIAC for water and wastewater, respectively. Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect amortization of

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<sup>3</sup> See Order No. PSC-02-1111-PAA-WS, issued August 13, 2002, in Docket No. 010823-WS, In Re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley.



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CIAC as calculated by staff, this account has been increased by \$21,413 for water and \$39,018 for wastewater. Staff has decreased this account by \$6,324 and \$12,251 for water and wastewater, respectively, to reflect averaging adjustments. Staff's net adjustments to this account results in Amortization of CIAC of \$114,515 for water and \$310,829 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), 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 \$10,729 for water (based on water O&M of \$85,836) and \$31,522 for wastewater (based on wastewater O&M of \$252,173). Working capital has been increased by \$10,729 and \$31,522 to reflect one-eighth of staff's recommended O&M expenses for water and wastewater, respectively.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$622,811 for water and \$1,450,725 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B, and staff's adjustments are shown on Schedule No. 1-C.

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**Issue 4:** What is the appropriate return on equity and overall rate of return for this utility?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 11.22 percent with a range of 10.22–12.22 percent. The appropriate overall rate of return is 7.84 percent. (Hudson)

**Staff Analysis:** According to staff's audit, Palm Valley recorded common equity of \$1,270,790,310 and long-term debt in the amount of \$1,819,297,660 in its capital structure. All investor sources of capital are from the Utility's parent company. Using the most recent Commission-approved leverage formula<sup>4</sup> and applying an equity ratio of 41.12 percent, the appropriate ROE is 11.22 percent. CWS' capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 11.22 percent with a range of 10.22-12.22 percent, and an overall rate of return of 7.84 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>4</sup> See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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.

Docket No. 090447-WS

Date: April 1, 2010

**Issue 5:** What are the appropriate amount of test year revenues?

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$163,648 for water and \$234,130 for wastewater. (Bruce, Hudson)

**Staff Analysis:** Palm Valley recorded \$170,079 for water test year revenues. The customer's bill includes a line item for a Seminole County water tax (water tax). Pursuant to Audit Finding No. 4, the Utility included in its revenues the amount of \$6,431 collected for the water tax. This amount should not be considered in revenues for rate setting purposes. Therefore, staff has decreased test year revenues by \$6,431.

Palm Valley recorded \$230,259 for wastewater test year revenues. The Utility capped general services gallons at 6,000 gallons. The gallonage cap is only applicable to residential customers. Staff has recalculated wastewater revenues and determined the appropriate test year revenues to be \$234,130. Staff has increased wastewater revenues by \$3,871.

Based on the above, staff recommends test year revenues of \$163,648 and \$234,130 for water and wastewater, respectively.

**Issue 6:** What are the appropriate operating expenses?

**Preliminary Recommendation:** The appropriate amount of operating expense for the Utility is \$135,435 for water and \$420,550 for wastewater. (Hudson)

**Staff Analysis:** Palm Valley recorded operating expenses of \$151,621 for water and \$359,974 for wastewater during the test year ending September 30, 2009. The test year O & M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses, as summarized below:

**Purchased Power – (615/715)** – The Utility recorded \$20,363 for water and \$20,363 for wastewater. Staff has decreased purchased power by \$637 for water and increased by \$5,531 for wastewater to reflect the appropriate purchase power expense for each system. Staff recommends purchased power expense of \$19,726 for water and 25,894 for wastewater.

**Chemicals – (618/718)** – Palm Valley recorded \$5,544 for water and \$28,339 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased chemicals by \$150 for water and \$591 for wastewater to remove out-of-period expenses. Staff recommends chemical expense of \$5,394 for water and \$27,748 for wastewater.

**Materials and Supplies – (620/720)** – The Utility recorded \$1,004 for water and \$1,004 for wastewater. Pursuant to Audit Finding No. 6, Palm Valley invoiced materials and supplies were \$1,839 for water and \$9,063 for wastewater. Staff had increased this account by \$835 and \$8,059 for water and wastewater, respectively. Staff recommends material and supplies of \$1,839 for water and \$9,063 for wastewater.

**Contractual Services – Billing – (630/730)** – The Utility recorded \$3,917 each for water and wastewater. Pursuant to Audit Finding No. 6, Palm Valley included an out-of-period invoice. Staff has reduced water and wastewater each by \$864. Staff recommends contractual services – billing of \$3,053 for water and \$3,053 for wastewater.

**Contractual Services – Professional – (631/731)** – The Utility recorded \$270 for water and \$302 for wastewater. Pursuant to Audit Finding No. 6, Palm Valley invoiced professional expenses were \$1,067 for water and \$1,099 for wastewater. Staff has increased this account by \$797 each for water and wastewater. Staff recommends contractual services – professional of \$1,067 for water and \$1,099 for wastewater.

**Contractual Services – Testing – (635/735)** – The Utility recorded \$5,773 for water and \$2,560 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased testing for water by \$980 to remove an out-of-period expense. Staff recommends contractual services – testing of \$4,793 for water and \$2,560 for wastewater.

**Contractual Services – Other – (636/736)** – Palm Valley recorded \$19,143 for water and \$110,973 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased this account by \$75 for water to remove an out-of-period expense. Staff has increased this account by \$2,200 to

reflect the appropriate operator fee for wastewater. Staff's recommends contractual services – other of \$19,068 for water and \$113,173 for wastewater.

Regulatory Commission Expense – (665/765) – The Utility recorded \$0 for water and wastewater. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. Palm Valley is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$698 for postage expense, \$555 printing expense, and \$79 for envelopes. The above results in a total rate case expense for noticing of \$1,332. The Utility paid a \$2,000 rate case filing fee for water and wastewater. Staff recommends that total rate case expense is \$3,332 (\$2,000+\$1,332), which amortized over four years is \$834, allocating \$417 each for water and wastewater.

Miscellaneous Expense – (675/775) – Palm Valley recorded \$22,322 for water and \$23,339 for wastewater in this account for the test year. Pursuant to Audit Finding No. 6, staff made the following adjustments: decrease of \$1,607 for water and \$246 for wastewater to remove out-of-period expenses; decrease of \$14,252 for water to remove RAFs and water tax; decrease of \$10,869 for wastewater RAFs and decrease of \$8,309 to remove expenses already included in the appropriate account. Staff's net adjustment to this account is a decrease of \$15,858 for water and \$19,424 for wastewater. Staff recommends miscellaneous expense for the test year of \$6,464 for water and \$3,915 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be decreased by \$16,516 for water and \$3,876 for wastewater. Staff's recommended O&M expenses of \$85,836 for water and \$252,173 for wastewater are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded net depreciation expense of \$47,429 for water and \$73,927 for wastewater. Staff calculated test year depreciation using the rates prescribed in Rule 25-30.140, F.A.C. Based on this calculation, depreciation expense should be \$41,369 and \$120,236 for water and wastewater, respectively. Palm Valley recorded depreciation expense is \$57,894 for water and \$90,890 for wastewater. Staff's has decreased depreciation expense for water by \$16,525 (\$57,894-\$41,369) and increased wastewater by \$29,346 (\$120,236-\$90,890). Staff has calculated amortization of CIAC of \$12,907 for water and \$24,418 for wastewater based on composite rates. The Utility recorded amortization of CIAC of \$10,465 for water and \$16,963 for wastewater. Staff has decreased this account by \$2,442 (\$12,907-\$10,465) for water and \$7,455 (\$24,418-\$16,963). Staff's recommended net depreciation expense is \$28,462 (\$41,369-\$10,465) for water and \$95,818 (\$120,236-\$24,418) for wastewater.

Taxes Other Than Income (TOTI) – Palm Valley recorded TOTI of \$1,841 for water and \$29,999 for wastewater. The amounts for TOTI included payroll taxes of \$1,539 for both water and wastewater. Staff has calculated payroll taxes on salaries and determined it to be \$1,463 for both water and wastewater. As a result, staff has decreased TOTI by \$76 for both water and wastewater to reflect the appropriate payroll taxes. As discussed in Issue 5, staff is recommending test year revenues of \$163,648 and \$234,130 for water and wastewater, respectively. Based on staff's recommended test year revenue, the Utility's regulatory

assessment fees (RAFs) should be \$7,364 for water and \$10,536 for wastewater and staff has increased this account accordingly.

The amount in this account included ad valorem taxes of \$302 for water and \$28,460 for wastewater. The actual ad valorem tax is \$29,985. Staff has allocated the ad valorem taxes based on staff's recommended UPIS balance for each system. This results in a 28.91 percent and 71.09 percent to water and wastewater, respectively. The water ad valorem tax should be \$8,668 ( $\$29,985 \times 28.91\%$ ). Staff has increased this account by \$8,366 ( $\$8,668 - \$302$ ) to reflect the appropriate water ad valorem tax. The wastewater ad valorem tax should be \$21,317 ( $\$29,985 \times 71.09\%$ ). Staff had decreased this account by \$7,143 ( $\$28,460 - \$21,317$ ) to reflect the appropriate wastewater ad valorem tax. As discussed in Issue 2, the water treatment plant should be 78 percent used and useful and the wastewater treatment plant should be 81 percent used and useful. As result, staff had decreased this account by \$733 for water and \$1,823 for wastewater to remove the non-used and useful portion of ad valorem taxes.

CWS Communities LP owns the land that contains the water and wastewater facilities as well as Palm Valley Mobile Home Park. The property taxes for this land was \$330,122. Consistent with the last rate case, staff has allocated the property taxes based on the percentage of land the facilities are located.<sup>5</sup> The water percentage allocation is 1.14 percent. Based on this percentage and the used and useful adjustment, staff has calculated the appropriate property tax to be \$3,448 for water. The wastewater percentage allocation is 9.13 percent. Based on this percentage and the used and useful adjustment, staff has calculated the appropriate property tax to be \$27,559 for wastewater.

As discussed in Issue 7, revenues have been increased by \$20,615 for water and \$300,157 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, the TOTI should be increased by \$928 for water and \$13,507 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment to TOTI is an increase of \$19,297 for water and \$42,560 for wastewater. Staff recommends TOTI for the test year of \$21,137 for water and \$72,559 for wastewater.

Income Tax – Palm Valley recorded income tax of \$0 for both water and wastewater. The Utility is a limited partnership. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$135,435 for water and \$420,550 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C and 3-D.

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<sup>5</sup> See Order No. PSC-02-1111-PAA-WS, issued August 13, 2002, in Docket No. 010823-WS, In Re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley.

**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$184,263 for water and \$534,287 for wastewater. (Hudson)

**Staff Analysis:** The Utility should be allowed an annual increase of \$20,615 (12.60 percent) for water and \$300,157 (128.20 percent) for wastewater. This will allow Palm Valley the opportunity to recover its expenses and earn an 7.84 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$622,811	\$1,450,725
Rate of Return	x .0784	x .0784
Return on Rate Base	\$48,828	\$113,737
Adjusted O & M expense	\$85,836	\$252,173
Depreciation expense (Net)	\$28,462	\$95,818
Amortization	\$0	\$0
Taxes Other Than Income	\$21,137	\$72,559
Income Taxes	\$0	\$0
Revenue Requirement	\$184,263	\$534,287
Less Test Year Revenues	\$163,648	\$234,130
Annual Increase Before Reuse	\$20,615	\$300,157
Percent Increase/(Decrease)	12.60%	128.20%
Revenue Requirement before Reuse	\$184,263	\$534,287
Adjustment for Reuse Revenues	\$0	(\$14,362)
Revenue Requirement for Ratesetting	\$184,263	\$519,925
Percent Increase/(Decrease)	12.60%	122.10%

**Issue 8:** What are the appropriate rate structures for the Utility's water and wastewater systems?

**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 55 percent. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. 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 50%. The residential wastewater cap should remain set at 6,000 gallons (6 kgals). (Bruce)

**Staff Analysis:** The Utility currently has a BFC uniform/gallonage charge rate structure for the water system's residential and non-residential class. The monthly BFC is \$9.98 and the usage charge is \$2.40 per kgals.

**Water Rates:** 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 goals and practices.

CWS Communities LP d/b/a Palm Valley is located in the SJRWMD. 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 rate structure was appropriate. Based on staff's analysis, the customer's monthly overall consumption is 2.952 kgals and the customer base is mildly seasonal. Staff does not believe that an inclining block rate structure is appropriate at this time due to the 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.

Furthermore, as discussed in Issue 7, the percentage increase in revenue requirement is small. Therefore, staff recommends that the 12.60 percent revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 55 percent, and BFC and gallonage charge of \$11.24 and \$2.70, respectively.

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 BFC cost recovery percentage for the water system should be set at 55 percent.



TABLE 8-1

<b>CWS COMMUNITIES LP D/B/A PALM VALLEY STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
Monthly BFC/ uniform kgals charge BFC = 49%		BFC/uniform kgals charge BFC = 50%	
BFC	\$11.96	BFC	\$27.08
All kgals	\$4.24	All kgals	\$10.45
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$11.96	0	\$27.08
1	\$16.20	1	\$37.53
2	\$20.44	2	\$47.98
3	\$24.68	3	\$58.43
5	\$33.16	5	\$79.33
6	\$37.40	6	\$89.78
<b>Alternative 1</b>		<b>Alternative 2</b>	
BFC/uniform kgals charge BFC = 60%		BFC/uniform kgals charge BFC = 70%	
BFC	\$32.64	BFC	\$38.48
All kgals	\$8.34	All kgals	\$6.12
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$32.64	0	\$38.48
1	\$40.98	1	\$44.60
2	\$49.32	2	\$50.72
3	\$57.66	3	\$56.84
5	\$74.34	5	\$69.08
6	\$82.68	6	\$75.20

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential is a continuation of the monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should remain set at 6 kgals per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

**Issue 9:** Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility? What are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements for the respective water and wastewater systems?

**Preliminary Recommendation:** No, a repression adjustment is not appropriate for this Utility. However, in order to monitor the effects resulting from the changes in revenues, the Utility 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 semi-annual 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. (Bruce)

**Staff Analysis:** Based on staff's analysis, a repression adjustment is not warranted in this case due to the small revenue requirement coupled with the fact that there is no significant amount of discretionary usage. The overall average consumption is 2.952 kgals and the customer base is mildly seasonal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should be filed with the Commission, on a semi-annual 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.

Docket No. 090447-WS

Date: April 1, 2010

**Issue 10:** What is the appropriate reuse rate?

**Preliminary Recommendation:** The appropriate reuse rate is \$1.25 per kgal. However, staff's final recommended reuse rate will be presented in staff's final recommendation dated June 3, 2010. (Lingo)

**Staff Analysis:** Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by the Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. Staff recognizes the need to promote reuse and that reuse is a valuable water source which should not be wasted.

Based on staff's preliminary analysis, a reuse rate of \$1.25 per kgal is recommended. However, staff's final recommendation regarding an appropriate reuse rate will be contained in staff's final recommendation dated June 3, 2010.

**Issue 11:** What are the appropriate rates for this Utility?

**Preliminary Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue \$184,263 for water and \$519,925 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. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Hudson)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$184,263 for the water system and \$519,925 for the wastewater system.

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, F.S.?

**Preliminary Recommendation:** The water and wastewater rates should be reduced as shown on Schedule No. 4, 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. Palm Valley 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. (Hudson)

**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 on working capital, and the gross-up for RAFs which is \$417 annually for both water and wastewater. Using Palm Valley'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.

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. Palm Valley 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 Palm Valley?

**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, Palm Valley 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., Palm Valley 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. (Hudson)

**Staff Analysis:** This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Palm Valley, 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.

Palm Valley should be authorized to collect the temporary rates upon the staff's approval of the 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 of \$214,162. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Palm Valley 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:

Date: April 1, 2010

- 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 Palm Valley, 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.

Palm Valley 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.

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 1-A	
TEST YEAR ENDING 09/30/2009		DOCKET NO. 090497-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,264,170	(\$35,020)	\$1,229,151
2. LAND & LAND RIGHTS	2,433	0	2,433
3. NON-USED AND USEFUL COMPONENTS	0	(28,531)	(28,531)
4. CIAC	(335,999)	(14,945)	(350,944)
5. ACCUMULATED DEPRECIATION	(682,897)	328,356	(354,541)
6. AMORTIZATION OF CIAC	99,426	15,089	114,515
7. WORKING CAPITAL ALLOWANCE	0	<u>10,729</u>	<u>10,729</u>
8. WATER RATE BASE	<u>\$347,133</u>	<u>\$275,678</u>	<u>\$622,811</u>



CWS COMMUNITES LP D/B/A PALM VALLEY TEST YEAR ENDING 09/30/2009 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 090497-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$2,810,092	\$212,876	\$3,022,968
2. LAND & LAND RIGHTS	96,409	0	96,409
3. NON-USED AND USEFUL COMPONENTS	0	(91,391)	(91,391)
4. CIAC	(543,472)	(17,715)	(561,187)
5. ACCUMULATED DEPRECIATION	(1,087,070)	(271,354)	(1,358,424)
6. AMORTIZATION OF CIAC	284,063	26,766	310,829
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>31,522</u>	<u>31,522</u>
8. WASTEWATER RATE BASE	<u>\$1,560,022</u>	<u>(\$109,297)</u>	<u>\$1,450,725</u>

<b>CWS COMMUNITES LP D/B/A PALM VALLEY</b>		<b>SCHEDULE NO. 1-C</b>	
<b>TEST YEAR ENDING 09/30/2009</b>		<b>DOCKET NO. 090497-WS</b>	
<b>ADJUSTMENTS TO RATE BASE</b>		<b>PAGE 1</b>	
	<u><b>WATER</b></u>	<u><b>WASTEWATER</b></u>	
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1. To reflect the appropriate UPIS balance	(\$12,835)	\$243,357	
2. To reflect averaging adjustment	(22,185)	(30,482)	
Total	<u>(\$35,020)</u>	<u>\$212,876</u>	
<b><u>NON-USED AND USEFUL PLANT</u></b>			
1. To reflect non-used and useful plant	(\$66,331)	(\$242,016)	
2. To reflect non used and useful accumulated depreciation	37,800	150,625	
Total	<u>(\$28,531)</u>	<u>(\$91,391)</u>	
<b><u>CIAC</u></b>			
1. To reflect the appropriate CIAC balance	(\$16,140)	(\$18,689)	
2. To reflect an averaging adjustment	1,195	974	
	<u>(\$14,945)</u>	<u>(\$17,715)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1. To reflect accumulated depreciation per Rule 25-30.0140	\$306,782	(\$337,784)	
2. To reflect an averaging adjustment	21,574	66,430	
Total	<u>\$328,356</u>	<u>(\$271,354)</u>	
<b><u>AMORTIZATION OF CIAC</u></b>			
1. To reflect the appropriate amort of CIAC	\$21,413	\$39,018	
2. To reflect an averaging adjustment	(6,324)	(12,251)	
Total	<u>\$15,089</u>	<u>\$26,766</u>	
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
1. To reflect 1/8 of test year O & M expenses.	<u>\$10,729</u>	<u>\$31,522</u>	

**CWS COMMUNITES LP D/B/A PALM VALLEY  
TEST YEAR ENDING 09/30/2009  
SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2  
DOCKET NO. 090497-WS**

<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. TOTAL COMMON EQUITY	\$1,270,790,310	\$0	\$1,270,790,310	(\$1,269,937,574)	\$852,736	41.12%	11.22%	4.62%
2. LONG TERM DEBT	\$1,819,297,660	\$0	\$1,819,297,660	(\$1,818,076,860)	\$1,220,800	58.88%	5.48%	3.23%
3. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
4. TOTAL	<u>\$3,090,087,970</u>	<u>\$0</u>	<u>\$3,090,087,970</u>	<u>(\$3,088,014,433)</u>	<u>\$2,073,537</u>	<u>100.00%</u>		<u>7.84%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>10.22%</u>	<u>12.22%</u>	
OVERALL RATE OF RETURN						<u>7.43%</u>	<u>8.25%</u>	

CWS COMMUNITES LP D/B/A PALM VALLEY TEST YEAR ENDING 09/30/2009 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 090497-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$170,079</u>	<u>(\$6,431)</u>	<u>\$163,648</u>	<u>\$20,615</u> 12.60%	<u>\$184,263</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$102,351	(\$16,516)	\$85,836	\$0	\$85,836
3. DEPRECIATION (NET)	47,429	(18,967)	28,462	0	28,462
4. AMORTIZATION	0	0	0	0	\$0
5. TAXES OTHER THAN INCOME	1,841	18,369	20,210	928	21,137
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0
7. TOTAL OPERATING EXPENSES	<u>\$151,621</u>	<u>(\$17,114)</u>	<u>\$134,507</u>	<u>\$928</u>	<u>135,435</u>
8. OPERATING INCOME/(LOSS)	<u>\$18,458</u>		<u>\$29,141</u>		<u>\$48,828</u>
9. WATER RATE BASE	<u>\$347,133</u>		<u>\$622,811</u>		<u>\$622,811</u>
10. RATE OF RETURN	<u>5.32%</u>		<u>4.68%</u>		<u>7.84%</u>

CWS COMMUNITES LP D/B/A PALM VALLEY TEST YEAR ENDING 09/30/2009 SCHEDULE OF WASTEWATER OPERATING INCOME				SCHEDULE NO. 3-B DOCKET NO. 090497-WS	
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$230,259</u>	<u>\$3,871</u>	<u>\$234,130</u>	<u>\$300,157</u> 128.20%	<u>\$534,287</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$256,048	(\$3,876)	\$252,173	\$0	\$252,173
3. DEPRECIATION (NET)	73,927	21,891	95,818	0	95,818
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	29,999	29,053	59,052	13,507	72,559
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	\$0
7. TOTAL OPERATING EXPENSES	<u>\$359,974</u>	<u>\$47,069</u>	<u>\$407,043</u>	<u>\$13,507</u>	<u>\$420,550</u>
8. OPERATING INCOME/(LOSS)	<u>(\$129,715)</u>		<u>(\$172,913)</u>		<u>\$113,737</u>
9. WASTEWATER RATE BASE	<u>\$1,560,022</u>		<u>\$1,450,725</u>		<u>\$1,450,725</u>
10. RATE OF RETURN	<u>-8.31%</u>		<u>-11.92%</u>		<u>7.84%</u>

**CWS COMMUNITES LP D/B/A PALM VALLEY**  
**TEST YEAR ENDING 09/30/2009**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 090497-WS**  
**PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
1. To reflect test year revenues per audit (AF 4)	<u>(\$6,431)</u>	<u>\$3,871</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. Purchased Power (615,715)		
a. To reflect the appropriate purchased power expense	<u>(\$637)</u>	<u>\$5,531</u>
2. Chemicals (618, 718)		
a. To reflect the appropriate chemical expense per AF 6	<u>(\$150)</u>	<u>(\$591)</u>
3. Materials and Supplies (620,720)		
a. To reflect the appropriate material and supplies expense per AF 6	<u>\$835</u>	<u>\$8,059</u>
4. Contractual Services - Billing (630, 730)		
a. To reflect the appropriate billing cost per AF 6	<u>(\$864)</u>	<u>(\$864)</u>
5. Contractual Services - Professional (631, 731)		
a. To reflect the appropriate accounting services AF 6	<u>\$797</u>	<u>\$797</u>
6. Contractual Services - Testing (635, 735)		
a. To reflect the appropriate test expense per AF 6	<u>(\$980)</u>	<u>\$0</u>
11. Contractual Services - Other (636,736)		
a. To reflect the appropriate operator expense per AF 6	<u>(\$75)</u>	<u>\$2,200</u>
13. Regulatory Commission Expense (665)		
a. To reflect the 4 year amortization of rate case expense	<u>\$417</u>	<u>\$417</u>
14. Miscellaneous Expense (675,775)		
a. To reflect miscellaneous expense per AF 6	<u>(\$15,858)</u>	<u>(\$19,424)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u><b>(\$16,516)</b></u>	<u><b>(\$3,876)</b></u>

**CWS COMMUNITES LP D/B/A PALM VALLEY**  
**TEST YEAR ENDING 09/30/2009**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 090497-WS**  
**PAGE 2 OF 2**

**1 DEPRECIATION EXPENSE**

a. To reflect the depreciation expense	(\$16,525)	\$29,346
b. To reflect CIAC Amortization	<u>(2,442)</u>	<u>(7,455)</u>
Subtotal	<u>(\$18,967)</u>	<u>\$21,891</u>

**2 TAXES OTHER THAN INCOME**

a. To reflect payroll taxes on staff's recommended salaries	(\$76)	(\$76)
b. To reflect appropriate RAFs	7,364	10,536
c. To reflect the appropriate tangible property taxes	8,366	(7,143)
d. To reflect used and useful adjustment for tangible property taxes	(733)	(1,823)
e. To reflect the appropriate real estate property taxes	<u>3,448</u>	<u>27,559</u>
	<u>\$18,369</u>	<u>\$29,053</u>

**CWS COMMUNITES LP D/B/A PALM VALLEY  
TEST YEAR ENDING 09/30/2009  
ANALYSIS OF WATER OPERATION AND  
MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-D  
DOCKET NO. 090497-WS**

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$19,118	0	\$19,118
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	2,949	0	2,949
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	20,363	(637) [1]	19,726
(616) FUEL FOR POWER PRODUCTION	1,048	0	1,048
(618) CHEMICALS	5,544	(150) [2]	5,394
(620) MATERIALS AND SUPPLIES	1,004	835 [3]	1,839
(630) CONTRACTUAL SERVICES - BILLING	3,917	(864) [4]	3,053
(631) CONTRACTUAL SERVICES - PROFESSIONAL	270	797 [5]	1,067
(635) CONTRACTUAL SERVICES - TESTING	5,773	(980) [6]	4,793
(636) CONTRACTUAL SERVICES - OTHER	19,143	(75) [7]	19,068
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	900	0	900
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	417 [8]	417
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>22,322</u>	<u>(15,858)</u>	<u>6,464</u>
	<u>\$102,351</u>	<u>(\$16,516)</u>	<u>\$85,836</u>



CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 3-E	
TEST YEAR ENDING 09/30/2009		DOCKET NO. 090497-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$19,118	0	\$19,118
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	2,949	0	2,949
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	41,236	0	41,236
(715) PURCHASED POWER	20,363	5,531 [1]	25,894
(716) FUEL FOR POWER PRODUCTION	1,048	0	1,048
(718) CHEMICALS	28,339	(591) [2]	27,748
(720) MATERIALS AND SUPPLIES	1,004	8,059 [3]	9,063
(730) CONTRACTUAL SERVICES - BILLING	3,917	(864) [4]	3,053
(731) CONTRACTUAL SERVICES - PROFESSIONAL	302	797 [5]	1,099
(735) CONTRACTUAL SERVICES - TESTING	2,560	0	2,560
(736) CONTRACTUAL SERVICES - OTHER	110,973	2,200 [7]	113,173
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	900	0	900
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	417 [8]	417
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>23,339</u>	<u>(19,424)</u> [9]	<u>3,915</u>
	<u>\$256,048</u>	<u>(\$3,876)</u>	<u>\$252,173</u>

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 4-A	
TEST YEAR ENDING 09/30/2009		DOCKET NO. 090497-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b>Residential and General Service</b>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$9.98	\$11.24	\$0.03
3/4"	\$14.98	\$16.86	\$0.04
1"	\$24.96	\$28.10	\$0.07
1-1/2"	\$49.91	\$56.20	\$0.13
2"	\$79.86	\$89.92	\$0.21
3"	\$159.72	\$179.84	\$0.43
4"	\$249.56	\$281.00	\$0.67
6"	\$499.11	\$562.00	\$1.33
<u>Residential Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.40	\$2.70	\$0.01
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.40	\$2.70	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$17.18	\$19.34	
5,000 Gallons	\$21.98	\$24.74	
10,000 Gallons	\$33.98	\$38.24	

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 4-B	
TEST YEAR ENDING 09/30/2009		DOCKET NO. 090497-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b><u>Residential Service</u></b>			
All Meter Sizes	\$11.96	\$27.80	\$0.02
Gallonage Charge per 1,000 gallons (capped at 6,000 gallons)	\$4.24	\$10.45	\$0.01
<b><u>General Service</u></b>			
Base Facility Charge by Meter Size:			
All Meter Sizes			
5/8"X3/4"	\$11.96	\$27.80	\$0.02
3/4"	\$17.95	\$41.70	\$0.03
1"	\$29.92	\$69.50	\$0.06
1-1/2"	\$59.83	\$139.00	\$0.11
2"	\$95.73	\$222.40	\$0.18
3"	\$191.46	\$444.80	\$0.36
4"	\$299.15	\$695.00	\$0.57
6"	\$598.31	\$1,390.00	\$1.13
Gallonage Charge per 1,000 gallons	\$5.08	\$12.54	\$0.01
<b><u>Irrigation Service</u></b>			
Gallonage Charge Per 1,000 Gallons	\$1.21	\$1.25	\$0.00
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$24.68	\$59.15	
5,000 Gallons	\$33.16	\$80.05	
6,000 Gallons	\$37.40	\$90.50	