

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate  
increase in Polk County by  
Cypress Lakes Utilities, Inc.

DOCKET NO. 020407-WS  
ORDER NO. PSC-03-0647-PAA-WS  
ISSUED: May 28, 2003

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION ORDER  
APPROVING INCREASED WATER AND WASTEWATER RATES AND CHARGES  
AND FINAL ORDER REQUIRING UTILITY TO SHOW CAUSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for our decision to reduce rates at the end of the four-year amortization period and our decision to show cause the utility, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Cypress Lakes Utilities, Inc. (Cypress Lakes, CLU or the utility) is a Class B water and wastewater utility in Polk County. As of December 31, 2001, Cypress Lakes provided service to 1133 water and 1097 wastewater customers. Cypress Lakes is a wholly-owned subsidiary of Utilities, Inc. (UI) and is a sister company to Utilities, Inc. of Florida (UIF). Water Services Corp. (WSC) is an affiliated service company, which provides common services to all UI subsidiaries.

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ORDER NO. PSC-03-0647-PAA-WS  
DOCKET NO. 020407-WS  
PAGE 2

In Order No. PSC-98-0993-FOF-WS, issued July 20, 1998, in Docket No. 971220-WS, we approved the transfer of certificates from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. In that same docket, by Order No. PSC-00-0264-FOF-WS, issued February 8, 2000, we established rate base as of December 31, 1997, and declined to include a negative acquisition adjustment related to the transfer.

On September 30, 2002, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on November 26, 2002, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility has requested that we process this case under the Proposed Agency Action (PAA) procedure. By letter dated March 12, 2003, CLU requested an extension of the 5-month statutory deadline until May 6, 2003.

The test year for interim and final purposes is the historical test year ended December 31, 2001. In its MFRS, the utility reported operating revenues of \$114,552 and a net operating loss of \$48,384 in its water operations. The utility reported operating revenues of \$234,778 and a net operating income of \$3,276 in its wastewater operations. By Order No. PSC-03-0196-PCO-WS, issued February 10, 2003, we granted interim revenues for Cypress Lakes of \$255,196 for water and \$339,167 for wastewater. This represents an interim increase of \$140,644, or 122.78% for water and \$104,389, or 44.46% for wastewater. The utility has requested final water revenues of \$275,490 and wastewater revenues of \$361,255. This represents an increase of \$160,939 (140.49%) for water and \$126,477 (53.87%) for wastewater. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

#### QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, requires us to make a determination of the overall quality of service provided by a utility in every rate case. This shall be derived by evaluating three separate components of water and wastewater operations: the quality of the utility's product, the operating conditions of the

utility's plant and facilities, and the utility's attempt to address customers' satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Our analysis below addresses each of these three components.

### I. Quality of Utility's Product

We reviewed the records of the utility, DEP, and the health department. The information contained in those records indicates that the quality of both the water produced and wastewater treated meet environmental regulatory standards. Further, DEP and health department staff indicate that the finished products of both plants meet regulatory standards. Therefore, we find that the quality of the finished products for the water and wastewater plants is satisfactory.

### II. Operating Condition of the Water and Wastewater Facilities

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

### III. Customer Satisfaction

A customer meeting was held on January 22, 2003, in Lakeland, Florida, at the Cypress Lakes Clubhouse. There were approximately 650 customers that attended the meeting and fourteen customers spoke. We also held an informal meeting earlier that same day with the members of the Cypress Lakes Homeowners Association (HOA) and representatives of the Office of Public Counsel (OPC). During the customer meeting, residents expressed numerous concerns, the majority of which dealt with the level of the rate increase.

Mr. Holzschuh, the president of the HOA, expressed concern about the timeliness of receiving the notice for the January 22, 2003, customer meeting. Mr. Holzschuh also gave staff several letters of concern from the homeowners. He stated that the HOA understood that the utility should not operate at a loss; however, the HOA believed that the customers are captive, and must rely on the government to protect them.

He further stated that the HOA is requesting that we limit the proposed rate increase to a reasonable amount and postpone our decision on interim rates. Mr. Holzschuh questioned the reasonableness of the 2001 test year. He believed that 2001 was a poor choice because it was a wet year and the amount of usage was low during that year. In addition, he stated that the number of customers listed in the MFRs was incorrect, and that revenues did not reflect the true income. He also questioned the operating cost. The HOA believed that the customers should not be required to pay for the wastewater treatment plant expansion. In addition, he questioned the utility's ability to properly manage its business. Mr. Holzschuh asked the question, "what is a fair rate of return?"

When our staff met with the board members of the HOA prior to the customer meeting, our staff explained the interim statute requirements and that the utility's customer meeting notice was sent in the time frame prescribed by rule. In response to Mr. Holzschuh's question regarding the appropriate test year, our analysis reflects that the test year did not have excessive customer growth or any other material anomalies that would make the 2001 test year not representative. Regarding the question about the number of customers, we pursued this issue through discovery and we believe that the utility satisfactorily corrected the numbers reflected in its MFRs so that the number of customers, bills, and gallons are all consistent. We also explained our procedures for determining a fair rate of return, discussed subsequently in this Order.

Customers questioned how rates are developed, how wastewater rates depend on water consumption, whether customers are charged for wastewater for their irrigation systems, whether the utility has planned for reuse, and if the utility uses non-potable water for irrigation. Further questions dealt with what level of capital

reserves the utility has and whether there is a requirement for utilities to be audited each year. Customers also questioned if there is a cap on the number of times that a utility can request an increase in rates. We note that water and wastewater rate structure is discussed in further detail in this Order. Regarding capital reserve levels, our rules do not prescribe specific levels, but note that depreciation and contributions in aid of construction (CIAC) are means by which utilities are provided with reserves. Additionally, we note that there is no maximum number of times that a utility can request rate relief, but if a utility files an imprudent rate application, then it risks losing recovery of all rate case expense. Historically, we have not seen a pattern of abuse by utilities filing for rate cases. We note that index and pass-through rate increases have a statutory limit of not more than two increases during a calendar year.

Other customers expressed concerns regarding the name of the company that sends out bills for the utility's services. The customers stated that they were billed by Cypress Lakes Associates, Ltd. (the owner of the park) and not Cypress Lakes Utilities, Inc. We sent a data request regarding this issue. By letter dated March 3, 2003, the utility stated that it had corrected the error and now the name of Cypress Lakes Utilities, Inc. is listed on each customer's bill.

Another customer stated she had inquired of the utility what the cost would be to add a separate irrigation meter. She stated that the utility quoted her that the cost would be \$2,000. At the customer meeting, we informed her that the amount appeared to be high. The utility's tariff calls for a meter installation charge of \$125 and that the customer would be responsible for another monthly base facility charge. In addition to these costs, the customer would also incur personal plumbing expenses associated with reconnecting their sprinkler system to a new meter. Given all of the variables that could exist for a residential sprinkler system, we are unable to estimate this outside plumbing cost.

Another customer indicated that there were multi-residential customers listed on the rate sheet of the MFRs; however, the residents of Cypress Lakes live in single homes. In addition, he stated that the wastewater flows listed in the MFRs for the test year were highest in June; however, half of the residents are up

north during this period. He also wanted to know why there were no revenues stated from the golf course. He was further upset about an 11% level of unaccounted for water and he questioned the level of rate case expenses. We agree that there are no multi-residential customers and that this is corrected in the attached rate schedules. Regarding the level of test year wastewater flow, we sent a data request to the utility asking it to explain the abnormal wastewater flow levels during the summer months. As discussed subsequently, the utility notified us that the wastewater flows reported in the MFRs were overstated and it sent in corrected flow levels. We have addressed the level of unaccounted for water and rate case expense further in this Order.

At the January 23, 2003, customer meeting, no customers complained about the quality of wastewater service. However, on February 4, 2003, we received numerous letters objecting to the increase in rates. Nine of the letters were water quality related (odor, taste, low pressure, and interruptions).

At the time of our staff engineer's field inspection, there were no complaints reflected in the DEP or Health Department files. There have been no complaints filed with the Commission for the years 1999 through 2002. The Commission did, however, receive two complaints in 2003 related to a water outage which occurred on January 24, 2003. The utility stated that the problem was caused by a hard freeze which damaged a pressure switch controlling the operation of the wells. The utility promptly corrected the problem and restored the water supply within three hours of the water outage on the morning of the hard freeze.

There were also 35 complaints listed in the utility's complaint logs in the MFRs. The majority of these complaints focused on the following concerns: bad odor and taste in the water (23), the color of the water (1), air in the water lines (2), low water pressure (3), service interruptions (4), and miscellaneous (2). According to the utility's records, the complaints were addressed in the following manner:

- ◆ The utility responded within 24 hours to the complaints of odor, taste, air in the lines, and color of water by flushing the lines.

- ◆ The customer that complained of low water pressure had a faulty check valve on the customer side of the meter that interfered with the customer's water pressure.
- ◆ The utility installed a new back-up generator to address water service interruptions the caused by power failures at well #1.

All 35 complaints filed in the MFRs were water quality related and the utility's records indicate that the response time was less than 24 hours. We have reviewed the customer complaint logs and believe that the utility has promptly and satisfactorily addressed each complaint. Based on the above, we find that the utility is satisfactorily attempting to address customer concerns.

Based on our review of the water and wastewater treatment, distribution, collection, and reclaimed water systems, it appears that all systems are operating properly and are in compliance with DEP and Health Department standards. In addition, we find that the utility is actively attempting to address the concerns of the customers. Therefore, we hereby find that the quality of service provided by Cypress Lakes is satisfactory.

#### RATE BASE

##### I. Organization and Franchise Costs

Pursuant to Order No. PSC-98-0993-FOF-WS, issued July 20, 1998, we approved the transfer of the facilities of Cypress Lakes Associates, Ltd., to Cypress Lakes Utilities, Inc. The purchase price of the utility was \$820,000 and we established rate base of \$617,609 for water and \$921,439 for wastewater as of December 31, 1997. Additionally, we declined to include a negative acquisition adjustment related to the transfer.

Subsequent to our approval of the transfer, Cypress Lakes recorded additional organization costs of \$90,666. The organization costs recorded were \$80,551 for water and \$10,115 for wastewater. These costs included legal and consulting fees paid by the utility to purchase and secure the transfer certificates of Cypress Lakes. Also, \$2,610 of the \$10,115 in wastewater organization costs should have been recorded in Land and Land Rights, pursuant to Order No. PSC-98-0993-FOF-WS.

Further, subsequent to our approval of the transfer, the utility recorded additional franchise fees of \$18,206 for wastewater. These costs also represent legal and consulting fees paid by the utility to purchase and secure the transfer of Cypress Lakes.

Per the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), the organization account shall include all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership or other enterprises and putting it into readiness to do business.

In addition, the USOA states that the Utility Plant Acquisition Adjustment account includes the difference between the cost to the purchasing utility of plant acquired and the original cost of the property acquired less accumulated depreciation, accumulated amortization, and contributions in aid of construction (CIAC) at the time of purchase. We interpret the term "cost of acquisition" to include any consideration paid, plus any other costs incurred related to or given for the purchase of the assets.

We believe the expenses discussed above should not be recorded as organization costs and franchise fees for the following reasons. First, the expenses are acquisition costs and are inappropriately treated as organization costs and franchise fees. Second, the expenses should be borne by the stockholders of Cypress Lakes' parent company because the purchase of Cypress Lakes was not the ratepayers' decision, nor has Cypress Lakes demonstrated how the customers have benefitted from this transaction. Because these expenses are directly associated with the change of ownership, they should be recorded as acquisition costs.

We have previously disallowed acquisition costs recorded on a utility's books as organization costs. See, Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, in Docket No. 921293. Also see, Order No. PSC-98-0524-PAA-SU, issued April 16, 1998, in Docket No. 971065. Thus, we remove the additional balances of \$80,551 and \$28,321 for water and wastewater, respectively. Corresponding adjustments shall also be made to decrease accumulated depreciation and depreciation as follows:



	<u>Water</u>	<u>Wastewater</u>
Organization Costs	(\$80,551)	(\$10,115)
Franchise Fees	\$0	(\$18,206)
Accumulated Depreciation	(\$4,863)	(\$1,714)
Depreciation Expense	(\$2,030)	(\$795)
Land	\$0	\$2,610

II. Adjustments to Rate Base

A. Allowance for Funds Used During Construction (AFUDC)

AFUDC is an accounting entry designed to permit a utility recovery of the cost associated with financing eligible construction activities over the depreciable life of the related asset. AFUDC is capitalized in lieu of interest and recognizes that the overall capital structure provides funding for construction projects, not just debt financing. Rule 25-30.116, Florida Administrative Code, specifies the requirements necessary to capitalize AFUDC and the methodology used to determine the AFUDC rate. Subsection (5) of that rule states that "[n]o utility may charge or change its AFUDC rate without Commission approval." While we have granted permission to accrue AFUDC for other Florida subsidiaries of Utilities, Inc., Cypress Lakes has not requested, nor received, an approved AFUDC rate.

Cypress Lakes capitalized \$58,052 of AFUDC for the calendar years of 2000-2001. In 2000, Cypress Lakes accrued \$794 in water Account 311, Pumping Equipment, and \$2,345 in wastewater Account 380, Treatment and Disposal Equipment. In 2001, the utility accrued \$54,913 in wastewater Account 380. We find that these amounts should be removed from plant. As we are setting rates using an average rate base, only one-half of the amount for 2001 in Account 380, or \$27,457, shall be removed from test year average plant.

Overall, we find that \$794 in capitalized AFUDC in Account 311 be removed from average water plant and \$29,802 be removed from average wastewater plant. Water accumulated depreciation and

depreciation expense shall each be reduced by \$40. Wastewater accumulated depreciation shall be reduced by \$894 and depreciation expense shall be reduced by \$1,657.

B. Unsupported Plant

Water Account 340, Office Furniture and Equipment, and water Account 343, Tools, Shop & Garage Equipment, shall be reduced by \$303 and \$5,316, respectively, to adjust for amounts for which there was no supporting documentation. The utility stated that it could not locate any supporting documentation for the \$303 and given the small amount it would not dispute the reduction. The average accumulated depreciation for this item should be reduced by \$20 and depreciation expense shall be reduced by \$20.

The utility produced an invoice for the \$5,316 originally included in water Account 343. We examined the invoice, which is sufficient to support a wastewater plant addition. Thus, we hereby find that this item be allowed, but reclassified from water to wastewater. As such, water plant shall be reduced by \$5,316. Additionally, average accumulated depreciation shall be reduced by \$665. Also, depreciation expense shall be reduced by \$332. Corresponding adjustments to wastewater shall also be made to increase plant Account 380 by \$5,316 and average accumulated depreciation by \$443. Wastewater depreciation expense shall be increased by \$296.

In a further adjustment, wastewater Account 380 shall be reduced by \$2,600 for plant for which there was no documentation. The utility agreed with this adjustment. Thus, we find that wastewater plant shall be reduced by \$2,600, with corresponding reductions to average accumulated depreciation of \$145. Wastewater depreciation expense shall be reduced by \$145.

C. Plant Never Placed in Service

We find that \$2,500 of plant recorded in wastewater Account 380 as plant held for future use shall be removed. This amount represents the cost of three water tanks that were stored at the wastewater plant site for future expansion. The utility stated that the tanks were never placed in service and were disposed of several years ago. The utility did not depreciate the tanks; as a

result, no adjustment to accumulated depreciation or depreciation is necessary.

D. Summary

Based on the above adjustments, we find that the total average water plant shall be reduced by \$6,413, with a corresponding reduction to average accumulated depreciation of \$724, and a reduction of depreciation expense of \$392. We also find that total average wastewater plant shall be reduced by \$29,586, with a corresponding reduction to average accumulated depreciation of \$595, and a reduction to depreciation expense of \$1,506.

III. Common Plant Allocations

Utilities, Inc. of Florida (UIF) is a sister company of Cypress Lakes, both of which are subsidiaries of Utilities Inc. (UI). UIF allocates a portion of its common plant and accumulated depreciation to each Florida subsidiary. In addition, Water Services Corporation (WSC), the service corporation for UI, allocates common costs, including billing costs to all of its subsidiary utilities, including Cypress Lakes. UI allocates these common costs to its water and wastewater operations based on a calculated customer equivalent percentage that equates all UI customers in terms of single family residential units.

A. UIF Common Plant Allocations

Several items in the common plant allocations were either misstated or not recorded in the MFRs. First, the allocations from UIF show that CLU's common plant and accumulated depreciation amounts for its water operations were overstated. The utility reflected the total 2001 Cypress Lakes' allocation from UIF as \$32,819 and \$7,095 for common plant and accumulated depreciation, respectively. The UIF common allocations shall be reduced for water and wastewater combined by \$648 for plant and \$680 for accumulated depreciation. In addition, the utility failed to record any of the UIF common plant cost in its water operations.

We find the following adjustments shall be made, and the resulting correcting entries are as follows:

<b>COMMON PLANT ALLOCATIONS - UIF</b>	Per Utility	Commission Adjustments	Per Commission
Water	\$32,819	(\$17,187)	15,632
Wastewater	<u>\$0</u>	<u>\$16,539</u>	<u>\$16,539</u>
Total	<u>\$32,819</u>	<u>(\$648)</u>	<u>\$32,171</u>

<b>COMMON ACCUMULATED DEPRECIATION - UIF</b>	Per Utility	Commission Adjustments	Per Commission
Water	(\$7,095)	\$3,978	(\$3,117)
Wastewater	<u>\$0</u>	<u>(\$3,298)</u>	<u>(\$3,298)</u>
Total	<u>(\$7,095)</u>	<u>\$680</u>	<u>(\$6,415)</u>

Corresponding adjustments are also necessary to decrease depreciation expense by \$256 for water and \$247 for wastewater for UIF common plant allocations.

According to the UI 2001 Allocation Manual, CLU was allocated \$18,547 or approximately 0.81 percent of WSC's net rate base of \$2,300,646. Cypress Lakes did not record any amount for WSC common rate base in its MFRs.

B. WSC Common Rate Base Allocations

The utility was unable to locate any invoices for the computer equipment reflected on WSC's books. Also, the utility did not post several equipment transfers or retirements to the ledgers. In order to support its balance of computers, the utility provided an inventory dated August 14, 2002, but that document did not provide copies of supporting invoices. We find that WSC plant shall be reduced for invoices not located, and the associated accumulated depreciation. Further, we find that computer equipment and accumulated depreciation shall reflect a zero balance as of December 31, 2001, based on the above findings. We hereby find

that Cypress Lakes' WSC common plant is \$9,334 for water and 9,875 for wastewater.

In its response dated March 25, 2003, the utility disagreed with the adjustment to remove all computers from WSC's inventory. The utility stated that it located two of the five invoices addressed in the WSC affiliate transaction audit. Cypress Lakes stated that the remaining three invoices were not included in the computer inventory list and are irrelevant to its calculation of computer assets and accumulated depreciation. Further, the utility believes that minicomputers and its associated accumulated depreciation for Cypress Lakes should be increased in total by \$566 and \$275, respectively or a net of \$291. We have reviewed the invoices submitted and find that the utility's inventory list has been supported. Based on the above audit exception and utility response, the allocation to WSC common plant shall be increased by \$147 and \$143. Thus, we find that WSC's common plant shall be increased by \$9,481 for water and \$10,018 for wastewater.

Based on the above, we hereby find that Cypress Lakes' common plant allocation from UIF shall be \$15,632 for water and \$16,539 for wastewater. This reflects an adjustment of a decrease of \$17,187 for water and an increase of \$16,539 for wastewater. UIF common accumulated depreciation shall be decreased by \$3,978 and increased by \$3,298 for wastewater. Depreciation expense shall be decreased by \$256 and \$247 for water and wastewater, respectively. Also, adjustments shall be made to increase rate base for the WSC common rate base allocation by \$9,481 for water and \$10,018 for wastewater.

#### IV. Unaccounted for Water

Consistent with our prior practice, 10% of the total water treated is an acceptable level of unaccounted for water for non-revenue producing water caused by stuck meters, line flushing, etc. (See, Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, and Order No. PSC-00-2005-PAA-WU, issued June 7, 2000, in Docket No. 000331-WU). In its revised MFRs, the utility reported 64,894,000 gallons of water treated during the test year and 8,728,000 gallons of water were unaccounted for, or 11.72%. Since Cypress Lakes recorded a total of 11.72% of unaccounted for water, in accordance with our practice, 1.72% shall

be considered excessive. Accordingly, adjustments shall be made to remove 1.72% of direct expenses associated with water treatment. We further find that purchased power expenses shall be reduced by \$124 and chemicals by \$47.

V. Used and Useful Percentages

A. Water Treatment Plant - In its MFRs, the utility reflected that the used and useful percentage for the water treatment plant was in excess of 100%. The utility stated that the system consists of simple chlorination and that the only storage is in hydropneumatic tanks and there is no high service pumping. Thus, the utility stated that all demands must be met by well pumping capacity, and used and useful was calculated on instantaneous demand. The utility stated that its instantaneous demand was 1,114 gallons per minute (gpm).

The utility has two wells with a total capacity of 1,500 gpm. By taking the largest 770 gpm well out of service, the utility reflected a firm reliable capacity of 730 gpm, which is the capacity of the smaller well. The utility's calculation of firm reliable capacity by removing the largest well is consistent with Commission practice. See, Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS. The utility also has a 500 gpm fire flow requirement and it calculated a 5-year growth margin, but these two items were not included in the calculation since the utility's instantaneous demand factor was in excess of 100% used and useful.

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

recognize the utility's demand requirements based on the number of customers during the test year.

While we find that the water system is 100% used and useful, we disagree with the utility's method to determine the water customer demand factor. The utility's instantaneous demand estimate was based on a 1965 publication by Joseph S. Ameen, entitled *Community Water Systems Source Book*. This publication provides water system design criteria based on a sliding scale of per-connection usage. The publication states that initial instantaneous flows are high with small customer bases and taper off with larger customer bases. Based on this methodology, the instantaneous demand for Cypress Lakes' 1,082 customers is estimated at 1,114 gpm.

We note that instantaneous demand to determine the amount of customer demand on a system without water storage is not commonly used. While maximum day and peak hour demand calculations are common in engineering design manuals for building water systems, the publication referenced by the utility is 38 years old, and is not commonly used today. We believe that this document does not necessarily reflect current water usage patterns by the utility's customers or the trend toward water conservation.

We have recognized peaking factors of 2.0 applied to the maximum day demand to determine peak hour demands to calculate used and useful water plant without storage. Further, the maximum day should be a day exclusive of any abnormal events such as fire flows and line breaks. See Order No. PSC-96-1320-FOF-WS. In its MFRs, the utility stated that the maximum day demand was 331,000 gpd. Thus, two times the maximum day is 662,000 gpd, or 460 gpm (662,000 gpd /1,440 minutes/day).

Adding a fire flow allowance of 500 gpm to the 460 gpm peak demand equals 960 gpm, before a growth allowance. Since the firm reliable capacity of the system is 750 gpm, we find that the water system is 100% used and useful.

B. Wastewater Treatment Plant - In its MFRS, the utility calculated the used and useful percentage of the wastewater treatment plant by taking the sum of the annual average daily flows (AADF) of 112,392 gpd and an allowance of 31,265 gpd for growth.

It then divided that total by the plant's DEP permitted capacity of 175,000 gpd measured in AADF. The result was 82.09%. The utility did not make any adjustments for inflow and infiltration (I&I) in its calculations.

In calculating its growth allowance, the utility used the total gallons of water sold to single family residential (SFR) customers to estimate the wastewater customer growth on a total company basis for the years 1997-2001. It then used linear regression to project 5 years of growth beyond the test year. This resulted in a total wastewater growth allowance of 298 ERCs or 59.5 ERCs per year for 5 years. The utility calculated the 105 gpd consumption per ERC by taking the test year AADF of 112,392 gallons divided by average customers of 1,063. Thus, the utility's growth allowance was 31,265 gpd/ERC growth (59.55 ERCs/year x 5 years x 105 gpd/ERC).

Based on inaccuracies in the MFRs and questions asked by the Cypress Lakes Homeowners Association, we requested that the utility explain why wastewater gallons exceeded water treated in May and June 2001. The customers asserted that this time frame normally has the lowest number of customers present in the neighborhood but the utility's MFR reflected those two months as the peak for the test year wastewater consumption levels. In addition, the customers as well as our staff questioned why the number of customers dropped dramatically (50 SFR) from January to February in the test year.

In its response dated February 28, 2003, the utility stated that wastewater flows reported in the MFRs in May and June, 2001, were overstated by a considerable amount. The utility explained that the effluent flow meter at the wastewater treatment plant was out of service between early May and late June because of an electrical transducer failure. Also, during that time frame, the utility completed improvements to the wastewater treatment plant, which were followed by the filling of empty aeration tanks and clarifiers. The utility stated that both of these factors reduced the effluent volume by approximately 0.200 million gallons. The utility re-estimated the flows through the plant to be 3.1 and 3.0 million gallons for May and June, 2001, respectively.



Along with its response, the utility revised its wastewater treatment plant flows from 112,392 gpd to 101,885 gpd AADF. The utility also reduced its growth allowance from 31,265 to 30,066 gpd. These changes resulted in a revised result of 75.40% used and useful.

We have reviewed the utility's revised calculation and we find that two adjustments are necessary to the growth calculation. First, we disagree with the utility's method of calculating historical wastewater customer growth. In its MFRs, the utility is required to calculate the growth rate of all wastewater customers based on the annual average consumption per SFR customer. Then each year's total gallons sold are divided by the SFR annual average to arrive at total wastewater customer growth. In its calculations, the utility did not use wastewater SFR billed consumption, which is capped at 8,000 gallons each month and instead used total water gallons sold to SFR customers. The utility stated that it used the total SFR water gallons sold because it did not maintain records in years prior to the test year to separate the gallons sold above the cap.

We believe that using total SFR water consumption instead of the capped gallons is inappropriate because it inflates the growth rate of wastewater ERCs. Water consumption for SFR customers is generally much higher than wastewater consumption, thus supporting the rationale behind a wastewater cap. Since we do not have the data to measure total company historical growth, we believe it is appropriate, in this case, to use actual historical SFR customers to measure wastewater customer growth. We find that since the utility failed to maintain this data, this more conservative method shall be used because the utility's method overstates the actual growth incurred. Using linear regression, we have calculated a growth rate of 49 SFR customers per year. We note that the number of water and wastewater SFR customers is equal.

Our second adjustment to the utility's growth calculation relates to the amount of consumption per ERC used. In its revised growth calculation, the utility used the same 105 gpd/ERC as filed in its MFRs and failed to recalculate the average growth per ERC based on the corrected wastewater flows. We recalculated the test year consumption by dividing the revised test year flows of 101,885

gpd by 1,063, the average number of wastewater customers. This results in a consumption factor of 96 gpd/ERC.

After applying the adjustments above, we find that the wastewater treatment plant is 71.66% used and useful. We took the 101,885 gpd plus a growth margin of 23,520 gpd and divided this by the 175,000 gpd capacity of the plant. Our growth factor was calculated by taking 49 ERCs/year times 5 years times consumption of 96 gpd/ERC.

Based on the above, we hereby find that the wastewater treatment plant is 71.66% used and useful. This results in a net non-used and useful plant balance of \$200,004. As such, the utility's requested non-used and useful amount of \$131,593 shall be reduced by \$68,411. A corresponding adjustment shall also be made to reduce depreciation expense by \$1,490 for non-used and useful plant.

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

1) Permitted Capacity of Plant (on Annual Average Daily Flow basis)	175,000	gallons per day (gpd)
2) Annual Average Daily Flow	101,885	gpd
3) Growth		
A) Average Test Year gpd/ERC:	96	gpd/ERC
B) Annual Customer Growth	49	ERCs
C) Statutory Growth Period	5	Years
Growth Margin (3A x 3B x 3C)	23,520	gpd

$$[(2)+(3)-(4)]/(1) = 71.66\% \text{ Used and Useful}$$

C. Water Distribution System - In its filing, the utility calculated the used and useful percentage for the collection and distribution systems to be 100%. The utility stated that all residential wastewater customers are water customers; therefore, only one calculation was necessary for the distribution and collection systems. The utility's calculation took the average number of the test year residential connections of 1,058 and a

growth margin of 276 (55 ERCs x 5 years), for a sum of 1,334 connections. Since the present number of lots which have service available is 1,200, the result is 100% used and useful (1,334/1,200 connections).

We have reviewed the utility's calculation and while we agree with the conclusion, we disagree with the growth component included in the calculation. Subsequently in this Order, we find that the annual growth rate in ERCs should be 49, not 55 as originally requested by the utility. This equates to a total of 245 instead of the 276 ERCs requested by the utility. Regardless, including either of these amounts still results in a 100% used and useful for the distribution and collections systems.

#### VI. Contributions in Aid of Construction

The utility's water and wastewater CIAC balances were last established as of December 31, 1997, by Order No. PSC-98-0993-FOF-WS, issued July 20, 1998, in Docket No. 971220-WS. For purposes of the current rate case, the field audit covered rate base additions for the 1998 through 2001 calendar year. Our staff auditors determined that the utility did not record any additions to water CIAC for 1998 or 1999 and failed to record CIAC for five ERCs in 2000. As a result, the water CIAC balance was found to be understated by \$18,100.

The utility used the composite plant amortization method to record its accruals to CIAC for the years 1999 through 2001, instead of calculating amortization by specific account. Pursuant to Rule 25-30.140(8)(a), Florida Administrative Code, "adequate records to account for CIAC must be maintained by the utility." The Rule further states that:

The CIAC plant shall then be amortized either by account, function or bottom line depending on availability of supporting information. The amortization rate shall be that of the appropriate account or function where supporting documentation is available to identify the account or function of the related CIAC plant. Otherwise, the composite plant amortization rate shall be used.

Because the utility has the responsibility to maintain its CIAC records by account, it should calculate its amortization rates on that same basis. Thus, the auditors reflected year-end balances of accumulated amortization of CIAC of \$41,854 and \$84,937, respectively. Based on the utility's adjusted average balance in its MFRs, we hereby find that accumulated amortization of CIAC shall be increased by \$3,364 for water and \$2,604 for wastewater. Additionally, the utility shall reduce CIAC amortization expense by \$1,153 for water and \$2,315 for wastewater. The utility stated in its response to the audit that it did not contest this adjustment.

We find that the adjustments are appropriate and shall be made. Accordingly, water CIAC shall be increased by \$18,100 for unrecorded 1998-2000 additions to water CIAC. Further, accumulated amortization of CIAC shall be increased by \$3,364 and \$2,604 for water and wastewater, respectively, to reflect the proper accruals and amortization rates. Corresponding adjustments shall be made to reduce water and wastewater CIAC amortization expense by \$1,153 and \$2,315, respectively. The utility shall calculate its accumulated amortization of CIAC accruals by specific account, as required by Rule 25-30.140(8), Florida Administrative Code.

#### VII. Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. However, we have made several adjustments to the utility's O&M expense balances due to the other adjustments. We hereby find that working capital of \$10,701 for water and \$17,915 for wastewater are approved. This reflects a decrease of \$2,103 to the utility's requested working capital allowance of \$12,804 for water and a decrease of \$3,353 from the utility's requested of \$21,268 for wastewater.

#### VIII. Summary of Rate Base

Cypress Lakes' water and wastewater rate base using the utility's MFRs, with adjustments, is \$730,290 for water and \$897,212 for wastewater.

COST OF CAPITAL

I. Weighted Cost of Capital

In its MFRs, the utility used the debt and equity ratios of its parent, UI, to prorate Cypress Lakes' share of the parent's capital. The utility then included the actual balance of Cypress Lakes' customer deposits. Cypress Lakes did not include investment tax credits or deferred income taxes in its cost of capital calculation. The utility's requested overall cost of capital is 9.21%, and its return on equity is 10.93% per Order No. PSC-01-2514-FOF-WS.

In the audit of UI's affiliate transactions for the year ended December 31, 2001, we found that the debt rates used by the utility in its MFRs were incorrect. We have reflected the correct debt rates in the cost of capital. We have also stated that several components, including accumulated deferred income taxes, were omitted from the various capital structures of the subsidiaries. Based on our review of supporting documentation provided by the utility, the only missing component for Cypress Lakes was the balance of deferred income taxes. The appropriate average balance of accumulated deferred income taxes related to Cypress Lakes agrees with those amounts included in the income tax section of the MFRs. Thus, we find that deferred income taxes shall be increased by \$9,806.

We used the current leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2000, in Docket No. 020006-WS to calculate the return on equity (ROE). The 2002 leverage formula decision from that order was consummated by Order No. PSC-02-1252-CO-WS, issued September, 11, 2002. Using an equity ratio of 45.48%, the utility's ROE is 10.93%, with a range of 9.93% to 11.93%.

Schedule No. 2 shows the components, amounts, and cost rates associated with the capital structure for the test year. Accordingly, we hereby find an overall cost of capital of 9.23%, with a range of 8.78% to 9.68%. The ROE shall be 10.93%, with a range of 9.93% to 11.93%.

I. Allowance for Funds Used During Construction (AFUDC) Rate

As discussed previously, Cypress Lakes does not currently have an approved AFUDC rate, nor did it request approval of such a rate in this proceeding. Rule 25-30.116(5), Florida Administrative, states that no utility may charge or change its AFUDC rate without prior Commission approval. However, Rule 25-30.116(7), Florida Administrative Code, states that the Commission, on its own motion, may initiate a proceeding to revise a utility's AFUDC rate. Since we determined a current cost of capital in this docket, we believe that we should authorize a prospective AFUDC rate for Cypress Lakes to allow the utility to charge AFUDC in the future if the need arises. The incremental cost of approving an AFUDC rate in this docket is very minimal compared to the cost of a separate future filing for approval of an AFUDC rate.

The cost of capital was established as 9.23%. Consistent with Rules 25-30.116(2) and (3), Florida Administrative Code, the annual AFUDC rate shall also be 9.23%, with a monthly discounted rate of 0.768680%. Further, Rule 25-30.116(5), Florida Administrative Code, states that the AFUDC rate should be effective the month following the end of the period used to establish the rate. Since the test year ended December 31, 2001, was used to determine the cost of capital, the AFUDC rate shall be effective January 1, 2002. Schedule 2 reflects the approved cost of capital and resulting annual AFUDC rate.

NET OPERATING INCOME

I. Adjustments to O&M Expenses

The utility's test year water and wastewater O&M expenses are overstated by \$1,029 and \$1,922, respectively. Our analysis of the utility's O&M expense accounts identified that several adjustments were necessary. We found that the utility could not provide adequate supporting documentation for expense additions and improperly recorded expenses associated with other Florida affiliated utilities on their books.

According to our analysis, the utility could not provide adequate supporting documentation for chemicals and materials and supplies. As such, chemicals shall be reduced by \$141 for water

and \$266 for wastewater. Materials and Supplies shall be reduced by \$87 for water and \$573 for wastewater.

We also found that the utility improperly recorded on Cypress Lakes' books expenses associated with one of its other Florida affiliated utilities. As such, materials and supplies shall be reduced by \$308 for wastewater. Additionally, contractual services-legal shall be reduced by \$800 for water and \$775 for wastewater.

The utility does not contest any of these adjustments. Accordingly, we find that the adjustments above shall be made to the utility's operation and maintenance expense because the utility could not provide adequate supporting documentation for expense additions and improperly recorded expenses associated with other Florida affiliated utilities on its books. Thus, O&M expenses shall be reduced by \$1,029 for water and \$1,922 for wastewater.

## II. Adjustments to O&M Expense Allocation from WSC

UI, the parent, through its subsidiary WSC, allocates common costs, including billing costs to all of its subsidiary utilities, including Cypress Lakes. Cypress Lakes' allocated share of common O&M expenses was \$23,853. Cypress Lakes allocated its share between water and wastewater operations based on customer equivalents. The customer equivalent ratios for water and wastewater are 50.81 percent and 49.19 percent, respectively.

We find the Cypress Lakes allocated WSC water and wastewater O&M expenses are overstated by \$1,523 and \$1,475, respectively, based on its customer ratio allocation. In addition, we find that several expense items should be removed because the utility did not provide support or incorrectly charged expenses to Cypress Lakes.

In its response to the Cypress Lakes audit, the utility disputed only one of our adjustments. This adjustment related to our removal of finder's fees. In the WSC affiliate transactions audit, we stated that the company provided finder's fees for informing the company about systems that can be purchased. We believe that these costs shall be charged to the acquisition costs of the system being purchased and shall be removed from Cypress Lakes' expenses.

In the utility's response dated March 25, 2003, Cypress Lakes stated that we were mistaken that this account related to system acquisition costs. Instead these costs relate to key-employee finder's fees and the utility provided documentation to support the employee finder's fees account. In its support, the utility states that the \$21,615 recorded as an expense in 2001 is comprised of amortized amounts from 1999, 2000, and 2001 additions. Also, the utility notes that all expenses are related to WSC employees and should be allocated to UI subsidiaries.

We have reviewed the utility's response and believe that the employee finder's fees are reasonable and shall be included. Cypress Lakes' allocated share of these costs is \$191, or \$97 for water and \$94 for wastewater. Therefore, we find that O&M expense shall be reduced by \$1,426 and \$1,381 for water and wastewater, respectively.

### III. Adjustments to Salaries and Pensions

In its filing, the utility made adjustments to its O&M expense balances for the 12-month period ending December 31, 2001, to annualize salaries and related costs to current pay levels. The adjustments are reflected below.

<u>Account</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Salaries	(\$983)	(\$952)	(\$1,935)
Pensions & Benefits	\$6,671	\$6,459	\$13,130
Payroll Expense	\$3,640	\$3,524	\$7,164

The utility incorrectly computed the salary expense adjustment because the utility failed to include \$6,846 of historical WSC salary expenses in its calculation. The utility also incorrectly computed the pensions and benefits expense adjustment because the utility understated the historical operator and WSC pension and benefits expense by \$23,027. The utility stated that it does not contest these adjustments.

These adjustments are totals for both water and wastewater, and are allocated based on the percentage of customers compared to the total. Water customers represent 50.81% of the total water and



wastewater customers, and wastewater customers represent the remaining 49.19%. As a result of this allocation, we found that 50.81%, or \$3,478, of the adjustment of \$6,846 shall be allocated to water and the remaining 49.19%, or \$3,368, shall be allocated to wastewater. \$11,699 of the overstated \$23,027 in operator and WSC pension benefits shall be allocated to water and the remainder, \$11,328, shall be allocated to wastewater.

Additionally, there is a corresponding reduction to the associated payroll expense. The utility's filing included a total payroll tax expense increase of \$7,164, of which \$3,640 was allocated to water and \$3,524 to wastewater. The utility's payroll tax adjustments were overstated by \$7,889 because the utility failed to include historical operator and WSC payroll taxes in its calculations.

Thus, the utility's water and wastewater payroll tax expense shall be reduced by \$4,008 and \$3,881, respectively. This will properly record the reductions in annual payroll tax expense projected by the utility for the 12-month period ending December 31, 2001. The utility also stated it did not contest this adjustment.

Accordingly we find that salary expense shall be reduced by \$3,478 for water and \$3,368 for wastewater; pensions and benefits expense shall be reduced by \$11,699 for water and \$11,328 for wastewater; and the related payroll tax expense shall be reduced by \$4,008 for water and \$3,881 for wastewater.

#### IV. Rate Case Expense

The utility included a \$123,500 estimate in its MFRs for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a revised estimated rate case expense through completion of the PAA process of \$68,940. The components of the estimated rate case expense are as follows:

	<u>MFR</u>		<u>Additional</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Total</u>
Filing Fee	\$5,500	\$5,500	\$0	\$5,500
Legal Fees	50,000	8,188	7,850	16,038
Consultant Fees	45,000	21,420	5,830	27,250
WSC In-house Fees	11,000	4,634	3,518	8,152
Miscellaneous Expense	<u>12,000</u>	<u>4,860</u>	<u>7,140</u>	<u>12,000</u>
Total Rate Case Expense	<u>\$123,500</u>	<u>\$44,486</u>	<u>\$24,454</u>	<u>\$68,940</u>

Pursuant to Section 367.081(7), Florida Statutes, we shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. We believe that the revised estimate is reasonable with three exceptions, as discussed below.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. As reflected in its response to our staff's data request, the utility's consultant and attorney incurred \$1,900 and \$180 respectively, related to correcting the MFRs. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU. Accordingly, we hereby find that \$2,080 shall be removed as duplicative and unreasonable rate case expense.

Our second adjustment relates to costs incurred to correct errors in the MFRs. As reflected in its response to our staff's data request, the utility's consultant estimated that he would spend 40 hours to respond to data requests and the attorney estimated 32 hours. As discussed previously, we asked the utility to explain several discrepancies in its MFRs. Several of the utility's responses corrected original data included in the MFRs. Since the utility was not able to give actual costs for correcting these errors, we have estimated that the consultant spent 16 hours on these corrections and the attorney spent 4 hours. Based on their hourly rates, we find that rate case expense be reduced by \$1,600 and \$900, respectively, for the consultant and attorney to

correct MFR errors. Also, the utility estimated a total of 79 hours of estimated time to complete the case with no breakout of the hours by work performed. We estimated that the three WSC employees spent ten hours each correcting MFR errors. This reduction amounts to a total of \$1,100. Accordingly, we find that \$3,600 shall be removed for correction of MFR errors.

Our last adjustment relates to miscellaneous expenses incurred. Of the miscellaneous expenses, travel expenses requested amount to \$7,067. Of the travel expenses, \$1,784 related to the reimbursement of travel expenses incurred by the Commission staff auditors when performing an audit of the utility's out of state records. An additional \$5,283 was for estimated travel expenses for WSC employees, Utilities, Inc. employees, the attorneys, and the consultant. We find that the utility shall remove \$4,533 of the estimated cost to travel for lack of support, including \$750 for one utility officer to travel to Florida. Thus, we hereby find that the utility shall remove \$6,317 from miscellaneous expenses.

We do not believe the estimated travel expenses are reasonable for several reasons. One, the travel cost appears excessive for one trip to Tallahassee and there are no breakdowns of the estimated travel costs to allow us to test for reasonableness. In addition, we do not believe that travel costs are required since estimated costs are already included for the utility's consultant to prepare for and attend the agenda conference.

We find that the appropriate total rate case expense is \$56,943. A breakdown of the allowance of rate case expense is as follows:

	<u>MFR</u>	<u>Utility</u> <u>Revised</u> <u>Actual &amp;</u> <u>Estimated</u>	<u>Commission</u> <u>Adjustments</u>	<u>Total</u>
Filing Fee	\$5,500	\$5,500	\$0	\$5,500
Legal Fees	50,000	16,038	(1,080)	14,958
Consultant Fees	45,000	27,250	(3,500)	23,750
WSC In-house Fees	11,000	8,152	(1,100)	7,052
Miscellaneous Expense	<u>12,000</u>	<u>12,000</u>	<u>(6,317)</u>	<u>5,683</u>
Total Rate Case Expense	<u>\$123,500</u>	<u>\$68,940</u>	<u>(\$11,997)</u>	<u>\$56,943</u>
Annual Amortization	<u>\$30,875</u>		<u>(\$16,639)</u>	<u>\$14,236</u>

The allowable rate case expense is to be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at \$14,236 per year. Based on the data provided by the utility and our adjustments mentioned above, we find that the rate case expense shall be reduced by \$16,639. This is the difference between the \$14,236 and the \$30,875 included as expenses on MFR Schedule B-10. Additionally, we find that the annual amortization expense to include in rates shall be \$7,235 for water and \$7,001 for wastewater.

In its MFRs, the utility requested total rate case expense of \$123,500, which amortized over four years would be \$30,875. Using the utility's allocation methodology, it should have requested \$15,691 for water and \$15,184 for wastewater. Instead the utility divided the annual amortization amount by four again and reflected only \$3,923 and \$3,796 for water and wastewater, respectively. In order to reflect the correct test year amortization, we find that the utility's test year expenses shall be increased by \$3,312 and \$3,205, for water and wastewater, respectively.

#### V. Test Year Operating Income

As shown on attached Schedules 3-A and 3-B, after applying our adjustments, the test year net operating income before any revenue

increase for water is (\$5,844) for water and \$35,464 for wastewater. Our adjustments to operating income are listed on Schedule 3-C.

#### REVENUE REQUIREMENT

Cypress Lakes requested final rates designed to generate annual revenues of \$275,490 and \$361,255 for water and wastewater respectively. These revenues exceed test year revenues by \$160,939 (140.50%), and \$126,477 (53.87%) for water and wastewater, respectively.

Based upon our findings concerning the underlying rate base, cost of capital, and operating income issues, we approve rates that are designed to generate a water revenue requirement of \$237,506, and a wastewater revenue requirement of \$314,241. These revenues exceed our adjusted test year revenues by \$122,955, or 107.34%, for water, and \$79,463, or 33.85%, for wastewater. These increases are shown on attached Schedules 3-A and 3-B. These increases will allow the utility the opportunity to recover its expenses and earn an 9.23% return on its investment in water and wastewater rate base.

#### RATES AND CHARGES

##### I. Inclining Block Rate Structure

The utility's current water system rate structure for its residential customers consists of a base facility charge (BFC) and a three-tiered inclining-block rate structure. The BFC is \$3.82 per month, plus a charge of \$.82 per one thousand gallons (kgal) sold for usage between 0 - 6 kgal, \$1.23 per kgal for usage between 6.001 - 12 kgal, and \$1.64 per kgal for usage over 12 kgal gallons. The usage block rate factors are 1.00, 1.50, and 2.00, respectively. This rate structure was in place when we issued the utility a grandfather certificate in Order No. PSC-97-0569-FOF-WS in Docket No. 961334-WS, on May 20, 1997. The utility is located in the Southwest Florida Water Management District, but not within a water use caution area.

A. Conservation Adjustment

A conservation adjustment moves more of the revenue recovery from the BFC to the gallonage charge. This is an important rate design tool because it results in a higher gallonage charge, thereby making that charge more conservation-oriented. The utility's proposed rates allocate 48% of the revenue recovery allocation to the BFC or fixed charges and 52% to the gallonage charge or variable charges. These cost recovery allocation percentages are outside the guidelines of the Southwest Florida Water Management District (District). The District's guidelines state that no more than 40% of a water utility's cost recovery should come from the BFC. This is our practice as well.

The principles of going concern and revenue stability should be considered in conjunction with any adjustment to a utility's revenue recovery allocation. Absent any rate design adjustment, our preliminary revenue recovery allocation results in 37% of the revenues recovered through the BFC, with the remaining 63% of revenues recovered through the gallonage charge. Although a conservation adjustment may increase revenue instability, our concerns in this regard are often mitigated by such factors as: 1) the percentage of bills and gallons recovered in the first block (in the case of an inclining-block rate structure); 2) a low seasonality of the utility's customer base; or 3) the average consumption per customer. Based upon our analysis, at least 70% of the utility's bills and gallons are accounted for in the 0 - 6 kgal usage block, which typically lessens revenue stability concerns when shifting more of the cost recovery burden to the gallonage charge. However, due to the high seasonality of the utility's customer base coupled with the low average consumption per customer, we do not believe sufficient mitigating factors exist in this case to make a conservation adjustment.

Based on the utility's billing analysis, approximately 18% of the utility's bills and 20% of the gallons are captured at 1 kgal or less. At 2 kgal or less, the utility has accounted for approximately 30% of its bills and 40% of its gallons. These percentages indicate that the utility has a high level of seasonality. The greater the degree of seasonality, the more exposed the utility becomes for meeting its minimum cash requirements during each month of the year. Based on the

foregoing, we find that a conservation adjustment to recover less than 37% of the revenues through the BFC is not appropriate in this case.

#### B. Rate Structure

As discussed previously, the utility's current rate structure consists of a BFC with a three-tiered inclining-block rate structure. In light of the drought conditions and water shortages throughout the state, at the request of the various Water Management Districts (WMDs), we have been implementing, whenever possible, inclining-block rate structures as the rate structure of choice. The goal of this rate structure is to reduce average demand. Under an inclining-block rate structure, it is anticipated that demand in the higher usage blocks will be more elastic than demand in the first block. Water users with low monthly usage will benefit because the gallonage charge is slightly lower than the true cost of service, while water users with high monthly use will pay increasingly higher rates because the gallonage charges increase in subsequent usage blocks. Thus, the high water users have a greater incentive to conserve.

When a utility has a high degree of seasonality, it is important to pay extra attention to maintaining the utility's revenue stability and revenue sufficiency. This means that the percentage price increases at low levels of consumption (or non-discretionary use) should be greater than the corresponding increases if seasonality was not a concern. Furthermore, when designing rates for a utility with high seasonality and low average consumption, a balance needs to be met between revenue stability versus the price signals to high end users. As discussed above, we find a conservation adjustment of 0%, with a corresponding BFC cost recovery of 37%. We analyzed the percentage price increases, based on the utility's current usage blocks, at various usage block rate factors. The results of this analysis are shown in the following table:

PRE-REPRESSION PRICE INCREASES AT VARIOUS USAGE BLOCK RATE FACTORS WITH CONSERVATION ADJUSTMENT OF 0% AND BFC=37%				
	USAGE BLOCK RATE FACTORS			
Monthly Consumption	1/1.5/2	1/1.5/3	1/1.75/3	1/2/3
0 kgal	65.4%	65.4%	65.4%	65.4%
3 kgal	99.0%	95.7%	93.3%	90.4%
5 kgal	109.8%	105.4%	102.3%	98.5%
8 kgal	121.9%	116.3%	121.0%	124.3%
13 kgal	132.8%	137.3%	148.6%	157.9%
20 kgal	140.0%	187.0%	190.3%	191.6%

As shown above, the usage block rate factors of 1/1.5/2 strikes a balance between revenue stability and price signals to high end users by maximizing the price increases for nondiscretionary consumption to increase revenue stability and sufficiency while sending increasingly greater price increases at levels of consumption greater than the overall average consumption of approximately 5 kgal.

Based on the foregoing, we find that a continuation of the utility's current inclining-block rate structure for its residential water system customers is appropriate. We find that no change to the usage blocks or usage block rate factors. Accordingly, no conservation adjustment is required.

## II. General Service Water Rate Structure

As discussed previously, the utility currently has a three-tiered inclining block rate structure. The utility currently charges its general service customers the same gallonage charge as the residential customers in the first usage block. The rate in the first usage block is designed to be slightly less than the true cost of service. Therefore, applying the first usage block rate to all general service gallons results in residential customers subsidizing the general service customers.



The inclining block rate structure is designed to penalize and target discretionary use in an effort to promote conservation. Residential customers' usage typically includes some level of discretionary use whereas the usage of a general service customer is typically considered part of the cost of doing business which is usually passed on to its customers. Often, these customers are the residential customers in the same service area. By applying an inclining block rate structure to general service customers, it creates a double burden on residential customers without any penalty to the general service customer.

The traditional BFC rate structure with a uniform gallonage charge has been our rate structure of choice for the general service class. The uniform gallonage charge would be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of both residential and general service gallons. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would pay their fair share of the cost of service.

Accordingly, we hereby find that the general service gallonage charge should be the uniform gallonage calculated as if that charge were applicable to all customers.

### III. Repression

Typically, our repression analysis involves an examination of our database of utilities receiving rate increases and decreases. We look for utilities with comparable parameters to the utility being examined, and ultimately base our recommended repression adjustment on the past behavior of these like utilities. These parameters include, but are not limited to, utilities with similar: 1) rate structure changes; 2) average monthly consumption; 3) average monthly price; and 4) percentage price increases. However, on an overall basis, an examination of our database revealed no sufficiently similar utilities upon which we could base a recommended repression adjustment. Therefore, we have extrapolated from available information to develop our approved repression adjustment.

We found that for utilities that did not experience a rate structure change, a price increase of approximately 31% (in cases which involve both the utility's water and wastewater systems) has led to a corresponding 7% reduction in consumption (demand or consumption repression). We use this overall price/repression relationship as a starting point in cases where there are no comparable utilities in the database. That analysis in this case would yield the following proportional relationship:

$$\frac{31\% \text{ price increase}}{7\% \text{ consumption reduction}} = \frac{\text{Pre-repression avg price incr of } 108.0\%}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 24.4%. However, based on overall historical usage patterns, we do not believe 24.4% is an appropriate repression adjustment in this case. As discussed previously, Cypress Lakes' average monthly water consumption per residential customer is 4.6 kgal, with approximately 83% of Cypress Lakes' bills representing average monthly consumption of 3.1 kgal. We do not believe this consumption level is sufficient to sustain a 24.4% reduction. In fact, a 24.4% consumption reduction to these bills would result in average monthly consumption dropping to a low 2.3 kgal per month.

In the alternative, we analyzed the potential repression effects in three average monthly usage groups: 1) usage at 6 kgal or less; 2) usage between 6.001 kgal and 12 kgal; and 3) usage above 12 kgal. An analysis of the anticipated repression in each of these three usage groups follows.

0 - 6 kgal per Month

This usage block captures approximately 77% of all bills and 83% of billed consumption. As discussed above, we do not believe that the average monthly consumption in this usage block of 3.1 kgal is sufficient to sustain a 24.4% reduction in consumption. However, based upon a visual inspection of the service area, we believe that some repression will occur in this block.

An analysis of the utility's test year billing data indicates that almost 30% of the bills\* and 40% of consumption are captured at 2 kgal. These figures represent a high degree of seasonality (in which customers are gone for some portion of the year), combined

with one-person households using bare subsistence consumption of slightly greater than 50 gallons per day. We do not believe it is possible to reduce consumption in this group.

The remaining customers using between 3 kgal and 6 kgal exhibit average monthly consumption of approximately 4.2 kgal. For these customers, we calculated an average anticipated pre-repression price increase of 106.3%. We assumed a proportional price/repression relationship, yielding the following:

$$\frac{\text{Avg 31\% price increase}}{7\% \text{ consumption reduction}} = \frac{\text{New avg price increase of 106.3\%}}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 24% for monthly usage between 3 kgal and 6 kgal. Based on the housing types and landscaping requirements of the service area, we believed it is possible for these customers to sustain a 24% reduction in consumption, which would reduce average monthly consumption in the 3 kgal to 6 kgal range to 3.2 kgal. This adjustment represents a corresponding overall anticipated reduction in the entire 0 - 6 kgal block of 13.1%.

6.001 kgal - 12 kgal per Month

Our analysis of Cypress Lakes' customers using 6.001 kgal to 12 kgal per month revealed average monthly residential consumption of 8.4 kgal. We identified four utilities from our database which exhibited similar prior price and prior consumption characteristics. However, the average price increase for the four utilities' was 16.7% - a very poor and unrepresentative match to the anticipated price increase for Cypress Lakes' customers in this block of 123.2%. Therefore, we applied the following proportional relationship:

$$\frac{\text{Avg 31\% price increase}}{7\% \text{ consumption reduction}} = \frac{\text{New avg price increase of 123.2\%}}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 27.8% for monthly usage between 6.001 kgal and 12 kgal, which would reduce average monthly consumption to 6.1 kgal. Again, based on the housing types and landscaping requirements of

the service area, we believe it is possible for these customers to sustain this level of consumption reduction.

12+ kgal per Month

An examination of our database revealed no sufficiently similar utilities upon which we could base a regression adjustment for monthly usage levels above 12 kgal. Absent any comparable utilities, and in consideration of the factors and discussion above, we used the proportional relationship methodology to estimate regression.

For customers whose usage was billed at 12 kgal or greater, the average monthly consumption was 19.0 kgal, with an anticipated pre-regression average price increase of 139.4%. The proportional price/regression relationship yielded the following:

$$\frac{\text{Avg 31\% price increase}}{7\% \text{ consumption reduction}} = \frac{\text{New avg price increase of 139.4\%}}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 31.5% for monthly usage above 12 kgal. We believe it is possible for these customers to sustain a 31.5% reduction in consumption, which would decrease average consumption in this usage block to 13.0 kgal.

Summary

The above-referenced regression adjustments result in an overall water regression adjustment of 15.8%, with an anticipated 9,196.3 kgal reduction in water consumption and a corresponding 7,357.0 kgal reduction in wastewater consumption. In order to monitor the effects of the revenue changes, the utility is hereby ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

IV. Water and Wastewater Rates

As discussed previously, the appropriate revenue requirements are \$237,506, and \$314,241 for water and wastewater, respectively. After excluding water miscellaneous service charges of \$2,829, the revenues to be recovered through rates are \$234,677 and \$314,241 for water and wastewater, respectively.

Cypress Lakes' current wastewater rate structure is a base facility charge and gallonage charge with an 8,000 gallon cap on residential customers. The utility's current rate structure does not contain a differential in the gallonage charge between residential and general service. This rate differential is designed to recognize that approximately 80% of a residential customer's water usage will not return to the wastewater system. Whereas, approximately 96% of multi-family and general service water usage is returned. We employ this wastewater gallonage rate differential in wastewater rate settings and it is widely recognized as an industry standard. The utility stated in response to an interrogatory that it proposed the same gallonage charge for residential and general service customers for simplicity, and that it continued the existing general service/residential relationship. Based on the above, we find that the gallonage rate differential shall be used in this case, consistent with our practice.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, our approved interim rates, and our approved rates are shown on Schedules 4-A and 4-B.

V. Refund of Interim Revenues

By Order No. PSC-03-0196-PCO-WS, issued on February 10, 2003, the collection of interim wastewater rates were approved subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements are shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Water	\$255,196	\$140,644	122.78%
Wastewater	\$339,167	\$104,389	44.46%

According to Section 367.082, Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the twelve month period ended December 31, 2001. Cypress Lakes' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the repression adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirement for the interim collection period to be \$231,563 for water and \$315,327 for wastewater. The water and wastewater revenue levels are less than the interim revenues which were granted in Order No. PSC-03-0196-PCO-WS. Based on the above,

the utility shall refund 9.36% of interim rates for water and 7.03% for wastewater.

The refunds shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility shall submit proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

#### VI. Reuse

On April 23, 1996, Cypress Lakes Associates, Ltd. and the golf course owner entered a Declaration of Covenants, Conditions, Restrictions, and Easement Agreement. This agreement contained the rights of the utility to dispose of its effluent to the golf course. The effluent disposal to the golf course is considered a reuse service and the utility has not charged the Golf course for this service.

The golf course is currently the utility's only reuse customer. According to responses to our data request, the golf course is able to meet the utility's effluent disposal needs and the utility has no plans to expand its reuse service to residential customers in the near future. The Golf course is not a related party to the utility.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates we set. Reuse rates based on rate base and revenue requirements would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. When we consider reuse rates, we must consider the type of customer being served and balance the disposal needs of the utility with the consumption needs of the customer. In this case the only reuse customer is the golf course, and the utility does not plan on expanding its reuse service to residential customers in the near future.

The next factor looked at was the disposal needs of the utility and customer. In cases where a utility has excess reuse capacity, rates typically would be set lower to encourage customers to use reuse at a level sufficient to meet the utility's disposal needs. In cases where a utility's reuse capacity is unable to meet

demand, rates would be set higher or rate structure would be changed in order to promote conservation. In this case, the golf course is able to meet the needs of the utility's disposal and currently is the utility's only disposal option.

The rationale behind setting reuse rates is rapidly changing. Initially, reuse rates were set very low or at a rate of \$0 to encourage acceptance and use. As reuse becomes more widely accepted and demand rises, utilities are considering charging or increasing existing rates to balance demand. In this case, it is clear that the utility views the golf course as a disposal site rather than a reuse customer. Having a reliable disposal site is obviously a benefit of the utility; however, the current rate of zero implies that there is no benefit to the golf course. We believe that there are some benefits to the golf course including the avoided cost of the golf course providing its own irrigation supply and benefits associated with obtaining future consumptive use permits.

Although we believe that the golf course does benefit from reuse service, we do not believe that setting a rate above zero is appropriate at this time. Because the golf course is the utility's only disposal option, we are concerned that imposing a reuse rate on the golf course may cause the golf course to no longer accept reuse or reduce its reuse consumption. This could cause disposal problems for the utility and could lead to increased expenses for alternative disposal options. However, we believe that the utility should be encouraged to begin negotiating with the golf course regarding charging for this service in the future. The utility shall also request a charge for reuse service in its next rate proceeding.

Section 367.091(3), Florida Statutes, specifies that each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission. Section 367.091(4), Florida Statutes, specifies that a utility may only impose and collect those rates and charges approved by the Commission for the particular class of service involved. Although the utility is charging a rate of \$0 for reuse, reuse is a class of service provided by the utility and the utility should have a tariffed rate on file with us even if that rate is \$0.



Based on the above, we order the utility to file a tariff for reuse service and that the appropriate reuse rate is a rate of \$0 for the golf course. The utility shall file revised tariff sheets which are consistent with our vote within one month of the our final vote. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

#### VII. Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$7,576 for water and \$7,331 for wastewater. The decreased revenues will result in the rate reduction shown on Schedule 4.

The utility is ordered to file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

SHOW CAUSE

Books and Records

In Audit Exception No. 12, the auditors stated that the utility's books and records continue to not be in substantial compliance with the NARUC USOA, and that the utility has not complied with Order Nos. PSC-00-1528-PAA-WU, issued August 23, 2000, and PSC-00-2388-AS-WU, issued December 31, 2000, in Docket No. 991437-WS.

Rule 25-30.115, Florida Administrative Code, requires all water and wastewater utilities to maintain their accounts and records in conformance with the 1996 NARUC USOA. Accounting Instruction 2.A. of the NARUC USOA for Class B utilities states:

Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit a ready identification, analysis, and verification of all facts relevant thereto. (emphasis added)

Further, Accounting Instruction 3.D. of the NARUC USOA for Class B utilities states:

The numbers prefixed to account titles are solely for convenience of reference and are not a part of the titles. Each utility may adopt such scheme of account numbers as it deems appropriate; provided, however, that it shall keep readily available a list of the account numbers and subdivisions of accounts which it uses and a reconciliation of such numbers and subdivisions with the account numbers and titles provided herein. Further, the records must be kept to permit classification or summarization of each accounting period according to the prescribed accounts. (emphasis added)

Rule 25-30.450, F.A.C., states:

In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to track to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules. (emphasis added)

Utilities, Inc. and its Florida subsidiaries have been cited in prior Commission Orders for failure to comply with one or both of the above-mentioned rules. See Orders Nos. PSC-95-0574-FOF-WS, issued May 9, 1995, in Docket No. 940917-WS, Utilities, Inc. of Florida; PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, Lake Utility Services, Inc.; PSC-96-0910-FOF-WS, issued July 15, 1996, in Docket No. 951027-WS, Lake Placid Utilities, Inc.; PSC-98-0524-FOF-SU, issued April 16, 1998, in Docket No. 971065-SU, Mid-County Services, Inc.; and PSC-00-1528-PAA-WU (Wedgefield Order) issued August 23, 2000, in Docket No. 991437-WS, Wedgefield Utilities, Inc.

In Order No. PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, we placed the utility on notice that all of its Florida utilities owned or purchased in the future that are under our jurisdiction shall come into compliance or maintain their books and records in compliance with our rules and the NARUC Uniform Systems of Accounts. We gave the utility a time certain for compliance with all of its Florida regulated utilities.

In the Wedgefield Order, Order No. PSC-00-1528-PAA-WS, we stated that many of the problems the auditors encountered dealt with the utility's complex utility accounting system that must be converted to the NARUC-required format for each rate proceeding. We found that this clearly was a violation of the requirements to keep the information readily available. In that case, our audit staff had to request the utility to reconcile numerous accounts

because the account balances did not tie to the utility's general ledger. Despite the state of the utility's books and records in that case, the auditors were able to perform the audit. However, the condition of the books and records resulted in significant excess time in the field and a corresponding delay in completing the audit report.

Further, in the Wedgefield Order, we found that the errors identified by the auditors constituted an apparent violation of Rule 25-30.115, F.A.C., "Uniform System of Accounts for Water and Wastewater Utilities" as well as an apparent violation of the Commission's mandate in Order No. PSC-97-0531-FOF-WU, which required that all jurisdictional subsidiaries of Utilities, Inc. be brought into compliance with this rule. Thus, we ordered the utility to show cause why it should not be fined \$3,000 for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-97-0531-FOF-WU for its failure to maintain its books and records in conformance with the NARUC USOA.

On September 13, 2000, the utility filed a response to the show cause order. The utility requested that we waive the \$3,000 fine and allow the utility to work with staff to resolve any discrepancies remaining after the 1998 modifications of its accounting system. Further, the utility asked us to direct our staff to perform a compliance audit of the books and records as of January 31, 2001.

By Order No. PSC-00-2388-AS-WU, issued December 31, 2000, we accepted the utility's offer of settlement and permanently suspended the \$3,000 fine. The utility was ordered to correct any remaining areas of noncompliance with the NARUC USOA by January 31, 2001. Further, the utility and its parent were ordered to file, in future proceedings before this Commission, MFRs which begin with utility book balances, and show all adjustments to book balances after the "per book" column in the MFRs. Additionally, the utility was ordered to file with its MFRs, a statement which affirms that the MFRs begin with actual book balances.

In the current docket, our auditors stated that the utility's books and records continue to not be in substantial compliance with the NARUC USOA, and that the utility has not complied with Order

ORDER NO. PSC-03-0647-PAA-WS  
DOCKET NO. 020407-WS  
PAGE 45

Nos. PSC-00-1528-PAA-WU, issued August 23, 2000, and PSC-00-2388-AS-WU, issued December 31, 2000, in Docket No. 991437-WS.

First, our auditors state that in Exception No. 1 of the Compliance Investigation, mentioned above, the utility was not in substantial compliance with the stipulated agreement approved in Order No. PSC-00-2388-AS-WU. The audit staff determined that the utility's response indicated that no change had been made to the accounting system to comply with our Order.

Second, our auditors state that the utility's MFRs in this case do not comply with the filing requirements for future rate proceedings of the parent's Florida operations as stated in Order No. PSC-00-2388-AS-WS. Rate Base Schedules 1-A, Column (2) Balance per Books, which should be the balance in the utility's general ledger, begins with balances that the utility reports in its 2001 Annual Report. Further Column (3), entitled Utility Adjustments, which should show all utility adjustments to its general ledger balance, is in most cases the adjustment required to make the utility's general ledgers agree to its 2001 Annual Report and MFR filing.

Third, our auditors state that Order PSC-000-1528-PAA-WU specifically addressed the utility's noncompliance with NARUC Accounting Instruction 2. A. and Rule 25-30.450, Florida Administrative Code, concerning supporting documentation for the utility's books and records, schedules, and data that it files in rate proceedings. The utility continually lacked supporting documentation that should have been readily available to adequately determine the reasonableness of the utility's methodologies in calculating its customer equivalents (CE) percentages which are used to allocate common costs. For example, our auditors requested supporting documentation for the utility's allocation methodology three different times and were given two additional schedules that did not reconcile to the filing.

Finally, our auditors state that the structure of the utility's accounting system continues to require significant amounts of audit staff time to reconcile its MFR filing to its books and records. Because of the numerous accounts involved and the allocation methodologies applied, our staff auditors had to

spend extraordinary amounts of time in order to reconcile and test the reasonableness of the amounts and the allocation percentages.

In its response to the Cypress Lake's audit, the utility stated that it does not agree with this audit exception. The utility stated that it is not aware of any specific corrections required by our staff and if we are aware of specific differences that need to be corrected, the utility will work with our staff pursuant to our Order to correct these differences. The utility requests that any of the alleged differences that Commission staff believes still exist be communicated in writing.

Section 367.161, Florida Statutes, authorizes us to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" within the meaning and intent of Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

The utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-00-2388-AS-WU. Therefore, we hereby find that a show cause proceeding is warranted at this time. We order that the utility to show cause, in writing within 21 days, why it should not be fined \$3,000 for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-00-2388-AS-WU.

The utility's response to the show cause order must contain specific allegations of fact and law. Should the utility file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Section 120.57(1), Florida Statutes, further proceedings will be scheduled on this matter before a final determination is made. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing. In the event the utility fails to file a timely response to the show cause order, the penalty is deemed assessed with no further action required by the Commission. Reasonable collection efforts shall consist of two certified letters requesting payment. If the utility fails to respond to reasonable collection efforts by Commission staff, the collection of penalties shall be referred to the Department of Financial Services for further collection efforts. The referral to the Department of Financial Services would be based on the conclusion that further collection efforts by this Commission would not be cost effective. If, however, the utility responds to the show cause by remitting the fine imposed by this Commission, no further action is required. Any collection of the fines imposed shall be deposited in the State General Revenue Fund pursuant to Section 367.161, Florida Statutes.

We also direct our staff to meet with representatives of the utility to identify which specific areas of non-compliance exist. Our staff is further directed to prepare a letter to the utility which communicates the specific requirements for the utility to change or implement in order to comply with our rules and orders.

In addition to the response to Order to Show Cause, we order Cypress Lakes Utility, Inc. to file a plan and schedule by which it intends to come into compliance with all show cause issues, as discussed above and which result from the discussions and directions from staff, including how it intends to keep its books and records in accordance with the NARUC USOA.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Cypress Lakes Utilities, Inc.'s application for increased water and wastewater rates is granted to the extent set forth in the body of this Order. It is further

ORDER NO. PSC-03-0647-PAA-WS  
DOCKET NO. 020407-WS  
PAGE 48

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

ORDERED that all matters contained herein, whether set forth in the body of this Order or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that the general service gallonage charge is established as set forth in the body of this Order. It is further

ORDERED that the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. It is further

ORDERED that the utility shall refund 9.36% of water and 7.03% of wastewater revenues collected under interim rates. The refund shall be made with interest, and the utility shall treat any unclaimed refunds as CIAC. It is further

ORDERED that the utility shall file a tariff for reuse service. The appropriate reuse rate is a rate of \$0, for the Cypress Lakes Golf Course. The utility shall file revised tariff sheets which are consistent with this Order within one month. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets. It is further

ORDERED that the increased rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, in accordance with Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Cypress Lakes Utilities Inc. shall submit and have approved a proposed customer notice of the increased rates and charges and the reasons therefor. The notice will be approved



ORDER NO. PSC-03-0647-PAA-WS  
DOCKET NO. 020407-WS  
PAGE 49

upon our staff's verification that it is consistent with our decision herein. It is further

ORDERED that the rates and charges approved herein shall not be implemented until our staff has approved the proposed customer notice, and the notice has been received by the customers. Consistent with our decision herein, the utility shall provide proof of the date notice was given within ten days after the date of the notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Cypress Lakes Utilities Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice of the rate decrease and the reason therefor. It is further

ORDERED that the utility shall show cause, in writing within 21 days, why it should not be fined \$3,000 for its apparent violation of Rule 25-30.115, Florida Administrative Code, for its failure to maintain its books and records in conformance with the NARUC USOA. It is further

ORDERED that the utility shall file, along with its written response to show cause, a plan and schedule by which it intends to come into compliance with all show cause issues, including how it intends to keep its books and records in accordance with the NARUC USOA. It is further

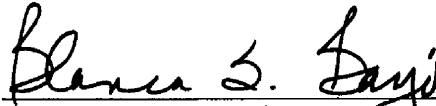
ORDERED that the provisions of this Order issued as proposed agency action, except for our decision to reduce rates at the end of the four-year amortization period and our decision to show cause the utility, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is

ORDER NO. PSC-03-0647-PAA-WS  
DOCKET NO. 020407-WS  
PAGE 50

received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 28th Day of May, 2003.



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

( S E A L )

LDH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action approving increased water and wastewater rates and charges is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 18, 2003. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action reducing rates at the end of the four-year amortization period and requiring the utility to show cause, in writing, and to provide a schedule and plan of compliance in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ORDER NO. PSC-03-0647-PAA-WS

DOCKET NO. 020407-WS

PAGE 52

CYPRESS LAKES UTILITIES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/01			SCHEDULE NO. 1-A DOCKET NO. 020407-WS		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,329,461	\$0	\$1,329,461	(\$94,670)	\$1,234,791
2 UTILITY LAND AND LAND RIGHTS	\$509	\$0	\$509	\$0	\$509
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 CWIP	\$0	\$0	\$0	\$0	\$0
5 ACCUMULATED DEPRECIATION	(\$288,550)	\$0	(\$288,550)	(\$161)	(\$288,711)
6 CIAC	(\$246,499)	\$0	(\$246,499)	(\$18,100)	(\$264,599)
7 ACCUM. AMORTIZATION OF CIAC	\$28,574	\$5,565	\$34,139	\$3,364	\$37,503
8 ACQUISITION ADJUSTMENTS	(\$267,107)	\$267,107	\$0	\$0	\$0
9 WORKING CAPITAL ALLOWANCE	\$0	\$12,804	\$12,804	(\$2,006)	\$10,798
<b>RATE BASE</b>	<u>\$556,388</u>	<u>\$285,476</u>	<u>\$841,864</u>	<u>(\$111,574)</u>	<u>\$730,290</u>

CYPRESS LAKES UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/01		SCHEDULE NO. 1-B DOCKET NO. 020407-WS			
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$2,252,159	\$0	\$2,252,159	(\$31,350)	\$2,220,810
2 UTILITY LAND AND LAND RIGHTS	\$0	\$0	\$0	\$2,610	\$2,610
3 NON-USED & USEFUL COMPONENTS	\$0	(\$131,593)	(\$131,593)	(\$68,411)	(\$200,004)
4 CWIP	\$160,381	(\$160,381)	\$0	\$0	\$0
5 ACCUMULATED DEPRECIATION	(\$502,877)	\$0	(\$502,877)	(\$4,417)	(\$507,294)
6 CIAC	(\$711,034)	\$0	(\$711,034)	\$0	(\$711,034)
7 ACCUM. AMORTIZATION OF CIAC	\$58,598	\$12,509	\$71,107	\$2,604	\$73,711
8 ACQUISITION ADJUSTMENTS	(\$400,032)	\$400,032	\$0	\$0	\$0
9 WORKING CAPITAL ALLOWANCE	\$0	\$21,268	\$21,268	(\$2,854)	\$18,414
<b>RATE BASE</b>	<u>\$857,195</u>	<u>\$141,835</u>	<u>\$999,030</u>	<u>(\$101,818)</u>	<u>\$897,212</u>

CYPRESS LAKES UTILITIES, INC.		SCHED. NO. 1-C	
ADJUSTMENTS TO RATE BASE		DOCKET NO. 020407-WS	
TEST YEAR ENDED 12/31/01			
EXPLANATION	WATER	WASTEWATER	
<b><u>PLANT IN SERVICE</u></b>			
1 Remove acquisition costs	(\$80,551)	(\$28,321)	
2 Remove AFUDC and misc. plant adjustments	(\$6,413)	(\$29,586)	
3 Adjust for UIF common rate base allocations	(\$17,187)	\$16,539	
4 Include WSC allocated rate base, net of depreciation	<u>\$9,481</u>	<u>\$10,018</u>	
Total	<u>(\$94,670)</u>	<u>(\$31,350)</u>	
<b><u>LAND</u></b>			
Reclassify land from organization costs	\$0	<u>\$2,610</u>	
<b><u>NON-USED AND USEFUL</u></b>			
To reflect net non-used and useful adjustment	<u>\$0</u>	<u>(68,411)</u>	
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1 Remove acquisition costs	(\$4,863)	(\$1,714)	
2 Remove AFUDC and misc. plant adjustments	\$724	\$595	
3 Adjust for UIF common rate base allocations	<u>\$3,978</u>	<u>(\$3,298)</u>	
Total	<u>(\$161)</u>	<u>(\$4,417)</u>	
<b><u>CIAC</u></b>			
To reflect proper balance of CIAC	<u>(\$18,100)</u>	<u>\$0</u>	
<b><u>ACCUM. AMORT. OF CIAC</u></b>			
To reflect proper balance of CIAC & reserve balances	<u>\$3,364</u>	<u>\$2,604</u>	
<b><u>WORKING CAPITAL</u></b>			
To reflect adjusted working capital using formula approach.	<u>(\$2,006)</u>	<u>(\$2,854)</u>	

CYPRESS LAKES UTILITIES, INC.  
 CAPITAL STRUCTURE SIMPLE AVERAGE  
 TEST YEAR ENDED 12/31/01

SCHEDULE NO. 2  
 DOCKET NO. 020407-WS

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (Note 1)	SUBTOTAL CAPITAL	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WTD. COST
<b>PER UTILITY</b>								
1 LONG-TERM DEBT	\$72,051,803	\$0	\$72,051,803	(\$71,230,357)	\$821,446	44.62%	8.81%	3.93%
2 SHORT-TERM DEBT	\$15,659,000	\$0	\$15,659,000	(\$15,480,552)	\$178,448	9.69%	2.54%	0.25%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$73,169,033	\$0	\$73,169,033	(\$72,334,933)	\$834,100	45.31%	11.07%	5.02%
5 CUSTOMER DEPOSITS	\$6,900	\$0	\$6,900	\$0	\$6,900	0.37%	6.00%	0.02%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8 <b>TOTAL CAPITAL</b>	<u>\$160,886,736</u>	<u>\$0</u>	<u>\$160,886,736</u>	<u>(\$159,045,842)</u>	<u>\$1,840,894</u>	<u>100.00%</u>		<u>9.22%</u>
<b>PER COMMISSION</b>								
9 LONG-TERM DEBT	\$72,051,803	\$0	\$72,051,803	(\$71,330,390)	\$721,413	44.33%	8.71%	3.86%
10 SHORT-TERM DEBT	\$15,659,000	\$0	\$15,659,000	(\$15,502,216)	\$156,784	9.63%	4.38%	0.42%
11 PREFERRED STOCK	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
12 COMMON EQUITY	\$73,169,033	\$0	\$73,169,033	(\$72,436,434)	\$732,599	45.01%	10.93%	4.92%
13 CUSTOMER DEPOSITS	\$6,900	\$0	\$6,900	\$0	\$6,900	0.42%	6.00%	0.03%
14 DEFERRED INCOME TAXES	\$0	\$9,806	\$9,806	\$0	\$9,806	0.60%	0.00%	0.00%
15 DEFERRED ITC'S-ZERO COST	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
16 <b>TOTAL CAPITAL</b>	<u>\$160,886,736</u>	<u>\$9,806</u>	<u>\$160,896,542</u>	<u>(\$159,269,040)</u>	<u>\$1,627,502</u>	<u>100.00%</u>		<u>9.23%</u>

Note 1. Reflect CLU specific deferred income taxes

	LOW	HIGH
RETURN ON EQUITY	<u>9.93%</u>	<u>11.93%</u>
OVERALL RATE OF RETURN	<u>8.78%</u>	<u>9.68%</u>

ORDER NO. PSC-03-0647-PAA-WS

DOCKET NO. 020407-WS

PAGE 56

CYPRESS LAKES UTILITIES, INC.  
 STATEMENT OF WATER OPERATIONS  
 TEST YEAR ENDED 12/31/01

SCHEDULE NO. 3-A  
 DOCKET NO. 020407-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$110,204</u>	<u>\$165,286</u> 140.50%	<u>\$275,490</u>	<u>(\$160,939)</u>	<u>\$114,551</u>	<u>\$122,955</u> 107.34%	<u>\$237,506</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$93,356	\$9,074	\$102,430	(\$16,050)	\$86,380		\$86,380
3 DEPRECIATION	\$43,325	\$0	\$43,325	(\$3,831)	\$39,494		\$39,494
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$17,268	\$11,012	\$28,280	(\$11,250)	\$17,030	\$5,533	\$22,563
6 INCOME TAXES	<u>(\$28,449)</u>	<u>\$52,368</u>	<u>\$23,919</u>	<u>(\$46,427)</u>	<u>(\$22,508)</u>	<u>\$44,186</u>	<u>\$21,677</u>
7 TOTAL OPERATING EXPENSES	<u>\$125,500</u>	<u>\$72,454</u>	<u>\$197,954</u>	<u>(\$77,559)</u>	<u>\$120,395</u>	<u>\$49,719</u>	<u>\$170,114</u>
8 OPERATING INCOME	<u>(\$15,296)</u>	<u>\$92,832</u>	<u>\$77,536</u>	<u>(\$83,380)</u>	<u>(\$5,844)</u>	<u>\$73,236</u>	<u>\$67,392</u>
9 RATE BASE	<u>\$556,388</u>		<u>\$841,864</u>		<u>\$730,290</u>		<u>\$730,290</u>
10 RATE OF RETURN	<u>-2.75%</u>		<u>9.21%</u>		<u>-0.80%</u>		<u>9.23%</u>



CYPRESS LAKES UTILITIES, INC.  
 STATEMENT OF WASTEWATER OPERATIONS  
 TEST YEAR ENDED 12/31/01

SCHEDULE NO. 3-B  
 DOCKET NO. 020407-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUST- MENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$229,432	\$131,823	\$361,255	(\$126,477)	\$234,778	\$79,463	\$314,241
		53.87%				33.85%	
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$161,412	\$8,735	\$170,147	(\$22,832)	\$147,315		\$147,315
3 DEPRECIATION	\$35,990	(\$3,293)	\$32,697	(\$6,353)	\$26,344		\$26,344
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$29,745	\$7,989	\$37,734	(\$10,155)	\$27,579	\$3,576	\$31,154
6 INCOME TAXES	\$780	\$27,886	\$28,666	(\$30,590)	(\$1,924)	\$28,556	\$26,632
7 TOTAL OPERATING EXPENSES	\$227,927	\$41,317	\$269,244	(\$69,930)	\$199,314	\$32,132	\$231,446
8 OPERATING INCOME	\$1,505	\$90,506	\$92,011	(\$56,547)	\$35,464	\$47,331	\$82,795
9 RATE BASE	\$857,195		\$999,030		\$897,212		\$897,212
10 RATE OF RETURN	0.18%		9.21%		3.95%		9.23%

CYPRESS LAKES UTILITIES, INC.		SCHED. NO. 3-(	
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020407-WS	
TEST YEAR ENDED 12/31/01			
<u>EXPLANATION</u>	<u>WATER</u>	<u>WASTEWATER</u>	
<b><u>OPERATING REVENUES</u></b>			
Remove requested final revenue increase	<u>(\$160,939)</u>	<u>(\$126,477)</u>	
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>			
1 Excess unaccounted for water	(\$170)	\$0	
2 Overstated O&M expenses	(1,029)	(1,922)	
3 Overstated common allocated expenses	(1,426)	(1,381)	
4 Overstated salaries	(3,478)	(3,368)	
5 Overstated pensions & benefits	(11,699)	(11,328)	
6 Rate case expense	3,312	\$3,205	
7 Repression adjustment	<u>(1,560)</u>	<u>(8,038)</u>	
Total	<u>(\$16,050)</u>	<u>(\$22,832)</u>	
<b><u>DEPRECIATION EXPENSE-NET</u></b>			
1 Remove acquisition costs	(\$2,030)	(\$795)	
2 Remove AFUDC and misc. plant adjustments	(392)	(1,506)	
3 Adjust for UIF common rate base allocations	(256)	(247)	
4 To adjust for non-used and useful plant	0	(1,490)	
5 To reflect proper balance of CIAC	<u>(1,153)</u>	<u>(2,315)</u>	
Total	<u>(\$3,831)</u>	<u>(\$6,353)</u>	
<b><u>TAXES OTHER THAN INCOME</u></b>			
1 RAFs on revenue adjustments above	(\$7,242)	(\$5,691)	
2 Non-used and useful property taxes	0	(\$583)	
3 Payroll taxes on salary adjustment	<u>(4,008)</u>	<u>(3,881)</u>	
Total	<u>(\$11,250)</u>	<u>(\$10,155)</u>	
<b><u>INCOME TAXES</u></b>			
To adjust to test year income tax expense	<u>(\$46,427)</u>	<u>(\$30,590)</u>	

CYPRESS LAKES UTILITIES, INC.		SCHEDULE NO. 4-A			
WATER MONTHLY SERVICE RATES		DOCKET 020407-WS			
TEST YEAR ENDED 12/31/01					
	<u>Rates</u>	<u>Commission</u>	<u>Utility</u>	<u>Commission</u>	<u>4-Year</u>
	<u>Prior to</u>	<u>Approved</u>	<u>Requested</u>	<u>Approved</u>	<u>Rate</u>
	<u>Filing</u>	<u>Interim</u>	<u>Final</u>	<u>Final</u>	<u>Reduction</u>
<b><u>Residential</u></b>					
Base Facility Charge:					
5/8" x 3/4" meter	\$3.82	\$8.63	\$9.19	\$6.32	\$0.20
Gallonge Charge, per 1,000 Gallons					
0-6,000 gallons	\$0.82	\$1.85	\$1.97	\$2.41	\$0.08
6,001-12,000 gallons	\$1.23	\$2.78	\$2.96	\$3.62	\$0.12
over 12,000 gallons	\$1.64	\$3.70	\$3.94	\$4.82	\$0.15
<b><u>General Service &amp; Irrigation</u></b>					
Base Facility Charge: By Meter Size					
5/8" x 3/4"	\$3.82	\$8.63	\$9.19	\$6.32	\$0.20
1"	\$9.55	\$21.57	\$22.98	\$15.80	\$0.50
1-1/2"	\$19.10	\$43.14	\$45.95	\$31.60	\$1.01
2"	\$30.56	\$69.03	\$73.52	\$50.56	\$1.61
3"	\$57.30	\$129.43	\$137.85	\$101.12	\$3.23
4"	\$95.50	\$215.72	\$229.75	\$158.00	\$5.04
6"	\$191.00	\$431.44	\$459.50	\$316.00	\$10.08
Gallonge Charge, per 1,000 Gallons	\$0.82	\$1.85	\$1.97	\$2.63	\$0.08
<b><u>Typical Residential Bills</u></b>					
5/8" x 3/4" Meter Size					
3,000 Gallons	\$6.28	\$14.18	\$15.10	\$13.55	
4,000 Gallons	\$7.10	\$16.03	\$17.07	\$15.96	
5,000 Gallons	\$7.92	\$17.88	\$19.04	\$18.37	
10,000 Gallons	\$13.66	\$30.85	\$32.85	\$35.26	

CYPRESS LAKES UTILITIES, INC.		SCHEDULE NO. 4-B			
WASTEWATER MONTHLY SERVICE RATES		DOCKET 020407-WS			
TEST YEAR ENDED 12/31/01					
	<u>Rates</u>	<u>Commission</u>	<u>Utility</u>	<u>Commission</u>	<u>4-Year</u>
	<u>Prior to</u>	<u>Approved</u>	<u>Requested</u>	<u>Approved</u>	<u>Rate</u>
	<u>Filing</u>	<u>Interim</u>	<u>Final</u>	<u>Final</u>	<u>Reduction</u>
<b><u>Residential</u></b>					
Base Facility Charge:					
All meter sizes	9.52	13.75	14.65	\$13.79	\$0.32
Gallage Charge - Per 1,000					
gallons (8,000 gallon cap)	2.02	2.92	\$3.11	\$2.80	\$0.07
<b><u>General Service</u></b>					
Base Facility Charge:					
Meter Size:					
5/8" x 3/4"	9.52	13.75	14.65	\$13.79	\$0.32
1"	23.81	34.4	36.63	\$34.48	\$0.80
1-1/2"	47.62	68.79	73.25	\$68.97	\$1.61
2"	76.19	110.07	117.2	\$110.35	\$2.57
3"	142.85	206.37	219.75	\$220.69	\$5.15
4"	238.09	343.95	366.25	\$344.83	\$8.04
6"	476.17	687.89	732.5	\$689.66	\$16.09
Gallage Charge, per 1,000					
Gallons	2.02	2.92	3.11	\$3.36	\$0.08
<b><u>Typical Residential Bills</u></b>					
5/8" x 3/4" meter					
3,000 Gallons	\$15.58	\$22.51	\$23.98	\$22.20	
5,000 Gallons	\$19.62	\$28.35	\$30.20	\$27.81	
8,000 Gallons Residential Max	\$25.68	\$37.11	\$39.53	\$36.22	