

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate
increase in Marion, Orange,
Pasco, Pinellas, and Seminole
Counties by Utilities, Inc. of
Florida.

DOCKET NO. 020071-WS
ORDER NO. PSC-03-1440-FOF-WS
ISSUED: December 22, 2003

The following Commissioners participated in the disposition of
this matter:

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FINAL ORDER SETTING RATES AND CHARGES

BY THE COMMISSION:

BACKGROUND

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater service to systems in Marion, Orange, Pasco, Pinellas, and Seminole Counties.

By letter dated February 26, 2002, UIF requested test year approval in order to file an application for general rate relief for all of its systems. On June 28, 2002, the utility filed minimum filing requirements (MFRs) to justify its requested rate increase. By letter dated July 19, 2002, the utility was notified that the MFRs were deficient. In response to that deficiency letter, the utility submitted additional explanations, schedules and data on September 3, 2002. However, by letter dated September 11, 2002, the utility was notified that the MFRs were still deficient. UIF corrected the remaining deficiencies on October 3, 2002. Thus, the utility was notified that October 3, 2002, was established as the official date of filing for the utility's rate case.

On October 31, 2002, UIF materially amended its MFR rate schedules, and as such, the official date of filing was reset to that date. After discussions with our staff concerning material billing errors in the MFRs, the utility agreed to extend the deadlines for Commission action on UIF's interim and final rate requests. By letter dated December 4, 2002, UIF waived the 60-day deadline on its request for interim rates for a period of 120 days. UIF also waived, for a period of 120 days, the eight-month deadline for final action on its application. Final rates were suspended by Order No. PSC-03-0030-PCO-WS, issued January 6, 2003, and interim rates were granted by Order No. PSC-03-0568-PCO-WS, issued May 5, 2003. The deadline for final action on UIF's application for general rate relief was November 25, 2003 (see Order No. PSC-03-0568-PCO-WS). By facsimile dated October 16, 2003, the utility extended the eight-month deadline until December 2, 2003.

UIF requested that this rate case be scheduled directly for hearing. In support thereof, the utility filed its direct testimony with its June 28, 2002, MFR filing. The Office of Public

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Counsel (OPC) served its Notice of Intervention in this docket and by Order No. PSC-02-1026-PCO-WS, issued July 29, 2002, OPC's intervention was acknowledged.

By PAA Order No. PSC-02-0657-PAA-WU, issued May 14, 2002, in Docket No. 991890-WU, In Re: Investigation into ratemaking consideration of gain on sale from sales of facilities of Utilities, Inc. of Florida to the City of Maitland in Orange County and the City of Altamonte Springs in Seminole County, this Commission determined that a gain of \$61,669 was realized on the sale of UIF's Druid Isle water system and a portion of its Oakland Shores water system to the City of Maitland in Orange County, and that a gain of \$269,661 was realized on the sale of UIF's Green Acres Campground water and wastewater facilities to the City of Altamonte Springs in Seminole County. This Commission declined to allow the remaining Orange and Seminole County UIF customers to receive recovery of the realized gains from the Maitland or Altamonte sales. OPC timely protested that order. By Order No. PSC-02-1467-PCO-WS, issued October 25, 2002, in Dockets Nos. 020071-WS and 991890-WU, the gain on sale docket was consolidated with the instant rate case, and Docket No. 991890-WU was closed. The gain on sale issues are included herein.

Order No. PSC-02-1495-PCO-WS, the Order Establishing Procedure to be followed in this docket, was issued on October 31, 2002. That Order was revised by Orders Nos. PSC-02-1808-PCO-WS and PSC-03-0389-PCO-WS, issued December 20, 2002, and March 20, 2003, respectively. The prehearing for this docket was held on August 4, 2003. Customer service hearings were held at the Eastmonte Civic Center in Altamonte Springs on May 21, 2003, and at the Spartan Manor in New Port Richey and the Golden Hills Golf and Turf Club in Ocala on May 22, 2003. The formal hearing was held on August 20-21, 2003, in Tallahassee.

Abbreviations and Technical Terms

AFPI	Allowance for Funds Prudently Invested
AFUDC	Allowance for Funds Used During Construction
AT	Affiliate Transactions
AWWA	American Waterworks Association
BFC	Base Facility Charge
CIAC	Contributions in Aid of Construction
CWIP	Construction Work in Progress
DEP	Department of Environmental Protection
EOY	End of Year
ERCs	Equivalent Residential Connections
GPD	Gallons Per Day
GPM	Gallons Per Minute
I&I	Infiltration and Inflow
MFRs	Minimum Filing Requirements
MGD	Million Gallons Per Day
NARUC	National Association of Regulatory Utility Commissioners
NBV	Net Book Value
O&M	Operation and Maintenance
SJRWMD	St. Johns River Water Management District
STP	Single Tariff Pricing
SWFWMD	Southwest Florida Water Management District
NOI	Net Operating Income
ROE	Return on Equity
TY	Test Year
UI	Utilities, Inc.
UIF	Utilities, Inc. of Florida
UPIS	Utility plant-in-service
USOA	Uniform System of Accounts
WSC	Water Services Corp.
YE	Year End

Findings of Fact, Law, and Policy

Having heard the evidence presented at the hearing in this proceeding and having reviewed the recommendation of our staff, as well as the briefs of the parties, we now enter our findings and conclusions.

APPROVED STIPULATIONS AND DIRECTED VERDICT

We find that the stipulations reached by the parties and supported by staff in this case are reasonable, and we approve the stipulated matters as set forth below.

Category 1 Stipulations

Those stipulations to which the utility and OPC agreed and which staff supported are set forth below:

1. The following adjustments are necessary to reflect prior Commission-ordered rate base adjustments and the corresponding adjustments.

Water Rate Base Adjustments by County	Plant	Land	Accum. Deprec.	CIAC	Accum. Amort. of CIAC
Marion	(\$14,314)	\$4,467	\$1,005	\$0	\$0
Orange	(\$7,056)	\$0	\$8,292	\$0	\$0
Pasco - Orangewood	(\$18,891)	\$0	\$31,723	\$0	(\$13,837)
Pasco - Summertree/PPW	\$44,763	(\$815)	(\$24,822)	(\$98,232)	\$52,177
Pasco - Wis Bar	\$264,632	\$2,910	(\$191,029)	(\$12,627)	\$8,163
Pinellas	(\$30,651)	(\$3,701)	(\$1,266)	\$0	\$0
Seminole	(\$70,137)	(\$513)	\$101,897	\$0	\$0

Water Corresp. Adjustments by County	Accumulated Depreciation		Depr. Expense	Accum. Amort. of CIAC		CIAC Amort. Expense
	Average	Year-End		Average	Year-End	
Marion	\$302	\$603	(\$603)	\$0	\$0	\$0
Orange	\$100	\$199	(\$199)	\$0	\$0	\$0
Pasco - Orangewood	\$350	\$700	(\$700)	\$0	\$0	\$0
Pasco - Summertree/PPW	(\$36,291)	(\$38,201)	\$3,820	\$34,103	\$35,896	\$3,590
Pasco - Wis Bar	(\$6,400)	(\$9,823)	\$6,847	\$321	\$485	\$327
Pinellas	\$453	\$905	(\$905)	\$0	\$0	\$0
Seminole	\$1,037	\$2,073	(\$2,073)	\$0	\$0	\$0

Wastewater Rate Base Adjustments by County	Plant	Land	Accum. Deprec.	CIAC	Accum. Amort. of CIAC
Marion	(\$1,633)	\$720	\$738	\$0	\$0
Pasco - Summertree/PPW	\$0	\$0	\$0	(\$88,459)	\$54,931
Pasco - Wis Bar	\$114,133	\$500	(\$17,191)	(\$17,232)	\$8,234

Wastewater Corresp. Adjust. by County	Accumulated Depreciation		Depr. Expense	Accum. Amort. of CIAC		CIAC Amort.
	Average	Year-End		Average	Year-End	Exp.
Marion	(\$63)	(\$126)	\$126	\$0	\$0	\$0
Pasco - Summertree	\$0	\$0	\$0	\$ 27,000	\$28,421	\$2,842
Pasco - WisBar	(\$2,752)	(\$4,118)	\$2,733	\$421	\$626	\$411

2. UIF's utility plant-in-service (UPIS) shall be reduced to remove amounts incorrectly recorded as organization costs.

<u>Accounts 301/351</u>	<u>Plant & Accum. Depr.</u>	<u>Depr. Exp.</u>
Marion - Water	(\$263)	(\$7)
Pasco - Water	(\$872)	(\$22)
Pasco - Water (WisBar/Bartelt)	(\$24,667)	(\$617)
Pasco - Wastewater	(\$872)	(\$22)

The Seminole County water account shall also be reduced by \$2,952, and the wastewater account by \$9,724 and \$9,579, with corresponding reductions to water depreciation expense of \$74 and to wastewater depreciation expense of \$552, for charges in 1999 and 2000 for capitalized executive salaries described as time spent working on condemnation issues related to the Lincoln Heights wastewater treatment plant site.

3. The Marion, Pasco, and Seminole County water and wastewater systems' UPIS, accumulated depreciation, and depreciation expense shall be reduced by the following amounts. The reductions to UPIS shall be placed in a Deferred Debit Account-186, and amortized over a five year period.

County	Date	Acct. No.	Plant	Acc. Depr. Avg. Adj.	Acc. Depr. YE Adj.	Amort. Exp.	Depr. Exp.
Marion-W	03/96	304	(\$1,122)	(\$17)	(\$34)	\$224	(\$34)
Marion-WW	08/99	380	(\$901)	(\$13)	(\$26)	\$180	(\$26)
Seminole-WW	04/94	361	(\$2,725)	(\$31)	(\$61)	\$0	(\$61)
Pasco-Water	12/98	311	(\$3,317)	(\$83)	(\$166)	\$664	(\$166)
Pasco-WW	10/00	354	(\$2,784)	(\$37)	(\$73)	\$557	(\$73)
Pasco-WW	02/01	354	<u>(\$3,387)</u>	<u>(\$22)</u>	<u>(\$45)</u>	<u>\$677</u>	<u>(\$45)</u>
Pasco-WW-Total			<u>(\$6,171)</u>	<u>(\$59)</u>	<u>(\$118)</u>	<u>\$1,234</u>	<u>(\$118)</u>

- This stipulation was dropped at the hearing.
- All land and water treatment plant associated with the Crescent Heights and Davis Shores water systems in Orange county shall be retired from service as illustrated below.

Acct. #	Description	UPIS @12/31/2001	Acc. Depr. @12/31/2001	Acc. Depr. Avg. TY	Depr. Exp. Adj.
302	Land & Land Rights	(\$2,783)	\$0	\$0	\$0
304	Structures & Improvements	(\$5,247)	(\$2,357)	(\$2,277)	(\$159)
307	Wells & Springs	(\$11,696)	(\$3,934)	(\$3,739)	(\$390)
311	Pumping Equipment	(\$19,894)	(\$10,471)	(\$9,973)	(\$995)
320	Treatment Equipment	(\$3,769)	(\$2,297)	(\$2,211)	(\$171)
Unassigned Accum. Depr.		\$0	<u>(\$12,856)</u>	<u>(\$12,856)</u>	\$0
Total Retirement		<u>(\$40,606)</u>	<u>(\$31,915)</u>	<u>(\$31,056)</u>	<u>(\$1,715)</u>

- The Seminole County wastewater plant shall be retired by reducing UPIS by \$398,852, accumulated depreciation by \$75,169, and depreciation expense by \$11,267.

7. The Seminole land account shall be reduced by \$101,519, and the following amounts shall be reclassified accordingly.

Reclassify preliminary studies cost to Acct. No. 183.	\$14,935
Reclassify WW discharge relocation cost to Acct. No. 354.	43,859
Reclassify WW utility main relocations to Acct. No. 361.	28,185
Reclassify AFUDC accruals to Acct. No. 426.	14,540
Total Adjustments	\$101,519

8. The following adjustments shall be made to properly account for retirements made.

	<u>Plant & Accum. Depr.</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$26,688)	\$0	(\$721)	\$0
Pasco	(\$50,162)	\$0	(\$1,409)	\$0
Pinellas	(\$10,250)	\$0	(\$238)	\$0
Seminole	(\$69,891)	(\$67,270)	(\$1,854)	(\$1,495)

9. The following adjustments are necessary to remove all components of the Summertree/PPW and Weathersfield wastewater plants that have been taken out of service.

<u>Wastewater Systems by County</u>	<u>Avg. Plant</u>	<u>YE Plant</u>	<u>Avg. Accum. Depr.</u>	<u>YE Accum. Depr.</u>	<u>Depr. Expense</u>
Pasco-Summertree/PPW	(\$235,208)	(\$253,982)	\$76,713	\$80,081	(\$6,760)
Seminole-Weathersfield	(\$151,733)	(\$152,762)	\$88,054	\$90,420	(\$4,723)

As a result of the above plant abandonments, the land shall be considered 90% non-used and useful. Therefore, Pasco-Summertree/PPW land shall be reduced by \$9,000, and recorded in Property Held for Future Use - Account No. 103.

10. The following adjustments shall be made to wastewater accumulated depreciation and depreciation expense to correct the depreciation rates used for Pumping Equipment and Treatment & Disposal Equipment.

<u>County</u>	<u>Accum. Depr.</u>	<u>Depr. Expense</u>
Marion	\$21,744	\$2,632
Pasco	\$57,828	\$7,972
Seminole	\$83,141	\$11,988

11. The following adjustments shall be made to reflect the utility's failure to record retirements of assets which were replaced during the test year.

<u>County</u>	<u>Common Plant</u>		<u>Accumulated Depreciation</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(142)	(13)	(147)	(19)	(10)	(2)
Orange	(479)	0	(517)	0	(7)	0
Pasco	(812)	(299)	(853)	(315)	(59)	(22)
Pinellas	(171)	0	(175)	0	(12)	0
Seminole	(3,813)	(2,059)	(4,161)	(2,250)	(57)	(31)

12. The following adjustments shall be made to accumulated amortization of CIAC and test year amortization of CIAC, to correct errors in the composite amortization rates used to calculate depreciation expense for the test year.

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	\$395	\$0
Orange	\$178	\$0
Pasco	\$3,845	\$911
Pinellas	\$785	\$0
Seminole	\$7,429	(\$2,881)

13. For Summertree PPW in Pasco County, water and wastewater accumulated amortization of CIAC shall be increased by \$27,713 and \$37,410, respectively.

14. The following adjustments shall be made to remove the utility's incorrect adjustments to reconcile its MFRs to the general ledger balances.

	CIAC	Accumulated Amort. of CIAC
Orange County Water	(\$17,592)	(\$10,709)
Pinellas County Water	\$3,791	\$1,652
Pasco County Water	\$0	(\$35,680)

15. Water and wastewater CIAC for Seminole County shall be increased by \$52,000 and \$48,000, respectively, to reclassify unsubstantiated balances in the utility's Advances for Construction accounts. Corresponding adjustments shall also be made to increase water and wastewater accumulated amortization of CIAC by \$2,225 and \$1,085, respectively, and test year CIAC amortization expense by \$2,225 and \$1,085, respectively.
16. UIF's total working capital shall be decreased by \$1,426,034 to reflect overstated cash, overstated current liabilities, and use of year-end balances.
17. Working capital shall be allocated based on the Commission-approved balances of O & M expenses by system.
18. The appropriate cost rate for long-term debt shall be 8.63%.
19. The appropriate balances for customer deposits shall be as follows.

<u>County</u>	<u>Amount</u>
Orange	\$4,862
Pasco	\$15,276
Seminole	\$43,789
Pinellas	\$3,723
Marion	\$5,026

20. An AFUDC rate shall be approved based on the Commission-approved cost of capital and shall be effective as of the effective date of the final order.
21. Any adjustments made to UIF's adjusted test year revenues shall be made by:
 - 1) using the billing determinants decided in Issue 32,
 - 2) using rates currently in effect for UIF to determine the annualized test year revenues, which includes index rate increases that have previously been put into place in accordance with Rule 25-30.420, Florida Administrative Code,
 - 3) recording the difference between recorded test year revenues and annualized test year revenues MFR Schedule B-2 and B-3.
22. Annualizing test year wastewater revenues for Marion County results in an increase of \$11,374.
23. Adjustments shall be made to O&M expense allocated from Cost Centers 603 and 639 for items not related to UIF's operations and for unsupported costs. With regard to Orange County, water O&M expenses shall be reduced by \$121. With regard to Seminole County, water and wastewater O&M expenses shall be reduced by \$978 and \$529, respectively. With regard to Pasco County, water and wastewater O&M expenses shall be reduced by \$574 and \$212, respectively. With regard to Pinellas County, water O&M expenses shall be reduced by \$117.

24. The balance in the UIF Office cost center 600 to be allocated to O&M expense for the various systems in this case shall be reduced by a net amount of \$50,167, as follows.

<u>Reason</u>	<u>Amount</u>
Expenditure not supported by invoice	(\$5,801)
Expenditure not related to UIF systems	(\$1,219)
Legal fees to be deferred pending outcome of lawsuit	(\$2,398)
Legal fees related to a specific UIF system	(\$3,010)
Computer maint. fees not representative of annual cost	(\$3,000)
Non-recurring extraordinary insurance loss	(\$20,825)
Amortization of insurance loss	\$4,165
Amort. of fees related to condemnation to be deferred	(\$19,345)
Amortization of capitalized costs	\$1,266
Total	(\$50,167)

25. Purchased Wastewater Expense shall be reduced by \$23,770 for Pasco County and increased by \$23,770 for Seminole County to correctly classify invoices from the City of Sanford. Further, the utility failed to remove excess accruals or reversals from its MFRs. The following adjustments are required to properly report the actual invoiced amounts for the 12-month period ended December 31, 2001.

<u>County</u>	<u>Account(s)</u>	<u>Water</u>	<u>Wastewater</u>
Marion	615	(\$818)	\$0
Orange	610	(\$3,200)	\$0
Pasco	610/710	(\$600)	\$6,750
Pasco	710	\$0	\$0
Seminole	610/710	(\$175)	(\$9,300)

Further, O&M expenses shall be decreased by \$719 for Pasco County wastewater Account 720 and \$1,894 for Seminole County water Account 610 to remove unsupported costs. Legal fees charged to UIF Cost Center 600 of \$3,011 shall be removed and directly charged to the

Summertree PPW system in Pasco County. Water Account 633 and Wastewater Account 733 shall be increased by \$2,199 and \$812, respectively.

26. The utility's property tax expense shall be adjusted as follows for reallocations and corrections of errors:

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$4,225)	(\$609)
Orange	(\$1,953)	\$0
Pasco	(\$7,288)	\$5,587
Pinellas	(\$736)	\$0
Seminole	\$2,946	\$127

27. For all counties or systems receiving rate relief in this case, the BFC/gallongage rate structure shall be maintained. The general service gallongage charge shall be 20 percent greater than the residential service gallongage charge. A residential wastewater gallongage cap of 10,000 gallons per month shall be approved for Marion County. If Pasco County is granted rate relief, the current wastewater residential gallongage cap of 6,000 gallons per month shall be maintained for the Summertree/Paradise Point system. If Seminole County is granted rate relief, a wastewater residential gallongage cap of 10,000 gallons per month shall be approved.
28. For those counties or systems receiving rate relief in this case, the appropriate adjustment shall be calculated using the methodology contained in Staff witness Yingling's testimony.
29. To establish the proper refund amount, a revised interim revenue requirement shall be calculated utilizing the same data used to establish final rates. Rate case expense and other pro forma adjustments that were not incurred during the interim collection period shall be removed. This adjusted interim period revenue requirement shall be compared with the final revenue requirement, after miscellaneous service revenues have been removed.
30. UIF shall submit, within 90 days after the date of the final order in this docket, a description of all entries or

adjustments to its future annual reports, books and records, and other financial reports as required by the Commission in this rate case.

Category 2 Stipulations

Those stipulations which the utility offered and staff supported, but upon which OPC took no position, are set forth below:

31. The gallonage allotment in the base facility charge (BFC) for the Buena Vista and Wis-Bar water systems in Pasco County shall be discontinued.
32. The utility shall be allowed to convert to monthly billing in those systems in which bi-monthly billing currently exists.
33. No revenue requirement reallocations from wastewater systems to water systems shall be made.
34. For those counties granted rate relief in this proceeding, the appropriate water rate structure for the systems located in the Southwest Florida Water Management District is the rate structure discussed in the testimony of staff witness Yingling, and for those systems located in the St. Johns River Water Management District, the appropriate water rate structure is the rate structure discussed in the testimony of staff witness Jenkins.
35. The utility shall file an amendment application by October 1, 2003, to include the Bear Lake and Crystal Lake area it is currently serving outside its territory. The amendment application shall be processed administratively.

Stipulations Reached at Hearing

The following issues were stipulated at the hearing:

36. The quality of service provided by the utility is satisfactory.
37. No additional adjustments are necessary to properly reflect the condemnation and resulting retirement of the Lincoln Heights wastewater treatment plant.
38. The appropriate cost rate for short-term debt shall be 5.18%.

Directed Verdict

At the hearing, OPC moved to enter a directed verdict on two issues. These were issues to which OPC witnesses filed testimony and to which the utility filed no direct or rebuttal testimony or exhibits, nor did the utility cross-examine the OPC witnesses on these issues. The utility did not oppose OPC's motion. We granted OPC's motion, which results in the following determinations:

39. The Company's Oakland Shores water system in Seminole County treats its own water but has an automatic interconnection with the city of Altamonte Springs. Test year purchased water expense for the Oakland Shores system shall be reduced by \$1,632 to reflect a normalized level.
40. Test year uncollectible expense for the Weathersfield water system in Seminole County shall be reduced by \$538 to reflect the four-year average, normalized expense level.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is shown on Schedules Nos. 1-A and 1-B, and our adjustments are itemized on Schedule No. 1-C, for each County. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Televideo Inspection Charges

All parties agree that the televideo inspection charges in Seminole County were fully amortized before the test year. Therefore, no adjustments are necessary.

Adjustments to UPIS for Common Plant Allocations

Allocable Rate Base from Affiliate

In its MFRs, the utility included an allocation of \$82,012 of net plant (out of a total of \$2,217,295) from WSC, a Utilities, Inc. subsidiary which provides administrative services such as billing to UI's operating subsidiaries. This amount was then allocated among the UIF operating systems.

Staff witness Welch testified that she was the primary auditor for the Affiliate Transactions (AT) audit of the allocations among the affiliated companies of UI and UIF. In Audit Exception 1 of the AT audit report, Witness Welch recommended two adjustments to WSC's allocable rate base: a decrease of \$8,817 in plant for invoices which could not be located, less \$4,849 of associated accumulated depreciation, and reductions of \$56,774 and \$120,817 in computer equipment for missing invoices and unrecorded transfers, respectively. Witness Welch also noted that WSC was unable to provide purchase dates for its computers, thereby making it impossible for our staff to determine the appropriate amount of accumulated depreciation related to the computer adjustments, and that the adjustments by themselves would have resulted in a negative balance in the computer accounts. Accordingly, she recommended that the balances in the WSC computer and associated accumulated depreciation accounts be adjusted to zero, a net decrease of \$100,202.

In Audit Exception 5 of the AT report, Witness Welch recommended removal of \$46,529 in deferred finders' fees from WSC's rate base, citing this Commission's decision in Order No. PSC-98-0524-FOF-SU, issued April 16, 1998, in Docket No. 971065-SU, In Re: Application for rate increase in Pinellas County, by Mid-County Services, Inc. The adjustments recommended above result in a total decrease of \$150,699; however, in Exhibit 1 of the AT audit report, Witness Welch also recommended removal of \$339,113 in deferred tax credits which WSC had included as a negative amount in its

allocable rate base. The net result of Witness Welch's adjustments to WSC's rate base has an increase of \$188,414.

In its brief, UIF stated that it accepts the auditors' adjustments, with the exception of computers, for which the adjusted balance should be \$61,490, with accumulated depreciation of \$34,721. On rebuttal, UIF witness Lubertozzi stated that the company filed a response to the WSC audit. The utility's response stated that the company's inventory listing includes computers still in WSC's inventory, for which the company calculated the above balances. The company's response referenced an attached spreadsheet entitled "Water Service Corp.- Minicomputer Plant Assets" for details.

On cross-examination by OPC, witness Welch was asked if she received a schedule of computer purchases in connection with this case. Witness Welch stated that she did not recall receiving the schedule in connection with this case, but might have received it during a subsequent audit. She speculated that the schedule might have been filed with the Commission, but that she had not had access to it in time to audit the schedule in connection with this case.

We have examined the exhibits filed with witness Lubertozzi's rebuttal testimony, and find no spreadsheet or schedule included that details computer inventory amounts. Accordingly, we find that witness Welch's recommended adjustment to computer allocations is appropriate.

OPC did not address the issue of the auditors' recommended adjustments to rate base at the WSC level. OPC witness Dismukes confined her testimony to the method of allocating rate base from WSC to UIF, and uses the utility's allocated amount, \$82,012, as the starting point of her alternative recommended adjustment. Nor did OPC witness DeRonne address findings included in the AT audit report. Witness DeRonne did refer to Exception 8 of the UIF audit report, in which staff witness Small incorporated witness Welch's adjustment to WSC's allocable rate base in his recommended adjustment to the allocation of WSC rate base among UIF's systems. Witness DeRonne stated that she did not incorporate the auditors' adjustment to allocated rate base because witness Dismukes recommended a 100% disallowance. Further, the schedules submitted

with witness DeRonne's testimony reflect a 100% disallowance of allocated plant, without further explanation.

To summarize, staff witness Welch has recommended net adjustments which would increase WSC's allocable rate base by \$188,414 to \$2,405,709. We find that the utility has not effectively rebutted witness Welch's recommended adjustment to remove computer equipment from the WSC rate base. OPC has not addressed the issue of the total amount of WSC rate base. Accordingly, we find that the total allocable WSC rate base is \$2,405,709.

Allocation Methodology for Affiliate Rate Base

In Disclosure No. 2 of the AT audit report, OPC witness Welch expressed concern with the utility's method of allocating costs from WSC to the various operating subsidiaries of UI. She noted that the company uses 11 different allocation factors, most of which are based on customer equivalents. She then described the process by which customer equivalents are derived from "single family equivalents" which are recorded as of June of each year. Witness Welch stated that the company could not provide a formula or methodology for determining the single family equivalent number.

Witness Welch stated her belief that not having a formalized methodology could cause inconsistency between divisions. She noted that she attempted to calculate an allocation based upon ERCs in order to evaluate by comparison the reasonableness of UIF's system, but that the utility was unable to provide the details of gallons pumped or treated by system required for the ERC calculation. Witness Welch opined that the company should be required to provide a calculation based on ERCs for comparison with its customer equivalent allocation method. During cross-examination by UIF, Witness Welch was asked whether this Commission had a rule which sets forth a specific method of allocating expenses; she stated that there was no rule for water and wastewater utilities.

In Exception 8 of the UIF Audit Report, staff witness Small accepted witness Welch's adjusted allocation of \$88,684 of WSC rate base to UIF. This amount was based upon applying the utility's allocation percentages to witness Welch's adjusted allocable rate base calculation. Witness Small then noted that the utility's method of allocating the WSC rate base did not reconcile to any

methodology presented by UIF. He recommended allocating the WSC allocation between UIF systems using the same methodology used by UIF to allocate its common rate base.

On direct examination, OPC witness Dismukes discussed the organizational structure of UIF, UI and Nuon (UI's parent). She noted that WSC provides services to UIF and charges for these services. Witness Dismukes expressed concern that, even where methods of charging and allocating costs are explicitly stated, transactions between closely affiliated entities with common ownership should be subject to strict regulatory scrutiny. She stated that there is no agreement setting forth the terms of the affiliate relationship and cost allocations between UIF and WSC.

Witness Dismukes acknowledged the existence of the document, "Water Service Corporation Distribution of Expenses," which shows amounts to be allocated, allocation factors and amounts allocated to UI subsidiaries for the test year. She testified, however, that this document does not explain how the factors were derived, or why specific factors were used. She stated that lack of a formal methodology could lead to errors, confusion and inconsistency. Further, she called attention to audit staff's similar concerns.

OPC witness Dismukes called attention to this Commission's decision in a recent case involving another UI subsidiary. See Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU, In Re: Application for rate increase in Pinellas County, by Mid-County Services, Inc., at p. 28. Witness Dismukes noted that the Commission ordered that cost allocations be recalculated using ERCs. Further, she testified that in the current proceeding, UIF could not provide the information to perform a calculation based on ERCs. Witness Dismukes described calculations which she performed to illustrate the differences between allocations based upon customers, ERCs, customer equivalents and revenue, which she stated illustrate the different allocation amounts which could result, depending upon the method chosen.

Witness Dismukes further testified that WSC provides services to an unregulated affiliate (Bio Tech) and to four systems not owned by UI. She contended that the customer equivalent allocation used by UIF does not take into consideration the differences between Bio Tech's operation and those of traditional affiliates.

Further, she argued that no costs were allocated to the unregulated systems, thereby resulting in excessive costs being allocated to UIF. Witness Dismukes also claimed that the utility's practice of identifying allocation factors as of June for test years ending in December fails to take into account new systems added after the measurement date. She also stated her belief that the utility's filings did not comply with Rule 25-30.436(h), Florida Administrative Code, which specifies requirements for reporting allocated affiliated costs.

OPC witness Dismukes recommended that all costs allocated from WSC to UIF should be disallowed from this proceeding. She cited the deficiencies in the allocation methodology enumerated in her testimony and the utility's failure to comply with this Commission's rule as evidence that the utility had not met its burden to demonstrate the reasonableness of its expenses. She referred to this Commission's disallowance of allocated affiliate costs in a recent case as precedent for her recommendation. See Order No. PSC-96-1338-FOF-WS, issued November 7, 1996, in Docket No. 951056-WS, In Re: Application for rate increase in Flagler County, by Palm Coast Utility Corporation, at pp. 67-69.

Witness Dismukes also provided an alternate recommendation if we do not adopt her primary recommendation of 100% disallowance of affiliate costs. She described a methodology using net plant, revenues, and customer equivalents, which she believed provided a broader base of statistics, thereby compensating for some of the deficiencies of relying on a single statistic such as the customer equivalent factor. Witness Dismukes' alternative recommendation results in a reduced allocation of WSC rate base to UIF of \$66,486, a decrease of \$15,526 from the utility's thirteen-month average calculation. Her exhibit also provided revised allocation percentages between UIF's facilities.

Under cross-examination by UIF, witness Dismukes agreed that this Commission does not have a rule which sets forth a particular methodology for allocating related party costs. She also agreed that in the Mid-County decision, this Commission did not explicitly reject UI's allocation method for all of its systems. Witness Dismukes further agreed that, in order to obtain an official filing date for a rate case, a utility must meet the Commission's MFRs. When asked whether WSC provides the same level of service to non-owned utilities as to those owned by UI, she stated that it does

not. Further, when asked if she would assume that such utilities would be treated the same as owned utilities for allocation purposes, witness Dismukes stated that she would not so assume, and pointed out that her alternate methodology gave such facilities only one-third weight.

On rebuttal, UIF witness Lubertozzi testified that he did not agree with OPC witness Dismukes' contention that all of the expenses allocated from WSC should be disallowed or that they should be calculated using her alternate methodology. He stated that he believed UI's allocation method is equitable, and that it had been used in recent rate proceedings of other UI subsidiaries in Florida, as well as in UIF's last two rate proceedings. Witness Lubertozzi provided a description of UI's allocation methodology which did not differ significantly from the descriptions provided by staff and OPC witnesses. He defended UI's methodology, using as an example the situation of two apartment buildings, each using a single 2-inch meter. According to witness Lubertozzi, if one of the buildings had 35 tenants and the other had 40, the customer equivalent methodology would be appropriate because "the number of customers coupled with consumption and other factors drive capital investments and related operating expenditures." He did not provide any additional data or calculations to support this assertion.

Witness Lubertozzi stated that UI is currently studying its allocation methodology with the intent of developing a written policy. He testified that any change in allocation method would affect allocations to all UI entities and would require approval by all states regulating UI subsidiaries before it could be applied. Witness Lubertozzi stated that the costs of a sweeping methodology change would be in the hundreds of thousands of dollars, which would have to be passed on to customers, and that such a change would be opposed by some state regulatory agencies.

On cross-examination by OPC, UIF witness Lubertozzi was asked whether he thought it would be possible to obtain approval from all affected regulatory agencies prior to implementing a change in allocation method. He responded that he did not know whether it could be done, but that UI would make a business decision to obtain such approval before implementing the change. When cross-examined about UI's policy of not allocating costs to non-owned utilities, witness Lubertozzi stated that this results from a business

decision that such companies do not receive the same level of service from WSC as do subsidiaries. Upon redirect examination, witness Lubertozi stated that UI had analyzed the effect of not allocating WSC costs to non-owned entities. He did not know the exact number, but maintained that, after spreading it over 81 UI-owned systems and 270,000 customers, the effect would be immaterial.

There appears to be no dispute among the parties that WSC provides services to UIF that the utility would otherwise have to obtain by hiring additional personnel, or by contracting with some other party. Similarly, there appears to be no dispute that WSC owns assets which it uses for the purpose of providing services to UIF and other UI affiliates. We find nothing in the record to suggest that the concept of allocating costs incurred by a management company, such as WSC, is inappropriate. As previously discussed, this Commission's auditors examined the books and records of WSC, and, after making a number of adjustments, recommended that \$2,405,709 of net plant was appropriately allocable to the entities receiving service from WSC. We find that such costs, when verified and equitably allocated, are part of the utility's cost of providing service and are appropriately included in rates. Accordingly, we do not agree with OPC's primary recommendation to remove 100% of the costs and plant allocated to UIF from WSC.

It appears that the parties are in agreement that this Commission does not have a rule requiring the use of any particular method for allocating costs between affiliates. Nevertheless, we agree with OPC that the utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982). Utility witness Lubertozi stated that UI believes that its allocation method is equitable, and that it "has been approved or accepted in all states in which Utilities, Inc. operates." UIF has presented no evidence of such acceptance in other states. Further, there is nothing in the record of this case to indicate that the utility evaluated other allocation methods before selecting its current method. Finally, this Commission's findings in the Mid-County case should have put UIF on notice that, in Florida, the use of customer equivalents as a primary allocation factor is not considered acceptable. In the Mid-County decision, this Commission stated:

We disagree that the utility's methodology is reasonable. The deficiency and inaccuracy of this method is that it makes no allowance for wide variations in average customer usage from one system to another. Normally, a utility parent with multiple discrete systems will adopt an allocation method which accounts for the possibility that average customer usage for one system (or subsidiary) may far exceed the average for another system. The method proposed by Mr. Davis does take into consideration the size of the system. Further, it uses an established factor that has been accepted by this Commission.

The utility's term customer equivalent implies that each customer equivalent is equal to one customer. However, this is not correct. The utility is going beyond the meter to count units, which are not customers. In reality, each of these multi-residential units only represents one customer to the utility, since there is only one meter. For 1996, Mid-County only averaged 1,507 customers or 2,943 ERCs, compared with 6,112 customer equivalents as calculated by the utility. Rule 25-30.210(1), Florida Administrative Code, defines a customer as: "any person, firm, association, corporation, governmental agency, or similar organization who has an agreement to receive service from the utility". By counting each unit as a customer, UI has substantially overstated the cost that Mid-County places on the overall Utilities, Inc. system. These units do not represent customers to the utility, as defined above, and the utility has not provided proof that they represent any real costs. Therefore, we find that an allocation based on customers is more reasonable than using customer equivalents.

Order No. PSC-99-1912-FOF-SU at pp. 27-28.

OPC witness Dismukes stated that the calculation method used for her alternate proposal used net plant, revenues and customer equivalents as factors. She asserts that this methodology "overcomes the problems of using a single statistic to allocate costs." We find that Witness Dismukes' method is itself unnecessarily complex, and its use of customer equivalents as one

of the factors is flawed for the reasons described in this Commission's Mid-County decision. See Order No. PSC-99-1912-FOF-SU at pp. 24-28. We find that use of ERCs as an allocation factor is preferable, but we note that the utility was unable to provide the necessary data for all UI systems to allow our staff or OPC to calculate ERCs for each system. Accordingly, we find that the alternate allocation percentages recommended by witness Dismukes are more reasonable than those presented by UIF and they shall be used in this case. UI shall use ERCs as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable test year as the measurement date.

The following table reflects the allocation of WSC net plant requested by UIF, our approved allocation and our approved adjustments for each UIF system. The total amount allocated to UIF was calculated by applying OPC's alternate allocation percentage (3.03%) to our approved total allocable amount (\$2,405,709). The allocation percentages between systems are based upon OPC's alternate recommendation, as shown in Exhibit 14, Sch KHD-1, Sch 12.

	UIF Requested Allocation, per MFRs, Sch A-1 and A-2	Commission Approved Allocation	Percent	Commission Approved Adjustments
Marion Water	\$4,925	\$5,034	6.91%	\$109
Marion Wastewater	733	750	1.03%	17
Orange Water	3,994	1,843	2.53%	(2,151)
Pasco Water	25,310	19,498	26.77%	(5,812)
Pasco Wastewater	7,905	6,090	8.36%	(1,815)
Pinellas Water	6,750	3,569	4.90%	(3,181)
Seminole Water	21,037	23,414	32.15%	2,377
Seminole Wastewater	<u>11,358</u>	<u>12,641</u>	<u>17.35%</u>	<u>1,283</u>
Total	<u>\$82,012</u>	<u>\$72,839</u>	<u>100.00%</u>	<u>(\$9,173)</u>

For the foregoing reasons, we find that the utility's method of allocating common costs from Water Service Corporation (WSC) based on customer equivalents (CEs) is unsupported, as well as

unreasonable. The following adjustments shall be made to allocated plant to reflect corrections to the utility's method of recording allocations from WSC.

WSC Allocations of Common Plant

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	109	17
Orange	(2,151)	0
Pasco	(5,812)	(1,815)
Pinellas	(3,181)	0
Seminole	2,377	1,283

Further, UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

Adjustments for Contribution from City of Altamonte Springs

OPC witness Dismukes testified that UIF entered into a contract with the City of Altamonte Springs (City) for the exclusive right for the City to provide wholesale wastewater service to the Weathersfield system. The contract provided that the City would pay UIF \$107,000, and witness Dismukes testified that this amount should be treated as a contribution on UIF's books. Further, she stated that rather than reflecting these funds on the books of UIF, the utility recorded the contribution on the books of the parent company. The company did not provide an explanation why these funds were not treated as a contribution on UIF's books and records. Because this contribution appears to compensate UIF for the exclusive right to service these customers, witness Dismukes testified that these funds should have been used to lower the rates charged to Seminole County customers. Further, she stated that the agreement between the City and UIF was for a period of 30 years. As such, she amortized the contribution over 30 years for an increase to test year amortization and accumulated amortization of CIAC of \$3,567 and \$1,783, respectively. This resulted in a total reduction to rate base of \$105,217 for Seminole County.

On cross-examination by OPC, utility witness Lubertozzi stated that he provided no testimony nor filed any exhibits related to this issue. The utility argued, in its brief, that UIF did not receive any CIAC from the City, although it did not have any evidence to support this statement. UIF referenced Rule 25-30.515(3), Florida Administrative Code, which defines CIAC as:

... any amount or item of money, service, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public....

UIF argued in its brief that in order for the payment from the City to be CIAC, it must be for the purpose of offsetting the acquisition, improvement or construction costs of the utility's property, facilities or equipment used to provide utility services. On cross-examination by UIF, witness Dismukes agreed with a generic definition of CIAC. However, the utility failed to connect the definition to the facts regarding this issue. Regardless, the utility continued to argue that the payment by the City was for none of those purposes, was not CIAC, and could not be booked as CIAC under the NARUC USOA.

In its brief, OPC argued that this Commission can only consider the facts as presented in the record. The only factual testimony in the record was that of witness Dismukes which was not refuted. That testimony indicated that the \$107,000 payment was for the exclusive right to treat the wastewater from the customers in the Weathersfield system. In addition, OPC noted that from UIF's questions at the hearing and its position in the prehearing order, it appeared the utility was focusing on the semantic issue of whether the payment should be called CIAC. OPC argued that the issue of substance was who should have benefitted from the financial effect of the payment, not whether or not the payment was CIAC.

We agree with OPC that the only record support on this issue was provided by witness Dismukes. Her testimony indicates that the \$107,000 payment was for the exclusive right to treat the

wastewater from the customers in the Weathersfield system and was utility related. The utility had ample opportunity to rebut or cross-examine witness Dismukes on the facts or nature of this payment to the utility. Further, the rule defining CIAC states that CIAC can be received from a government agency, and that CIAC represents a cost-free addition of capital to a utility. Based on the record, both of these instances are consistent with the definition of CIAC in the rule.

Further, the utility did not explain why the parent recorded the contribution instead of UIF. We find that if it had been proper to record the payment at the parent level, the utility would have had to show that the transaction was non-utility in nature. No evidence was put forth to support anything otherwise. Thus, we find that witness Dismukes' uncontroverted testimony reflects that these funds were CIAC and should have been used to lower the rates charged to Seminole County customers. Based upon the foregoing, Seminole County CIAC shall be increased by \$107,000 to reflect the wastewater contribution received from the City of Altamonte Springs. Corresponding adjustments shall also be made to increase accumulated amortization of CIAC and test year amortization of CIAC by \$1,783 and \$3,567, respectively.

Working Capital

For the historical test year ended December 31, 2001, the utility used the balance sheet approach to calculate working capital, which is appropriate for a class A utility. The utility calculated total company working capital to be \$1,634,531 and allocated it to each of the utility's systems based on O&M expenses.

As previously discussed, we have hereby approved two adjustments to UIF's total company working capital that were stipulated by the parties. Pursuant to Stipulation No. 16, which states that UIF's total working capital shall be reduced by \$1,426,034 to reflect overstated cash, overstated current liabilities, and use of year-end balances, the appropriate balance of working capital is \$208,497. Pursuant to Stipulation No. 17, working capital shall be allocated based on the Commission-approved balances of O&M expenses by system. The following adjustments shall be made to the amount of working capital allocated to each of UIF's operating systems:

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$101,443)	(\$41,340)
Orange	(\$69,395)	\$0
Pasco	(\$205,937)	(\$226,005)
Pinellas	(\$25,370)	\$0
Seminole	(\$346,797)	(\$409,746)

After making the appropriate adjustments as discussed above, our approved O&M expenses and relative ratios for each UIF system are as follows:

<u>County</u>	<u>Commission Approved O&M Expenses</u>	<u>% to Total</u>	<u>Allocated Working Capital</u>
Seminole Water	\$381,882	24.27%	\$50,602
Seminole Wastewater	423,081	26.89%	56,061
Pinellas Water	44,164	2.81%	5,852
Pasco Water	289,153	18.38%	38,315
Pasco Wastewater	221,911	14.10%	29,405
Marion Water	101,002	6.42%	13,383
Marion Wastewater	26,969	1.71%	3,574
Orange Water	85,324	5.42%	11,306
	<u>\$1,573,486</u>	<u>100.00%</u>	<u>\$208,497</u>

Based upon the foregoing, we find it appropriate to approve a working capital allowance of \$208,497 allocated to the five counties based on the adjusted balances of O&M expenses by county.

<u>County</u>	<u>Amount Per MFRs</u>	<u>Commission Adjusted</u>	<u>Commission Approved</u>
Seminole Water	\$397,399	(\$346,797)	\$50,602
Seminole Wastewater	465,807	(409,746)	56,061
Pinellas Water	31,222	(25,370)	5,852
Pasco Water	244,252	(205,937)	38,315
Pasco Wastewater	255,410	(226,005)	29,405
Marion Water	114,826	(101,443)	13,383
Marion Wastewater	44,914	(41,340)	3,574
Orange Water	80,701	(69,395)	11,306
Total Working Capital	<u>\$1,634,531</u>	<u>(\$1,426,034)</u>	<u>\$208,497</u>

USED AND USEFUL

Used and Useful Findings in Prior Cases

UIF states that this Commission's own orders clearly recognize that the Commission is not bound by prior decisions in determining a utility's used and useful percentages. Witness Seidman testified that he believed the Commission was, in general, bound to prior case decisions, unless something was shown that in a prior decision, inaccurate information was used or a mistake was made.

According to UIF, the real issue, as it relates to this case and the evidence presented, is whether this Commission should adopt OPC's position and afford so little dignity and recognition to its prior determinations that it is as if the prior used and useful findings were never made. UIF argues that the burden is on the party recommending less than 100% used and useful to prove that the Commission erred in its earlier decision, or that circumstances have changed to such a great extent that the prior result is no longer valid. According to UIF, OPC has not produced evidence upon which a used and useful determination of less than 100% for the particular facilities here at issue may be made, much less evidence sufficient to overcome the significant burden which the dignity of the Commission's prior order deserves.

In its brief, OPC argues that the utility did not perform any used and useful calculations for the water systems or for the wastewater collection systems. According to OPC, the utility's systems should not automatically be considered 100% used and useful because some changes have occurred to each system, and because the systems are not built out.

According to OPC, used and useful percentages considerably less than 100% are found when the appropriate lot to lot or connected ERCs to total available ERCs rationale or methodology is correctly applied. Witness Bidy's calculations contained in Exhibit 10, TLB-3, demonstrate the correct used and useful percentages by applying the Commission's long recognized methodology. OPC argues that this Commission should utilize its established methodology with the most current information to determine the used and usefulness of utility systems. If the results of that analysis yield a lower used and useful percentage

than approved in earlier cases, the Commission should adopt the updated lower numbers.

The briefs filed in this case show that the parties agree that this Commission is not required to automatically apply the same used and useful percentages as were previously applied in prior cases. We agree with the parties on this point. (See, e.g., Order No. PSC-96-1338-FOF-WS at pp. 44-45, issued November 7, 1996, in Docket No. 951056-WS, In Re: Application for rate increase in Flagler County by Palm Coast Utility Corporation) (finding that there are several scenarios which might be considered in determining the appropriate used and useful percentage for a specific rate case, which could result in a lower used and useful percentage from that approved in a prior rate case, even if the previous investment is affected).¹

We disagree with UIF that the burden is on OPC, as the party recommending less than 100% used and useful, to prove that this Commission erred in its earlier decision, or that circumstances have changed to such a great extent that the prior result is no longer valid. Certainly the burden of going forward with evidence shifted to OPC during the course of the proceeding, to show that the used and useful percentages should differ from what UIF requested in its MFRs. However, in a rate case filed by the utility, the burden is on the utility to prove that the requested rate increase is warranted. Florida Power Corp. v. Cresse, 13 So. 2d 1187, 1191 (Fla. 1982) (finding that the burden of proof in a Commission proceeding is always on a utility seeking a rate change, and upon other parties seeking to change established rates). And Section 367.081(2)(a), Florida Statutes, requires this Commission to consider the used and usefulness of a utility's property when setting rates.

Our decision on the used and usefulness of UIF's systems shall be made based on the evidence of record. In Exhibit 5, on Engineering Schedules F-5, F-6, and F-7 of its MFRs, the utility performed used and useful calculations for its water treatment plants, wastewater treatment plants, and water distribution and

¹Affirmed in part and reversed in part on other grounds by Palm Coast Util. Corp. v. FPSC, 742 So. 2d 482 (Fla. 1st DCA 1999).

wastewater collection systems, respectively. In lieu of the used and useful calculations, the utility noted on those schedules, where applicable, that this Commission had made used and useful findings in a prior docket. Importantly, with the exception of the Weathersfield system in Seminole County which was purchased by the City of Altamonte Springs since the last rate case, the utility further noted on such schedules that there have been no significant changes in the systems.

A review of the Seminole County MFRs, Schedules F-5 of Exhibit 5, shows that a calculation was made by the utility for every water treatment plant in Seminole County. Calculations were not made for distribution and collection systems. In the Marion County MFRs, used and useful calculations were prepared on Schedule F-5 for the water plant and Schedule F-7 for the distribution and collection system. Used and useful calculations were performed in the Pasco County MFRs on Schedules F-5 for the Bartelt, Summertree, and Orangewood water systems. Calculations were not made for distribution and collection systems. MFRs for Pinellas County show used and useful calculations for the water plant, but no calculations for the distribution system. The Orange County MFRs show no used and useful calculations for water plant or distribution systems, and instead state that water is purchased from another supplier, and that this Commission found the systems to be 100% used and useful in prior cases. OPC has not shown that there have been any significant changes to the plants or systems.

Staff witness Redemann testified that prior Commission determinations should be considered in the determination of used and useful. As an example, he used the Little Wekiva system, which has 61 customers with a system that has been in the ground for a long time, without any changes in 40 or 50 years. No territory has been added to its certificate, and this Commission previously found the system to be 100% used and useful. He agreed with the Commission's prior determination.

Witness Redemann was asked about this Commission's findings in Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utils., Inc. In that case, this Commission found it appropriate to authorize a decreased level of used and useful plant if it was indicated through the application of the lots connected to the lots available

methodology, which methodology was adopted in that order. Witness Redemann acknowledged this Commission's finding that used and useful can be determined based on the number of connected lots, and that used and useful may be reduced based on the lot count methodology. However, he testified that he considered the systems in this case to be 100% used and useful based on the age of the system, this Commission's prior finding that the system was 100% used and useful, and that no change has occurred since that decision.

When a rate case is filed, prior Commission orders involving the same systems or system components from prior rate cases should be reviewed and considered as part of the analysis in the current rate case proceeding. This review provides background data concerning what issues were of concern in the prior case, and how those issues were addressed. This Commission makes a prospective used and useful finding in every rate case, and sometimes concludes, after weighing the evidence, that the plant and/or system is 100% used and useful as had been found in a prior case. If no modifications have been made to change the plant capacity, to alter the distribution or collection system, to enlarge or diminish the certificated area, to affect the customer base, to correct an error in a prior calculation of used and useful percentages, or to change the Commission's previous used and useful methodology, it is likely that the used and useful conclusion will be the same in a current proceeding before this Commission as it was in a prior proceeding.

In every rate proceeding, we must consider "all property used and useful in the public service." Section 367.081(2), Florida Statutes. The Legislature, however, has not prescribed the methodology that this Commission must follow in doing so. Instead, the Legislature has provided this Commission with "considerable discretion and latitude in the rate-fixing process." Gulf Power Co. v. Bevis, 296 So. 2d 482, 487 (Fla. 1974). By its very nature, "ratemaking is never truly capable of finality." Sunshine Utilities v. FPSC, 577 So. 2d 663, 666 (Fla. 1st DCA 1991). Because of the prospective nature of ratemaking, this Commission is not bound to follow used and useful findings from its previous orders. Section 367.081(2), Florida Statutes; Citizens v. FPSC, 435 So. 2d 784, 786 (Fla. 1983).

Based upon the foregoing, we find that this Commission is not obligated to find a system to be 100% used and useful simply because we determined that system, or a component thereof, to be 100% used and useful in a prior case. In a rate case filed by the utility, the burden is on the utility to prove the used and usefulness of its systems. This Commission's decision on the used and usefulness of UIF's systems shall be made based on the evidence of record, and the Commission's prior decisions involving a system or component of a system should be reviewed and considered in making that decision.

Fire Flow

UIF requested a fire flow allowance be included in the used and useful analysis for six of its water systems. OPC believes that an allowance for two of these systems, Orangewood and Oakland Shores, should not be considered because of the limited number of fire hydrants in those areas.

As reflected in the utility's MFRs, UIF witness Seidman requested a fire flow allowance of 600 gallons per minute for its Oakland Shores system in Seminole County and 500 gallons per minute for its Orangewood water system in Pasco County. Witness Seidman believes that even though there are a limited number of hydrants in those areas, the company is responsible for providing the required fire flow for the hydrants and must have the capacity to do so. He testified that to deny the allowance would be to deny the utility the ability to recover the cost associated with a service which it is obligated to provide.

Witness Seidman testified that fire flow should be allowed for those systems that have a limited number of hydrants on lines that are of sufficient size to provide the capacity. He testified that, regardless of whether there is one or one hundred hydrants, if there is a requirement to provide fire flow, the utility must be able to deliver the flows required for the duration required, and the utility would be negligent by not providing the service. In addition, UIF witness Flynn, concerning Orangewood, and UIF witness Orr, concerning Oakland Shores, confirmed that the utility was not under any citation for any deficiencies in fire flow by the authorities.

OPC witness Bidy testified that fire flow should be recognized where fire flow was actually furnished. However, he did not include fire flow in systems where only a small portion of the service area was furnished fire protection and the majority of the service area had small water mains and no fire hydrants. In Exhibit 10, witness Bidy indicated that there are only three fire hydrants in the entire Oakland Shores system and only one fire hydrant in the Orangewood system. He contended that, at most, the fire flow demand required by a local jurisdiction should be considered only if such fire flow is actually furnished.

On cross-examination, witness Bidy acknowledged that a limited number of residences would benefit by having fire protection in those areas served by the fire hydrants. He conceded that the utility does need to have capacity for these hydrants, and that possibly a partial allowance could be made if some percentage formula existed to credit the utility for having fire flow to limited areas of the development. Although he does not know of any Commission rule or policy that provides that fire hydrants must be tested before fire flow is considered, he believes that it is not fair to the ratepayers to call it fire flow when it only exists to a tiny percentage of the development.

Staff witness Redemann did not agree with OPC's position on disallowing fire flow for the Orangewood and Oakland Shores water systems. He testified that the Commission has consistently recognized the need for fire flow protection and considers it in its determination of used and useful. He believes that it is important to allow the utility to include fire flow in its used and useful calculation if there is a local requirement to provide fire flow and fire hydrants exist in the service area. This is consistent with Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utils., Inc., in which this Commission found that, while the Commission does not test fire hydrants or require proof that hydrants are functional or capable of the flows requested, an investment in plant should be allowed.

On cross-examination, witness Redemann recognized that certain counties have a fire flow requirement and others do not. He went on to give examples as to why the gallonage rates for fire flow requirements vary. He was not aware of any jurisdiction requiring

retrofitting to provide fire flow when it is currently not provided. Witness Redemann maintained that, for systems with wells and high service pumping but no storage, the wells have to meet the fire flow demand along with the residential demand during any duration of time. For those systems without fire hydrants, fire flow should not be allowed. However, even if there is only one hydrant in the subdivision, he believes the fire department would use it to put out a fire. Therefore, the utility is required to provide fire flow at its fire hydrants.

In its brief, OPC argued that what OPC considers the capability to provide fire flow service differs drastically from what the utility and staff believe constitutes capability. If a utility fails to provide fire flow because it has virtually no fire hydrants and inadequately sized lines, OPC does not believe the utility should be rewarded by requiring the customers to bear the cost. Further, OPC argued that UIF has virtually no investment in fire flow.

OPC also argued in its brief that, because both the utility and staff express the fire flow in gallons per minute rather than the historically granted volume (the flow rate per minute for the required duration), the result would make all of the utility's water plants 100% or more used and useful. When considering a maximum daily flow peaked by a factor of two to obtain a peak hourly flow, modified by unaccounted for water and a 5 years growth rate, the results produced would be in favor of the utility. OPC recommends that the historical method of determining the used and useful percentage for source of supply and pumping is to add the maximum day volume to the volume of fire flow required for a two hour duration and divide by the maximum volume capacity for both wells pumping for 24 hours. Moreover, for source of supply and pumping, OPC contends that a second comparison, required by Ten States Standards, is the average daily flow compared to the firm reliable capacity. Both of its comparisons would result in a used and useful percentage far less than that calculated using flow rates and peaking the maximum daily flow by a factor of two.

We agree with the utility's position that fire flow for the Orangewood and Oakland Shores systems should be included in the used and useful analysis. There would be concern if the utility was cited by the appropriate authority for not having adequate fire protection. However, no evidence was offered to indicate such a

concern. We find that if fire protection is required, the utility has a responsibility to maintain sufficient capacity to furnish the service at the required rate and duration, even if that protection is only available to a limited number of customers in the service area. Therefore, the utility shall be allowed to recover the cost associated with maintaining fire flow capacity for the Orangewood and Oakland Shores systems. Whether the fire flow is expressed in gallons per minutes or total gallons for the required duration is dependent on whether customer demand and capacity are expressed in gallons per minute or gallons per day. This will be further addressed below.

Built-Out Systems

UIF believes that this Commission should consider all of the UIF water distribution systems and wastewater collection systems in this case to be 100% used and useful because they are built-out and have virtually no growth potential, with the exception of Summertree in Pasco County and Golden Hills/Crownwood in Marion County. Further, nearly all of the distribution and collection systems have previously been found to be 100% used and useful. OPC believes that calling a system built-out, when the calculated used and useful percentage is significantly less than 100%, ignores utility plant which is available to serve future customers and is unfair to current customers.

UIF witness Seidman testified that most of the UIF systems in this case are built-out. Only two of the seventeen systems, Summertree in Pasco County and Golden Hills in Marion County, have experienced any significant, measurable growth. He notes that in prior rate cases, this Commission found nearly all of the distribution and collection systems to be 100% used and useful. In this case, witness Seidman reviewed each system to determine whether there were any significant changes that would warrant a change in the previously determined used and useful factor. Since most of the systems have been at build out for some time, and no additions have been made to capacity or to the areas served, he believes that they are still 100% used and useful.

Witness Seidman testified that he did not recalculate used and useful for systems which this Commission had previously found to be 100% used and useful. He believes that, in general, the Commission is bound by what it has determined to be proper in another case

unless something can be shown in those decisions that was wrong or there was inaccurate information or mistakes. However, he agreed that this Commission could consider other information in making its decision.

On rebuttal, witness Seidman testified that witness Bidy relied on the strict mathematical calculation of lots served versus lots available as some sacrosanct formula to which reality and reason do not apply. He believes that if OPC's approach were used, there would be neither need nor opportunity for the Commission to exercise any judgment. Witness Seidman believes that it is perfectly reasonable for small, closed systems to be considered 100% used and useful even if some lots never receive utility service, as long as all the lines in place are required as a minimal backbone system for existing customers. He believes that is the gist of the Commission's previous findings for these systems.

In Exhibit 27, witness Seidman summarized customer activity information for the 15 water systems for which this Commission has previously made a determination of 100% used and useful. He pointed out that the exhibit shows that most systems have had negligible activity since the Commission's last findings. He believes that it is not unreasonable or unusual for the Commission to consider distribution and collection systems that are 80% or more built-out and have virtually no growth potential to be 100% used and useful.

OPC witness Bidy testified that the utility ignored the long standing and Commission-approved rationale and methodology for calculating used and useful. He testified that the only way to determine the correct used and useful percentage is to actually count the connected ERCs and divide that total by the count of available ERCs. He testified that witness Seidman's reference to prior dockets to justify a 100% used and useful percentage for each system is an incomplete analysis that does not take into account expansions in the systems, possible past errors of calculations, and other factors which may affect the used and useful percentages. Witness Bidy calculated that the systems were all between 13% and 100% used and useful and, therefore, many were far from built-out. However, on cross-examination, witness Bidy admitted that during his cursory examination of the service areas, he did not notice whether some customers have their own wells and septic tanks.

Staff witness Redemann agreed with the utility's proposal that all of its water distribution and wastewater collection systems should be considered 100% used and useful. He testified that all of the systems are built-out, with the exception of Summertree water and wastewater systems in Pasco County and Golden Hills water system in Marion County.

On cross-examination, witness Redemann explained that in evaluating the systems to determine if they were built-out, he looked at previous orders and the certificates to see if any additional territory had been added. He also noted whether there were houses on more than one lot, vacant houses, houses for sale, and houses with wells and septic tanks. After analyzing all of the data, comparing the number of lots and customers, and looking at the mathematical calculations of other witnesses, he determined that the systems were built-out. When asked if he was concerned about considering a system to be built out if the used and useful percentage was 80%, he responded that he was not, because most of the systems had very little growth. He also considered the age of the system, the size of the lines, and whether this Commission had previously found the system to be 100% used and useful.

Witness Redemann was asked to read a portion of Order No. PSC-96-1320-FOF-WS, the final order in the Southern States rate case in Docket No. 950495-WS. The order states that the Commission found it "appropriate to authorize a decreased level of used and useful plant if that is indicated through the application of the lots connected to lots available methodology for transmission, distribution, and collection lines." Witness Redemann agreed that the order appeared to say that the Commission found that the use of the lot count method was one of several factors that could be considered to change a used and useful determination made in a prior case. When asked whether he shared this view, he indicated that he did not because he considered these systems to be 100% used and useful based on the other criteria discussed in his testimony.

In its brief, OPC argued that the utility and staff used subjective impressions about the degree to which each service territory was built-out to conclude that virtually all of the systems were 100% used and useful. OPC believes that the Commission should apply the more objective and long-standing methodologies and conclude that very few of the systems are truly

built-out, and that used and useful adjustments are appropriate for many of the systems.

In this case, we find it appropriate it consider all of the UIF water distribution and wastewater collection systems to be 100% used and useful because they are built-out, with the exception of the Summertree water and wastewater systems in Pasco County and Golden Hills/Crownwood water system in Marion County. We agree that a system should not necessarily be considered 100% used and useful solely because the used and useful calculation is close to 100% or because it was found to be 100% used and useful in a prior case. Other factors should be considered, including whether there is an opportunity for additional customers to connect to the system, the age of the system and historical growth patterns, prior Commission findings, whether the existing system is the minimum size necessary to accommodate existing connections, whether there are private wells or septic tanks in the service territory, and houses on multiple lots. It is not unreasonable or unusual for this Commission to consider distribution and collection systems that are 80% or more built out to be 100% used and useful in instances where there is virtually no growth potential and the existing lines are the minimum size needed to serve the existing customers.

Used and Useful Methodology and Percentages - Water Systems

The parties generally agree that used and useful for the water systems is based on the customer demand plus a growth allowance, fire flow, and an adjustment for excessive unaccounted for water, divided by the capacity of the system. However, the utility, testifying staff, and OPC disagree on several of the specific methodologies used to determine these components. The parties' positions on the appropriate growth allowance, fire flow, and excessive unaccounted for water are also discussed elsewhere in this Order.

UIF's position is that all of the water systems, except two, are 100% used and useful because they are built-out. The two systems that are not built-out are 100% used and useful based on instantaneous demand criteria.

OPC's position is that each component of the water systems (wells, treatment, high service pumping, and storage) should be evaluated separately. All of the utility's storage facilities were

found to be 100% used and useful. Used and useful for wells and high service pumps were determined based on a comparison of an average of the five maximum days' demand in the test year to total capacity (based on pumping the wells for 24 hours) versus average day demand to firm reliable capacity. The largest percentage of the two comparisons was used. For the five systems with high service pumps, the used and useful analysis for the treatment facilities was based on the total treatment capacity. For systems with no high service pumps, the used and useful for the treatment facilities matches the wells. Growth can be based on either a positive or negative factor.

The following are witness Bidby's recommended used and useful percentages, as reflected in Exhibit 10, Sch. TLB-3:

	Wells/Pumps	Treatment	Storage	High Service Pumps
Bear Lake	100.00%	32.80%	100.00%	21.20%
Buena Vista	100.00%	100.00%		
Crescent Hts*				
Crystal Lake	100.00%	100.00%		
Davis Shores*				
Golden Hills	47.80%	47.80%		
Jansen	29.90%	29.90%		
Lake Tarpon	39.31%	39.31%		
Little Wekiva	100.00%	100.00%		
Oakland Shores	19.70%	15.70%	100.00%	17.80%
Orangewood	13.20%	13.20%		
Park Ridge	100.00%	100.00%	100.00%	5.90%
Phillips	100.00%	100.00%		
Ravenna Park	33.90%	24.20%	100.00%	27.20%
Summertree	27.50%	27.50%		
Weathersfield	56.30%	27.50%	100.00%	61.90%
Wis-Bar*				

* All water purchased through an interconnection with another water system.

Staff witness Redemann's position is that used and useful should be analyzed based on the total system, not the individual components. For systems with little or no storage, customer demand should be based on the estimated gallons per minute of demand in a peak hour and the capacity should be the firm reliable capacity expressed in gallons per minute. For small water systems that do not have adequate flow data, the peak hour demand should be estimated based on a criteria of 1.1 gallons per minute per ERC. For systems with storage, customer demand should be based on the single, peak day during the test year and the capacity should be based on 12 hours of pumping.

Customer Demand

There are significant differences of opinions among the parties as to the best way to quantify the customer demand placed on the utility's water systems. The utility used instantaneous flows to represent the customer demand for all of the UIF water systems. OPC believes that demand should be based on the average of the five maximum days when total capacity is used or the average annual demand if firm reliable capacity is used. Staff witness Redemann believes that, for systems with storage, the single maximum day, with no anomalies, should be used. For systems with little or no storage, witness Redemann believes that an estimate of the peak hour demand should be used. As one might expect, the utility's position will yield the most generous used and useful result and OPC's position will yield a much smaller used and useful result. Witness Redemann's position falls somewhere in between.

UIF witness Seidman testified that he made the determination as to whether demand should be evaluated on the basis of maximum day demand or instantaneous demand based on the availability of well capacity, storage capacity, and high service pumping. A system should be evaluated on the basis of instantaneous demand when the system has no storage facilities or storage of such little consequence that it would be unable to support even a peak hour demand.

Instantaneous demand is a design criteria that is used to estimate the water capacity that will be needed to provide the peak

demand for a development based on the total anticipated number of customers. Witness Seidman testified that peak system demand is served directly from the well pumps for systems without storage. As a practical matter, the well pumps see every instantaneous change in demand, and with no way to buffer that demand with storage, the well pumps must respond directly to those changes.

The resource that witness Seidman used to estimate instantaneous demand, Community Water Systems Source Book, begins with an estimate of 15 gpm for a single residential customer, but it quickly drops to 3.19 gpm/ERC for 100 customers, 1.54gpm/ERC for 500 customers, and reaches a limit of 1.07 gpm/ERC for systems with 1,000 or more customers. He believes that this is right in line with witness Redemann's proposed design criteria of 1.1 gpm/ERC for peak hour demand, which tends to support his method of estimating instantaneous demand.

Witness Seidman testified that the Commission has previously considered the concept of instantaneous demand. However, in each of those instances, peak hour demand was used as a proxy for instantaneous demand. He cited a rulemaking case in which this Commission considered the use of instantaneous demand. According to witness Seidman, what is primarily at issue here is not whether the concept of instantaneous demand is new or legitimate, but whether it is best represented by a peak hour proxy or by an estimate of diversified (coincident) instantaneous demand.

OPC witness Bidy testified that the proper method to determine used and useful is to evaluate the source of supply and pumping in accordance with the DEP rule for design of these facilities as set forth in Section 3.2.1.1 of Ten States Standards. The rule provides that the total developed groundwater source (well) capacity shall equal or exceed the design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service (firm reliable capacity). Witness Bidy interprets that rule to mean that two comparisons are required. The maximum day demand is compared to the total capacity and the average day demand is compared to the firm reliable capacity. The largest percentage of the two comparisons must be used to satisfy the Ten States Standards rule.

Witness Bidy used the average of the five maximum days of the maximum month to quantify customer demand rather than the single maximum day of the year. He testified that it is always better and more representative of the true maximum day flow to use the average of the five maximum days of the maximum month because the five day average would avoid such anomalies as fire flow, broken mains, or other large leaks.

Witness Bidy believes that witness Seidman's approach should not be used because the huge instantaneous flow almost guarantees a 100% used and useful percentage. According to witness Bidy, nothing in witness Seidman's rationale recognizes anything connected with the sizing criteria for water plants as mandated by the DEP. After analyzing prior cases, witness Bidy concluded that the Commission has never approved the use of instantaneous demand.

Witness Bidy also considers witness Redemann's peak hour numbers to be extremely high and overboard. When asked about meeting peak demands, witness Bidy referred to the change in water usage patterns and conservation that have dampened the peak demand over the years. He agreed that in a maximum day, some hours will have a higher demand and some hours will have a lower demand. However, he believes that five years of growth, fire flow, and at least 10 percent unaccounted-for water added to the maximum day demand should accommodate peak flows.

Staff witness Redemann testified that the utility must be able to meet the peak demands on the system. If storage capacity is available, the utility can meet the peak demand periods by relying on water stored in elevated or ground storage tanks that are filled during off-peak hours. However, if the system does not have storage, then the utility must meet the peak demand from its well capacity.

Witness Redemann testified that, for systems with storage, the single maximum day flow during the test year, as reflected in the utility's DEP monthly operating reports (MORs), should be used to quantify demand unless it appears that some extraordinary event, such as a main break or a fire, occurred during the period. According to witness Redemann, if such an anomaly is believed to have occurred during the single maximum day in the test period, the

average of the five highest days within a 30 day period during the test year should be used.

On cross-examination, witness Redemann was asked how he would determine what may constitute an anomaly. He responded by explaining his review of abnormally high events reported by the utility in its MFRs. He went on to say that the utility is required to report anomalies, like a fire or a main break, to DEP. Therefore, a single peak day in the test year should be used, unless there is some kind of leak or fire during that day. If he thought the maximum day was not appropriate, witness Redemann testified that he would use the average of the five highest days within a 30 day period.

Witness Redemann testified that for systems with little or no storage, the demand should be based on a peak hour instead of a peak day. Since utilities do not have hourly flow data, the peak hour demand should be estimated based on the maximum day flow divided by the number of minutes in a day (1,440) to get the average gallons of demand per minute for the maximum day. The average gallons per minute should then be multiplied times two to estimate the peak hour gallons per minute. The assumption is that the average gallons per minute on the peak day do not reflect the peak hourly demand and therefore, should be multiplied by two to recognize that the utility must be able to meet the peak hour demand. This method of estimating the peak hour demand is based on the AWWA Manual of Water Supply Practices, Distribution Network Analysis for Water Utilities (M32). According to the manual, the ratio of peak hour demand to maximum day demand has been observed to vary from 1.3-2.0:1.0. Another AWWA reference, Distribution System Requirements for Fire Protection (M31), goes further and states that for small systems, peaking factors may vary significantly higher.

When asked about the AWWA M32 recommended range of 1.3 to 2 peaking factor for obtaining the peak hour demand from the maximum day flow, witness Redemann explained that he used the peaking factor of two because the utility is responsible for providing the maximum water required by the customers. For systems without storage, the wells will have to meet the peak demand. In response to whether a lower peaking factor would better recognize changing water use patterns and trends towards conservation, witness

Redemann indicated that he did not agree because the peak still occurs.

This method has been used by the Commission in numerous rate cases. By Order No. PSC-96-1320-FOF-WS, this Commission approved used and useful calculations based on the use of estimated peak hour flows for systems that did not have storage capacity. A peaking factor of two was applied to the maximum day demand to estimate the peak hour demand. Although that case was appealed to the First District Court of Appeal on certain issues, the parties did not appeal the use of a peak hour calculation for systems without storage. Southern States Utilities, Inc. v. FPSC, 714 So. 2d 1046 (Fla. 1st DCA 1998).

For small water systems that do not have adequate flow data, witness Redemann testified that the peak hour demand should be estimated based on a criteria of 1.1 gallons per minute per ERC. The assumption is that the system should be designed to provide at least 1.1 gallons per minute of water for each ERC during a peak hour. This is consistent with the assumptions in the AWWA M32 manual regarding peak hour flows. This Commission used this method in Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In Re: Application for a staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

Although generally agreeing with witness Seidman's conclusions on used and useful for the water systems, witness Redemann did not agree with his use of instantaneous flows to determine customer demand for the water systems. Witness Seidman used instantaneous flows to represent customer demand, regardless of whether actual usage data was available. Instantaneous flow is a design criteria used to estimate the water capacity needed for a development. The instantaneous flow requirement per customer is assumed to be high for a small customer base and to taper off for a larger customer base. There is limited information available on instantaneous flow criteria. Typical references for the design of water systems include the maximum day and peak hour. Witness Redemann believes that if water flow data is available, demand for a used and useful calculation should be based on actual flows.

Witness Redemann further noted that in Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In Re:

Application for Rate Increase in Polk County by Cypress Lakes Utilities, Inc., the Commission found that:

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 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.

Id. at 14-15. The Order also stated that "[w]e note that instantaneous demand to determine the amount of customer demand on the system without water storage 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." Id. at 15.

Witness Redemann's Exhibit 21, Schedule RPR-4, provides a comparison of the maximum day flows, estimated peak hour demand based on a peaking factor of two, design peak hour demand based on the number of connections, and witness Seidman's proposed instantaneous demand criteria for the UIF water systems. He points out that in each instance, the instantaneous demand criteria is significantly higher than the estimated peak hour demand based on actual customer usage. He further states that in most instances, the instantaneous demand criteria is significantly higher than the total available well capacity. If the instantaneous demand actually occurred, he believes that there would be pressure problems in many of the systems, although he is not aware of any pressure problems and the utility has not proposed adding any *pro forma* water plant to increase the capacity of the water systems. In his view, the instantaneous demand criteria does not appear to correlate with the actual demands of the customers.

When asked about a 1994 Commission staff memorandum favoring a policy which considers the dynamics of instantaneous demand, witness Redemann indicated that before he would consider using that information, he would like to see literature from the AWWA or other recognized industry leaders on that subject.

On cross-examination, witness Redemann recognized that the Commission has used both the maximum day and peak hour gallons per minute in calculating used and useful. He recommends that when looking at a 24-hour basis on these small systems, used and useful should be calculated on a gallons per minute basis.

On rebuttal, witness Seidman points out that he agrees with witness Redemann on a number of issues and, although they do not agree on how peak demands should be represented, both peak hour demand and instantaneous demand are estimates. He believes that both are a proxy for the maximum demand faced by well pumps in a system with little or no storage. If each individual customer's demand were measured, that would produce a single highest instantaneous demand on the system at some time during a day. Therefore, for a group of customers, one should expect the coincident instantaneous demand to be higher than the coincident peak hour demand, since the peak hour demand reflects the average of 60 instantaneous demands. With regard to the age of his resource, witness Seidman believes that the age of the reference is immaterial as long as the rationale is valid.

In regard to current customer usage patterns, witness Seidman testified that conservation by customers is usually reflected in a lower total volume of water used or a lower seasonal volume of water used, but not necessarily a lower use at the peak. Therefore, he indicated that one should expect to see a lower average day demand and even a lower maximum day demand, but not necessarily a significant reduction in instantaneous or peak hour demand. In that respect, he believed that he and witness Redemann reached the same conclusion through different means.

Witness Seidman testified that although the concept of instantaneous demand as a basis for used and useful has been addressed to some degree in other cases, it has never been addressed at a hearing. He believes it is a legitimate and meaningful approach for small systems without storage, and it is important that the Commission have the opportunity to explore it. The wells and pumps in water systems without storage have to meet all demand -- instantaneous, as well as hourly and daily. Witness Seidman does not believe that using only the peak hour demand captures that requirement.

Summary of Customer Demand

Based on consideration of the evidence of record, we find that in calculating used and useful, customer demand should be based on actual historical customer usage rather than system design criteria such as instantaneous demand or Ten States Standards. Systems without storage must meet peak demand with well capacity and, therefore, customer demand shall be based on the peak hour gallons per minute, using a factor recognized by AWWA. For systems with adequate storage, the single maximum day shall be used if it is clear that no anomaly occurred on that day. For small water systems that do not have adequate flow data, the peak hour demand shall be estimated based on a criteria of 1.1 gallons per minute per ERC.

We decline to rely on the instantaneous demand criteria proposed by witness Seidman because it is a planning tool used for system design and the utility did not adequately prove that it can be relied upon to correspond to actual customer demand. This criteria assumes that systems with less than 100 customers will need 15 gpm of instantaneous demand, systems with 100 customers will need 3.19 gpm, and systems with 500 customers will need 1.54 gpm. Only five of the seventeen water systems in this case have more than 400 customers. Witness Redemann's Schedule RPR-4, in Exhibit 1, shows that for systems with 500 or fewer customers, the instantaneous demand was 1.4 to 5.6 times higher than the peak hour demand based on actual usage. In addition, compared to a peak hour based on 1.1 gpm, as recommended by witness Redemann for systems with inadequate flow data, the instantaneous demand was 1.5 to 3.5 times higher. Therefore, it appears that instantaneous demand does not realistically reflect the peak demand that the UIF customers place on the water systems. However, if instantaneous demand is used, it should be compared with total capacity, instead of firm reliable capacity, because backup wells would be needed to accommodate such demand.

We disagree with witness Bidy's rationale that five years of growth, fire flow, and at least 10 percent unaccounted-for water added to the maximum day demand should accommodate peak flows. We find that the comparison that witness Bidy proposes, based on the DEP rule reference to Ten States Standards, is a minimum guideline

for designing a water system and only one of the criteria that DEP uses in evaluating system design.

Allowance for Growth

Section 367.081(2), Florida Statutes, and Rule 25-30.431, Florida Administrative Code, address consideration of a five-year growth allowance for used and useful. As reflected in its MFRs, the utility calculated growth based on a regression analysis as prescribed by the rule. However, the utility's position, as previously discussed, is that all but two of its systems (Summertree and Golden Hills) are built-out, and therefore, calculation of a growth allowance is unnecessary because the systems are 100% used and useful as reflected in the prior rate cases. Of the seventeen water systems that are a part of this rate case, three had no growth, three had negative growth, Summertree had 2.86% average growth, Golden Hills had 2.96% average growth, and the remaining nine systems had average annual growth of less than 2%.

OPC relied on the utility's calculation of average growth over the prior five years. Although we have not previously adjusted plant due to negative growth, OPC believes that when positive as well as negative growth situations exist, the statutory language and rule must apply both ways to have any meaning. Therefore, as reflected in its used and useful calculations for this case, OPC adjusted for both positive and negative growth. UIF believes that it is unnecessary to apply a negative adjustment because the statutory language and rule exist only to insure that current and future customers' needs are met.

UIF witness Seidman testified that the purpose of the statutory language and rule is to ensure that a utility has sufficient plant to serve current and future needs and that the utility is compensated for the related investment. If there is no growth, then no further investment is required and no allowance for further growth will be provided. However, once a utility has constructed plant which has been found to be necessary (*i.e.*, used and useful) to serve its customers, that plant cannot be removed without cost to the remaining customers and without harm to the service of existing customers simply because those customers no longer take service. In addition, by reducing demand by applying

a negative growth factor, he believes that witness Bidy is double-counting. He contends that the existing demand level already reflects reduced demand. A negative growth factor would simply compound the reduction, artificially spiraling it down without any regard for cause and effect. Witness Seidman stated that witness Bidy's interpretation is nothing more than gamesmanship. In further explanation as to why used and useful percentages should never be reduced by negative growth factors, witness Seidman went on to state that negative growth implies a demand for service once existed, which the utility was obligated to serve and did. The utility cannot remove the lines which were committed to serving those sites, nor should the Commission penalize the utility for it. Additionally, he said that a utility should not be penalized because demand may be reduced due to conservation.

Witness Seidman explained that a portion of the Weathersfield service area was sold to the City of Altamonte Springs. This was a one-time event and does not establish a pattern. In the Oakland Shores system, several customers were transferred to the City of Maitland when an adjacent, small UIF system known as Druid Isles was purchased by the City of Maitland. This also was a one-time event. For the Park Ridge system, there is really not a negative growth pattern. The number of customers has not changed in many years; however, the annual consumption varies from year to year; sometimes up and sometimes down. Witness Seidman asserted that over the past five years, the annual change for most of the systems has averaged less than one-half of one percent, which is hardly a pattern.

OPC witness Bidy agreed that most of the systems have very small average growth. He used the historical growth furnished by the utility and applied a five-year growth factor pursuant to the statute to determine the appropriate growth allowance. In similar fashion, he also applied the negative growth rates of three of the water systems and one wastewater system for the five-year period. He testified that the statutory language and rule must apply both ways to have any meaning, and that one's opinion of the statute has no bearing on its applicability.

When questioned about his negative growth position, witness Bidy explained that he has never seen negative growth systems before. He believes that the developer should be responsible if

desired growth is not achieved. Witness Bidy cited the sale of a part of a system, Druid Hills, as an example as to when a negative adjustment should be made. As a result, there was extra capacity, and no one made the utility sell off part of its customers. However, witness Bidy did not make a determination as to whether UIF should or should not have reasonably anticipated this.

Realizing that he is breaking new ground with his negative growth adjustment, witness Bidy indicated that, of the four systems (three water and one wastewater), only Oakland Shores, with the sale of the Druid Hills section, was cited as having a reason for negative growth. The reasons for negative growth for the others, Weathersfield and Park Ridge, were not known to witness Bidy. In addition, he did not know if negative growth would continue on a going-forward basis for those systems.

Summary of Allowance for Growth

We do not find it reasonable to apply negative growth factors in this case. The customer demand included in the used and useful calculations already reflects the reductions in demand resulting from the sale of portions of the Weathersfield and Oakland Shores systems and the reduced customer demand for the Park Ridge system. To include an additional negative growth factor in the used and useful calculation would imply that the utility is entitled to less plant investment than is currently needed to serve its existing customers. Therefore, we decline to include a negative growth factor in the used and useful calculations in this case.

The utility's calculation of growth for each of the systems appears to be reasonable. As previously discussed, we agree with the utility that all of the systems, except Summertree and Golden Hills, are built-out, and that a growth allowance is therefore unnecessary. Summertree had 2.86% average growth and Golden Hills had 2.96% average growth.

Fire Flow Allowance

UIF requested a fire flow allowance for six of its water systems. OPC believes that an allowance for two of those systems, Orangewood and Oakland Shores, should not be considered because of the limited number of fire hydrants in those areas. As previously

discussed, we find it
and useful analysis
Orangewood and Oakla

appropriate to include fire flow in the used
for the six water systems, including the
and Shores systems.

Excessive Unacc

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ter in this Order, UIF's position is that no
be made for excessive unaccounted-for water.
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water systems. Staff recommended adjustments
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em, and all of the systems in Pasco County.

We find that ber
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cause most of the water systems are built-out,
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reduce used and useful below 100% for the
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ire flow allowance exceed the system capacity.

Capacity

OPC's position.
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is that each component of the water systems
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an and Redemann testified that all components
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es Redemann testified that it would be more
capacity on either a 12-hour operating day for
the storage, or firm reliable capacity on a
basis for systems with little or no storage.

OPC witness Bidy observed that his basic disagreement with combining all of the individual plant components into one overall plant used and useful analysis is that it does not follow any DEP sizing criteria for the various components of a water plant. He argues that the overall plant used and useful percentage obtained is often an inordinately high and unjustifiable percentage. With growth already built into the used and useful calculations, he believes that it is unreasonable and the customers should not have to pay for these large components, often installed by the utility for distant future growth. He contends that the sizing criteria required by the regulatory agencies should be utilized in the used and useful calculation rationale, since these criteria directly control the size of components required to be installed by the utility.

In determining the capacity of the wells and high service pumps, witness Bidy refers to the Ten States Standards, which state that the total developed groundwater source capacity (wells) shall equal or exceed the design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service (firm reliable capacity). In this case, most of the systems have a hydropneumatic tank and large wells that he believes have been oversized. He testified that it is not cost-effective to use wells to furnish peak flow. It is far more expensive to build big wells than it would be to build a storage tank. However, he did not provide an analysis comparing the costs associated with storage versus wells.

Witness Bidy testified that, based on the DEP rule for design criteria, the well pumping rate should be taken for the full 24-hour period since these are extreme cases of short duration and well pumps can operate at full flow for these periods. He believes that there is no reason to restrict the flow to a 12-hour period when calculating the capacity of a well. Witness Bidy believes that staff's rationale of restricting the flow of the well or wells to 12 hours (with the largest well flow not considered) is simply without merit or reason and is probably due to misunderstanding of a DEP rule requiring operation personnel for a minimum time of 12 hours on-site, which bears no relationship to pump run time.

Witness Bidy further testified that the use of peak hourly flow does not apply to wells and pumps and that to use it that way

goes beyond the Ten States Standards. He indicated that one could design a well for a peak hourly flow or an instantaneous flow based on the old standards that both witnesses Redemann and Seidman have quoted. However, the only place it should be applied is in the design of the distribution system and the high service pump that gets it there. He testified that peak flows are best handled by storage facilities and high service pumping. However, on cross-examination, witness Biddy acknowledged that DEP looks at and requires peak hour calculations on water treatment plant construction permit applications. He also acknowledged that DEP relies on other design manuals and resources such as the AWWA manuals and publications by the U.S. Environmental Protection Agency (EPA).

Witness Biddy testified that DEP requires that treatment facilities be designed for maximum day flow, including fire flow and growth. In addition, he indicated that when high service pumping exists, firm reliable capacity should apply. For systems without storage and high service pumping, the used and useful for treatment facilities should match the wells. For the 12 systems in this case with no storage or high service pumping, witness Biddy's used and useful percentages for the treatment facilities match the used and useful percentages for the wells. He found 4 of those 12 systems to be 100% used and useful for both the wells and treatment facilities.

For storage facilities, witness Biddy states that DEP recognizes both the AWWA and Ten States Standards guidelines for storage facilities sizing. Therefore, he believes that both of these criteria should be used. By considering both AWWA's Manual 32 and Ten States Standards guidelines, witness Biddy developed a used and useful formula for storage facilities using a one-day average flow for systems without fire flow and a one-half average daily flow for those system with fire flow. All of the systems with storage facilities are located in Seminole County. Witness Biddy found the storage facilities for those systems, Weathersfield, Oakland Shores, Park Ridge, Ravenna Park/Lincoln Heights, and Bear Lake, to all be 100% used and useful.

When asked about consideration towards economies of scale, witness Biddy replied that the ratepayers should pay for what they are using. They should not have to pay for facilities that have

been designed with excessive capacity to be used sometime in the future. He suggested that there are ways to set a rate structure to allow for oversized material, such as AFPI, large tap-on fees, and CIAC. In this case, he did not apply any economies of scale factor to any of his used and useful calculations.

Witness Bidy acknowledged that, for those cases not involving public money, DEP does not have economic jurisdiction and does not take into account economic factors in making its decisions or in setting its rules. He further admitted that he is not aware of any Commission order or case that has indicated that the Ten State Standards set forth the sizing criteria for sizing plants or their components. In addition, he agreed that DEP only requires a minimum size of plant and does not dictate the size after that. He would consider whether it would be good for both the utility and the ratepayers to use economies of scale for oversized projects that are being planned. However, in this case, it is one-sided to the utility if any economies of scale were applied to existing facilities.

In review of OPC witness Bidy's testimony regarding the use of the DEP rule referencing the Ten States Standards, witness Seidman testified that the stated purpose of that reference, and the six other general references that are listed in the DEP rule, is to determine whether applications to construct or alter a public water system shall be issued or denied. Since DEP has approved all of the applications to construct all of UIF's wells, one would have to conclude that the utility met the test that witness Bidy references.

Further, witness Seidman stated that witness Bidy assumes that any capacity that exceeds the minimum requirements in the Ten States Standards is excessive and non-used and useful, even though it is clear from the wording that those requirements are minimum quantities. It is his opinion that it would not be possible for the systems that have no storage or negligible storage to adequately serve demand with the capacity that witness Bidy's approach would allow. He testified that, in rate cases, the Commission considers not only DEP design and operating requirements, but also efficiency, economics, and sufficiency that is not necessarily evident in DEP rules.

On cross-examination, witness Seidman stated that when the Commission is considering the utility's investment that is serving the customers, it should consider whether or not the money that has been spent is proper for the system. When asked about the possibility of adding storage to respond to peak demands, witness Seidman stated that these are older, basically closed and built-out systems and that it would be much more economical to simply keep producing with these well pumps than to change out the wells to a smaller size and incur the capital cost for more storage capacity.

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

According to witness Seidman, the DEP rule quoted by witness Bidy states that groundwater source capacity shall equal or exceed design maximum day demand and equal or exceed the design average day demand with the largest producing well out of service. He points out that witness Bidy assumes for his calculations, that only capacity equal to the stated quantities is 100% used and useful, but any capacity that exceeds the stated minimum requirement is excessive and non-used and useful. Witness Seidman states that witness Bidy does this even though it is clear from the wording that these required quantities are minimum quantities. He stated that even if one were to rely on this particular paragraph, it would have to be done in the context of other portions of the document. For example, Section 7.2 of Ten State Standards addresses hydropneumatic systems. According to Section 7.2.2, the capacity of the wells and pumps in a hydropneumatic system should be at least ten times the average daily consumption rate. Nine of UIF's 17 water systems are hydropneumatic systems. Witness Seidman projects that if Section 7.2.2 were applied rather than Section 3.2.1, the used and useful percentages detailed in Exhibit 27, Schedule FS-9, would range from 86% to well over 100%, compared to witness Bidy's range of 13% to 100% used and useful.

Witness Seidman believes that without looking at the whole picture, problems arise when one tries to evaluate used and useful on the basis of various design criteria. Drawing on singular paragraphs as a standard, without relating them to any other requirements, says nothing about the presence or absence of other system components, their interrelationship, and their impact on the operation of the system.

In reference to storage, witness Seidman believes that UIF's systems with storage and high service pumping capacity should be evaluated as integrated systems, in order to recognize the interrelationship of those components. Referring to witness Bidy's analysis of the Weathersfield water system, witness Seidman explained that this system has only two wells, but it has 100,000 gallons of storage as a part of a cascade aeration system. Witness Bidy found the wells and pumps to be only 56.3% used and useful, which, according to his calculations, resulted in 346,428 gpd of excess capacity on an average daily flow basis. However, witness Bidy found the 100,000 gallon storage tank to be over 100% used and useful, because according to his calculations, there is a 248,197 gpd deficit. Witness Seidman wondered where the capacity would come from that is required to serve the difference between the average daily flows, the maximum daily flows, and the peak hourly flows, if there is 248,197 gpd of storage deficit. Witness Seidman believed that it would obviously have to come from the "excess" well capacity. "Now, if we accepted witness Bidy's approach on its face and just added the storage deficit to the demand on the well pumps, you would be up to 92% used and useful, no questions asked. You just can't look at these small systems in a piece meal fashion."

Concerning witness Bidy's treatment of the aerator as a separate component, witness Seidman stated that other than chlorination, that is all that makes up the water treatment equipment. Witness Seidman points out that although he correctly identifies the capacity of the aerator as 1,500 gpm, witness Bidy carries out a typical demand versus capacity analysis as if the aerator were sized just on the basis of serving demand, and reaches the conclusion that the aerator is 27.5% used and useful. Witness Seidman believes that the aerator is not sized just on the basis of serving demand; it is sized to handle the flows when all wells are operating and directing flows into the storage tank associated with

the aerator. Weathersfield has a total well pumping capacity of 1,550 gpm and an aerator capacity of 1,500 gpm. If the other systems with aerators are analyzed, it will be noted that the capacity of each matches the well pumping capacity. They are all 100% used and useful. Witness Seidman believes that witness Bidy's piecemeal approach simply distorts the results for these systems.

Witness Redemann agreed with witness Seidman's position that, in this case, all components of the utility's water facilities should be included in a single used and useful analysis. He believes that used and useful should only be evaluated on a component basis when some portion of the system is oversized relative to the size of other components, and that the storage capacity for any of the UIF's systems does not appear to be oversized. He also went on to say that he considers the UIF wells in this case to be small, not oversized, most of which are less than 500 gpm.

Witness Redemann testified that, for systems with adequate storage, the capacity should be based on the wells operating 12 hours per day. His assumption is that the wells should have some down time to allow the aquifer to recharge. He believes that it is environmentally responsible and prudent to rest a well for 12 hours per day so that the ground water can recharge. Excessive pumping has caused wells to draw air, sand, and gravel into the water system, and has caused salt water intrusion, land subsidence and wells to collapse. In addition, the use of 12 hours per day of pumping reflects the general usage pattern of customers. The water systems have peak demand periods and water is minimally used during the night. A 12-hour day has been used by the Commission in numerous rate cases, including in Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 011451-WS, In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County; Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WU, In re: Application for approval of staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc., and Order No. PSC-01-2385-PAA-WU, issued December

10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.

For systems with only one well, witness Redemann testified that the systems should be considered 100% used and useful unless it appears that the well is oversized. As with any used and useful calculation, prudence and economies of scale are always considered. This method has been used by the Commission in several dockets, including in Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In Re: Application for staff-assisted rate case in Lake County by Brendenwood Water System, and Order No. 96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for a rate increase and increase in service availability charges by Southern States Utilities, Inc. Witness Bidy also used this methodology in determining used and useful for systems with only one well and for treatment facilities in systems with no high service pumps.

In addition, witness Redemann testified that, for systems with little or no storage, the firm reliable capacity should be based on the gallons per minute capacity of well(s), with the largest well removed from service. Removing the largest well is consistent with the criteria in the Ten States Standards. In addition, witness Bidy did not explain where the water, when pumped for 24 hours, would be stored, so that it could be used during the peak periods of the day.

Witness Redemann testified that AWWA and the Ten States Standards recommend only general guidelines for storage capacity. He pointed out that Florida has frequent hurricanes and floods, which can cause power outages for an extended period of time or well contamination. The only source of water would be the amount in the ground or in elevated storage tanks. He indicated that the Commission has recognized that one full day of storage may be needed for a system. See Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, in Docket No. 960329-WS, In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company.

Summary of Capacity

We find that it has been adequately established that UIF's water systems are small, older systems that have been built to serve a limited area. None of the wells, treatment, pumping, or storage facilities appear to be oversized, which would be a basis for evaluating each component separately. However, even if the components were separately evaluated, we believe that the efficiency, economics and sufficiency of the system would also need to be considered. The DEP sizing rule would be more appropriately used to determine if the company has met the standards necessary for DEP permitting, not used and useful evaluations. In this case, we see no reason to evaluate wells, treatment, pumping, and storage separately. Therefore, we find it appropriate to base the used and useful evaluations in this case on the total system.

For systems with adequate storage, capacity shall be based on 12 hours of pumping per day. We find that this practice reflects typical customer usage patterns and also recognizes the need to allow the wells to rest and the aquifer to recharge. For systems without adequate storage, the capacity shall be based on the firm reliable capacity of the wells expressed in gallons per minute. For systems with only one well, the system shall be considered 100% used and useful unless it appears that the well is oversized.

Summary of Used and Useful Findings

Based on all of the evidence, we find that all of the UIF water systems in this case are 100% used and useful. The used and useful analysis in this case shall be based on each system as a whole, and not on each component, because none of the components are oversized. For systems with adequate storage, customer demand shall be based on the single, peak day during the test year if it can be determined that no anomaly occurred on that day, and the capacity shall be based on 12 hours of pumping. For systems with little or no storage, customer demand shall be based on the estimated gallons per minute of demand in a peak hour, and the capacity shall be the firm reliable capacity expressed in gallons per minute. For systems with only one well, the system shall be considered 100% used and useful unless it appears that the well is oversized. We find the utility's growth calculations to be

reasonable, and a negative growth adjustment shall not be included in the used and useful calculations.

Used and Useful Methodology and Percentages - Wastewater Treatment Plants

UIF provides wastewater service in five of the systems being considered in this case. However, only one of those systems, the Crownwood system in Marion County, has its own wastewater treatment facility. The utility purchases bulk wastewater treatment from other sources for the other four systems. UIF's position is that the Crownwood wastewater plant is 68.65% used and useful. OPC's position is that the plant is 67.75% used and useful.

The parties agree that the used and useful formula contained in Rule 25-30.432, Florida Administrative Code, should be used to determine the amount of wastewater plant to be included in rate base. The parties also agree on the peak demand of 25,282 gpd, an allowance for growth of 2,178 gpd, and plant capacity of 40,000 gpd. However, the parties disagree as to whether the Crownwood system experienced excessive inflow and infiltration.

The utility's used and useful calculation of 68.65% is shown on Exhibit 5, F-6, at p. 1. UIF witness Seidman testified that he performed a used and useful analysis for the Crownwood system using the Commission's standard formula of dividing peak demand, less excess inflow and infiltration, plus property needed to serve five years after the test year (growth), by the rated capacity of the system. The analysis in Exhibit 5 indicates that the treated flows used to determine whether there was excessive inflow and infiltration were estimates based on time clocks and theoretical pump rates from lift station pumps. Witness Seidman did not remove excessive inflow and infiltration in his calculation of used and useful. He noted in that exhibit that in Docket No. 881324-WS, the Crownwood wastewater plant was found to be 64.13% used and useful. Since that time, a bulk customer has been added.

It should be noted that in its brief, the utility took the position that the Crownwood wastewater treatment plant is 68.72% used and useful. Although witness Seidman referred to 68.72% in at least one instance in his testimony, Exhibit 5 which shows the utility's used and useful calculations reflects used and useful of

68.65%. There is no justification in the utility's testimony or exhibits for a used and useful calculation of 68.72% for the Crownwood wastewater plant.

Witness Bidy concluded that the plant was 67.75% used and useful. He testified that he did not agree with any of the utility's rationales and methodologies of calculating used and useful percentages. He believes that witness Seidman's methodology is at odds with the Commission's methodology. Witness Bidy stated that his used and useful calculation in Exhibit 10 (test year flow plus 5 years growth less excessive inflow and infiltration divided by the DEP permitted flow) follows correct rationale and methodology. OPC removed 362 gpd (1.43% of 25,282 gpd) for excessive inflow and infiltration in its used and useful calculation based on one of the utility's estimates, which indicated that it treated 2107 gpd (11.43%) of wastewater in excess of water sold that was returned to the wastewater system.

Staff witness Redemann testified that he agreed with the utility's used and useful methodology and calculation of 68.65% for the Crownwood wastewater treatment plant. He stated that the utility's calculations appear to be consistent with Rule 25-30.432, Florida Administrative Code. Witness Redemann stated that, for the Crownwood wastewater system, the inflow and infiltration amount of 1.43% was not material.

We find that the Crownwood wastewater treatment plant is 68.65% used and useful, based on the formula contained in Rule 25-30.432, Florida Administrative Code. The difference between UIF's and OPC's calculations is that witness Bidy included a 362 gpd adjustment for excessive inflow and infiltration. We do not find it appropriate to include the adjustment in the used and useful calculation because it is based on estimated flow data using time clocks and theoretical pump rates and the resulting adjustment would be immaterial. An adjustment to operating and maintenance expenses for excessive inflow and infiltration shall be subsequently addressed in this Order.

Used and Useful Methodology and Percentages - Water Distribution and Wastewater Collection Systems

UIF has seventeen water distribution systems and five wastewater collection systems. The utility believes that these systems should all be considered 100% used and useful because either the Commission previously found the system to be 100% used and useful, or the system is currently built-out or fully contributed and therefore a used and useful adjustment is not needed. OPC compared existing connections plus a growth allowance with the system capacity and found that the water distribution systems ranged between 73.9% to 100% used and useful and the wastewater collection systems were between 51.46% to 97.20% used and useful.

UIF witness Seidman testified that the company did not recalculate used and useful for systems which the Commission had previously found to be 100% used and useful because the systems were built-out and there has not been a significant change. The utility's position on this point was previously discussed more fully.

Witness Seidman evaluated the two systems that have not been previously determined to be 100% used and useful by the Commission, Golden Hills/Crownwood and Summertree. As a result of OPC requesting that the utility make an actual lot count from system maps, witness Seidman estimated that the Golden Hills/Crownwood water distribution system was approximately 90% used and useful, as opposed to witness Bidy's calculation of 88.64%. He testified that his analysis was based on an assumption regarding the number of multi-family units that might be constructed on available sites. He testified that he would not dispute the difference between his used and useful calculation and witness Bidy's, because it is purely speculative what may or may not be developed. He recommended that based on the layout of the system and the location of available vacant lots, the distribution system should be considered 100% used and useful.

Witness Seidman pointed out that the only area the Crownwood wastewater collection system serves is a quadruplex development. The 18 quadruplex buildings were constructed over an area that had the potential for anywhere from 26 to 34 total buildings, depending

on the plat. On that basis, the area served could be anywhere from 53% to 70% developed. However, he testified that there has been no development activity in at least five years and there does not seem to be any interest in further development. He indicated that the service area is compact, consisting of less than 3,000 feet of mains. The wastewater collection system, in his view, would probably not be any less, even if the existing buildings were all that were initially planned. On that basis, he recommends that the Crownwood collection system be considered 100% used and useful.

With regard to the Summertree system, witness Seidman did not make a determination of used and useful for the distribution and collection systems because they are fully contributed. He said that he did not check witness Bidy's calculation of 77% and 69.96% used and useful, respectively, because right or wrong, the associated investment is offset by CIAC.

OPC witness Bidy testified that the appropriate method to calculate a fair used and useful percentage is to compare the total connected ERCs to the total available ERCs for each system. His recommended used and useful adjustments, based on connected ERCs plus five years of growth, divided by the available ERCs, for the 17 water distribution systems varied from a low of 73.90% at the Oakland Shores system to a high of 100% at the completely built-out Davis Shores system in Orange County. The used and useful percentages for the five wastewater collection systems varied from a low of 51.46% at the Golden Hills/Crownwood system to a high of 97.20% at the Wis-Bar system.

Witness Bidby's calculations are presented here for informational purposes:

Water Distribution and Wastewater Collection Systems

Used and Useful

<u>System</u>	<u>Water</u>	<u>Wastewater</u>
Bear Lake	92.90%	
Buena Vista	98.20%	
Crescent Heights	82.93%	
Crystal Lake	84.00%	
Davis Shores	100.00%	
Golden Hills/Crownwood	88.64%	51.46%
Jansen	96.30%	
Lake Tarpon	94.42%	
Little Wekiva	83.60%	
Oakland Shores	73.90%	
Orangewood	89.97%	
Park Ridge	82.80%	
Phillips	82.50%	
Ravenna/Lincoln	89.10%	89.10%
Summertree	77.00%	65.96%
Weathersfield	89.62%	92.20%
Wis Bar	97.20%	97.20%

We find, however, that the utility and staff witnesses' arguments are more persuasive. Staff witness Redemann testified that all of the water distribution and wastewater collection systems should be considered 100% used and useful. He agreed with the utility that all of the water systems are built-out, with the exception of Summertree in Pasco County and Golden Hills in Marion County, as previously discussed. The Summertree water system is

fully contributed and, therefore, a used and useful adjustment is not necessary. The Golden Hills water distribution system is 100% used and useful based on the existing connections plus an allowance for growth. The utility's wastewater collection systems are also built-out, with the exception of Summertree in Pasco County, which is fully contributed, and for this reason, a used and useful adjustment is not necessary.

Summary of Used and Useful Findings

In consideration of the foregoing, we hereby find that all of UIF's water distribution and wastewater collection systems are 100% used and useful. These systems are built-out, with the exception of the Summertree water and wastewater systems in Pasco County and the Golden Hills/Crownwood water system in Marion County. Most of these systems have previously been found to be 100% used and useful by the Commission, and we find that there has been very little growth and no significant changes which might indicate that a different conclusion should be drawn in this case. A used and useful analysis is not necessary for the Summertree water distribution and wastewater collection systems because they are fully contributed and will have no impact on rate base. The Golden Hills/Crownwood water distribution system is 100% used and useful based on the number of existing connections, plus an allowance for growth, the layout of the system, and the location of the remaining vacant lots. Therefore, no adjustments shall be made for the UIF water distribution and wastewater collection systems to reflect plant that was not used and useful during the test year.

Projected 13-Month Average Rate Base

Based upon UIF's adjusted 13-month average test year balances, and the stipulations and adjustments approved herein, the appropriate rate base amounts for each system is listed below.

	Water	Wastewater
Marion	\$ 266,335	\$ 59,128
Orange	\$ 46,653	N/A
Pasco	\$ 878,905	\$ 271,676
Pinellas	\$ 195,047	N/A
Seminole	\$ 1,429,842	\$ 1,319,403

RETURN ON EQUITY

Use of Leverage Formula

Two witnesses testified regarding adjusting the leverage formula used to calculate ROE. OPC witness Mark Cicchetti testified that the 50 basis point premium for small utilities should not be applied because UIF is one of the largest water and wastewater utilities in Florida. UIF witness Pauline Ahern testified that the small utility risk premium should not be removed and was intended to be applied to all water and wastewater utilities in Florida.

Witness Cicchetti notes that the leverage formula is a workable methodology that lowers costs to all parties and serves the public interest. He finds the assumptions behind the leverage formula, including a 50 basis point small utility premium, reasonable in general. However, he believes that the small utility premium should not apply to UIF because it is one of the few large water and wastewater utilities in Florida.

Witness Cicchetti explains that the leverage formula has three adjustments to compensate for risk associated with small size. The leverage formula includes a bond yield differential of 40 basis points that allows for the fact that Florida water and wastewater companies are smaller than the companies in the indexes used to calculate the cost of equity. Second, the leverage formula includes a private placement premium of 50 basis points to compensate investors for holding privately placed bonds. Third, a small utility risk premium is added to recognize the financial stress that small water and wastewater utilities can experience.

Witness Cicchetti states that large water and wastewater utilities have revenue of over \$1 million and that, for 2001, UIF had over \$2,050,000 in revenue. He quotes staff testimony from the proceeding that established the current leverage formula methodology that indicates the leverage formula, including the small utility risk premium, is based on an average water and wastewater utility.

Witness Cicchetti concludes that the Commission should not use the small utility risk premium in the leverage formula to calculate UIF's ROE because UIF is significantly larger than the average water and wastewater utility in Florida. He notes that two adjustments for small size will remain -- the bond yield differential and the private placement premium. He further notes that the small utility risk premium is based on bond yields below that of investment grade bonds and that it would be unreasonable to assume that a Florida regulated water or wastewater utility is below investment grade.

On rebuttal, UIF witness Ahern states that the proper comparison to make in determining the applicability of the small utility premium is UIF's size compared with the natural gas companies upon which the leverage formula is based. She notes that size affects risk in that small companies are less capable (than large companies) of coping with significant events that affect revenue and earnings. Further, the capital markets require higher returns on the stocks of smaller firms, which suggests higher risk.

Witness Ahern finds that UIF is considerably smaller than the natural gas companies used in the leverage formula, both in revenue and market capitalization. Based on a comparison of size-based portfolios, she believes that a size premium between 424 and 429 basis points is indicated. She concludes that the size premium of 50 basis points is conservatively reasonable.

In contrast with witness Cicchetti's testimony, witness Ahern disagrees that the bond yield differential is compensation for size. She notes that Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity of water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., makes a clear distinction between the three

adjustments to the leverage formula. She further notes that this order and the subsequent leverage formula order indicate that all three adjustments should apply to all water and wastewater utilities in Florida.

UIF argues in its brief that Section 367.081(4)(f), Florida Statutes, provides that a utility may, in lieu of presenting evidence on its rate of return on common equity, ask the Commission to adopt the range of rates of return on common equity under the applicable leverage formula established by the Commission. According to UIF, the statute does not give that option to any other party to a proceeding, and it was OPC who raised this issue in this case.

UIF states that application of the three adjustments in the leverage formula is not discretionary. According to UIF, the three adjustments are separate and distinct. UIF notes that, regarding size, the proper comparison is UIF to the natural gas utilities in the leverage formula. The comparison should not be between UIF and other Florida water and wastewater utilities. UIF finds the small utility risk premium of 50 basis points to be very conservative and reasonable. UIF implies in its brief and position that, since the small utility risk premium was added to the leverage formula, Class A utilities have used the leverage formula.

In its brief, OPC states that the statute allows a utility, in lieu of presenting evidence, to move the Commission to adopt the leverage formula in a particular case. In this case, in lieu of testimony on the issue, UIF apparently moved the Commission to adopt the leverage formula. In response, witness Cicchetti presented testimony in which he raised a disputed issue of material fact in the application of the leverage formula.

OPC argues that the leverage formula is based on the average Florida water and wastewater company, which is a small company and that the small utility risk premium only applies to small companies. OPC notes that witness Cicchetti's statement that "Utilities, Inc. of Florida is significantly larger than the average water and wastewater utility in Florida" was not challenged. OPC advocates removing the 50 basis point "additur." According to OPC, this results in a ROE range of 9.41% to 11.41%.

The current leverage formula was established by Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, and made final by Order No. PSC-03-0799-CO-WS, issued July 8, 2003, in Docket No. 030006-WS, In Re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S. Certainly, the optimal time to argue for or against adjustments to the leverage formula itself is during the proceeding in which the leverage formula is established from year to year. If Class A companies were to regularly defend against downward adjustments and seek upward adjustments, or if Class C companies were to regularly seek increases in the small utility risk premium, or if intervening parties regularly sought various adjustments to the leverage formula, such activity would thwart the purpose for the establishment of a leverage formula in the first place. The benefits of the leverage formula depend on its general applicability. Even so, the leverage formula can be readdressed at any time during the year in which it is established. The leverage formula docket is kept open from year to year to allow our staff to monitor the movement in capital costs and to readdress the reasonableness of the leverage formula as conditions warrant.

Challenges to the use of the leverage formula invite more expert testimony and therefore increase rate case expense. A primary benefit of this Commission's leverage formula is reduced rate case expense for utilities and parties. Reducing or eliminating costly ROE testimony (and other expert testimony), when possible, serves the public interest. Nevertheless, we disagree with UIF that OPC improperly challenged UIF's use of the leverage formula in this case. Section 367.081(4)(f), Florida Statutes, does not prohibit a party from challenging a utility's decision to request that this Commission adopt the range of rates of return on common equity under the applicable leverage formula established by the Commission.

With respect to the merits of OPC's challenge to UIF's use of the leverage formula in this case, regarding size, we agree with witness Ahern that UIF is significantly smaller than the natural gas utilities used to calculate the leverage formula's basic cost of equity. Though witness Cicchetti notes that UIF is larger by revenue than many Florida water and wastewater systems, we do not find that to be the appropriate comparison. For example, UIF's

total revenue for 2001 was approximately \$2,050,000. In 2000, nine Florida water systems had revenue of over \$1 million, with a range of approximately \$1 million to \$26 million. Also, nine wastewater systems had revenue of over \$1 million, with a range of approximately \$1 million to \$20 million. (See Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity of water and wastewater utilities pursuant to Section 367.081(4)(f), Florida Statutes, Attachment B). Among the largest regulated water and wastewater systems in Florida, UIF is definitely toward the lower end of the range. Further, though the witnesses agree that UIF is large relative to other Florida water and wastewater utilities, this only brings out the point that many of these utilities range from small to very small. (See Order No. PSC-01-2514-FOF-WS at 17).

The three adjustments in the leverage formula are essentially distinct. The bond yield differential compensates for assumed differences in credit quality and not directly for size. The private placement premium compensates investors for the lack of liquidity associated with holding privately-placed bonds. (See Order No. PSC-01-2514-FOF-WS at 15, 17). Though these two adjustments may be affected by the size of the company, we find that the small utility risk premium is the only direct specific adjustment for size included in the leverage formula.

Section 367.081(4)(f), Florida Statutes, authorizes this Commission to establish a leverage formula that reasonably reflects the range of returns on common equity for an average water or wastewater utility. For the foregoing reasons, we find that it is reasonable to consider UIF an average water or wastewater utility, within the meaning of the statute. For the foregoing reasons, the current leverage formula, established by Order No. PSC-03-0707-PAA-WS, shall be used to determine the appropriate ROE for UIF. Accordingly, with an equity ratio of 46.11%, the appropriate ROE is 11.45%. The appropriate range is plus or minus 100 basis points.

Range of ROE

Witness DeRonne testified that there has been a long-standing history of this company being cited in Commission orders as not being in compliance with several rules and with the USOA. She was

able to find seven cases for Florida subsidiaries of UI from 1995 to the present where UI was cited for non-compliance with the USOA or prior Commission orders.

In the instant docket, witness DeRonne testified that the utility had numerous problems with its MFRs and accounting records. First, she stated that the utility had numerous corrections to its MFRs, especially the billing schedules. Second, many MFR schedules were prepared from annual report balances, which did not match the general ledger. The utility also failed to correctly book prior Commission-ordered adjustments. Also, the utility failed to properly retire assets, capitalized non-recurring expenses into plant accounts, used incorrect depreciation rates for two large accounts and mis-recorded expenses between systems. Further, Witness DeRonne testified that the utility responded to discovery late and lacked support for its allocation methodology for charges from WSC.

OPC witness DeRonne testified that the ROE range for UIF should be set at the low point of the range. She believed that this would be a needed incentive or penalty for the company to comply with this Commission's rules and the USOA, and that without such, the utility has demonstrated that improvements will not occur. Witness DeRonne recommended that the lower ROE should remain in effect until a future rate case if the utility then demonstrates that it has adopted the needed improvements to its accounting records.

Utility witness Lubertozzi testified that he disagreed with witness DeRonne's recommendation to lower the ROE. He stated that UIF is committed and has expressed a desire to work with the Commission staff to address any concerns regarding the utility's books and records. He also stated that members of UIF's management team met with this Commission's staff auditors to discuss all of the concerns that were addressed in Order No. PSC-03-0647-PAA-WS, issued May 5, 2003, in Docket No. 020407-WS, In Re: Application for Rate Increase in Polk County by Cypress Lakes Utilities, Inc. Witness Lubertozzi stated that this meeting was informative and helpful. Finally, he stated that by letter dated June 17, 2003, UIF corresponded with Commission staff members advising them of UIF's intent to comply with the issues raised in Order No. PSC-03-0647-PAA-WS and devised a schedule for compliance.

In its brief, the utility states that witness DeRonne fails to indicate how UIF is to achieve the readjustment to the correct return on equity, whether in a future case or in another proceeding, and who should bear the cost of the audit and the resulting proceeding. Although she acknowledged that the same issues were raised in the Cypress Lakes docket, the utility argued that witness DeRonne failed to address the impact of a penalty assessed in two dockets to correct identical concerns of the Commission.

UIF argues that setting the ROE at the low point of the range as an incentive is an unworkable solution and would unfairly penalize UIF. The company is currently taking steps to remedy issues the Commission has addressed. Further, it would not be economically feasible or fair to UIF's shareholders or to its rate payers to incur the cost of instituting another proceeding to restore UIF's ROE to what that rate should be when the correct rate can be determined in this proceeding.

We find that the record fully identifies the many problems with the utility's filing and its compliance with the USOA and Commission rules. We also find that the prior cases reflect that the utility has a poor history of complying with this Commission's orders, as well as the utility's own stipulated agreements to bring its records into compliance. Nevertheless, we agree that the record reflects that this issue is being addressed in the Cypress Lakes docket, and as such, we do not find that setting the ROE at the low end of the range is a necessary or efficient way to bring the utility into compliance in this particular case. Moreover, as will be subsequently discussed, rate case expense shall be reduced for the excess utility and legal consulting time spent as a direct result of the quality of the utility's books and records. We note that a reduction of unreasonable expenses incurred will benefit the UIF ratepayers more on a per dollar basis than a reduction to the low end of the range of the ROE. As such, UIF's ROE shall not be lowered as an incentive for the utility to bring its books and records into compliance with the NARUC USOA.

Cost of Capital

The appropriate cost of overall rate of return for each County is determined from the adjustments made as discussed above. Our

calculation of the appropriate cost of capital, including our adjustments, is shown on Schedule No. 2 for each County. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The appropriate rate of return for water and wastewater systems in each County is shown in the table below:

County	Rate of Return	AFUDC Monthly Discounted Rate
Marion	9.59%	0.798611%
Orange	8.69%	0.723691%
Pasco	9.57%	0.797328%
Pinellas	9.48%	0.789695%
Seminole	9.58%	0.797650%

NET OPERATING INCOME

Our calculation of net operating income is shown on Schedules Nos. 3-A and 3-B for each County, and our adjustments are itemized on Schedule No. 3-C. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

The appropriate amount of test year revenues was calculated using the adjusted billing determinants, which are subsequently addressed in this Order. These billing determinants were contained in the latest revised MFR E-2 Schedules, and updated to include the corrections contained in Exhibit 6. The tariffs for the test year were verified using the utility's tariff sheets on file with this Commission. For those systems which received an Index rate increase during the test year, the rate increase was annualized over the entire test year, consistent with Stipulation No. 21.

Marion County

For Marion County water, we reviewed the water systems' billing determinants and tariffs contained in Exhibit 5, MFR Schedule E-2, page 1 of 4. As subsequently discussed, we find that the number of bills, ERCs, and gallons presented on this schedule are appropriate for calculating test year revenues at current rates. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$152,127. We then added Miscellaneous Service Revenues of \$1,275 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$153,402.

For Marion County wastewater, we reviewed the wastewater billing determinants and tariffs contained in Exhibit 5, MFR Schedule E-2, page 3 of 4. As subsequently discussed in this Order, the utility failed to annualize the impact of a 2-inch bulk wastewater customer added to the system during the test year. Annualizing the billing determinants for this customer at current rates increases revenues by \$11,374, which is consistent with Stipulation No. 22. Applying the appropriate tariffs to Marion County wastewater bills and gallons results in Total Wastewater Sales of \$67,743. Addition of the Miscellaneous Service Revenues of \$57 from MFR Schedule B-4, page 1 of 3, results in the approved amount of \$67,800.

Orange County

For the Orange County systems, we reviewed the water systems' billing determinants and tariffs contained in Exhibit 5, MFR Schedule E-2, page 1 of 4. As subsequently discussed in this Order, we find that the number of bills, ERCs, and gallons presented on this schedule is appropriate for calculating test year revenues at current rates. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$83,243. We then added Miscellaneous Service Revenues of \$2,470 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$85,713.

Pasco County

For the Pasco County water systems, we reviewed the water systems' billing determinants and tariffs contained in Exhibit 6,

MFR Schedule E-2. We found that the utility incorrectly backed-out the gallonage allotment contained in the Base Facility Charge for the Wis-Bar and Buena Vista systems. The correct number of gallons for the Wis-Bar system is 1,484,000, and the correct number of gallons for the Buena Vista system is 20,643,000. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$424,427. We added Miscellaneous Service Revenues of \$8,544 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$432,971.

For the Pasco County wastewater systems, we reviewed the wastewater systems' billing determinants and tariffs contained in Exhibit 6, revised MFR Schedule E-2. We find that the number of bills, ERCs, and gallons presented in the schedule are appropriate for calculating test year revenues at current rates. We applied the appropriate tariffs to these billing determinants to yield Total Wastewater Sales of \$282,735. We then added Miscellaneous Service Revenues of \$1,513 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$284,248.

Pinellas County

For Pinellas County, we reviewed the water system's billing determinants and tariffs contained in Exhibit 5, MFR Schedule E-2. We find that the number of bills, ERCs, and gallons presented in the schedule are appropriate for calculating test year revenues at current rates. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$55,439. We then added Miscellaneous Service Revenues of \$1190 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$56,629.

Seminole County

For the Seminole County water systems, we reviewed the water systems' billing determinants and tariffs contained in Exhibit 6, the revised MFR Schedule E-2. As subsequently discussed in this Order, we find that the number of bills, ERCs, and gallons presented in the schedule are appropriate. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$598,209. We then added Miscellaneous Service Revenues of \$9,385 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$607,594.

For the Seminole County wastewater systems, we reviewed the wastewater systems' billing determinants and tariffs contained in Exhibit 6, the revised MFR Schedule E-2. As subsequently discussed in this Order, we find that the number of bills, ERCs, and gallons presented in the schedule are appropriate. We applied the appropriate tariffs to these billing determinants to yield Total Water Sales of \$394,715. We then added Miscellaneous Service Revenues of \$4,031 from MFR Schedule B-4, page 1 of 3, to derive the approved amount of \$398,746.

O & M Expenses

Amounts Allocated from Water Service Corporation (WSC)

In its MFRs, the utility included an allocation of \$149,189 in expenses (out of a total of \$4,050,188) from WSC. This amount was then allocated among the UIF operating systems. On rebuttal, utility witness Lubertozi stated that WSC's common rate base and expenses are allocated proportionately, using multiple factors, such as number of employees, number of bills mailed and number of customer equivalents, with the latter method being used for the majority of expenses. Staff witness Welch recommended a number of adjustments to the total allocable expenses. OPC did not address any of the adjustments to total WSC expenses in its testimony. The utility agreed with staff's recommended adjustments, except as noted below.

Schedule B-12 of the MFRs (Exhibit 5), reflected \$7,235 of depreciation expense allocated to UIF, out of a WSC total of \$196,353. As previously noted, staff witness Welch recommended adjustments to decrease the balances in WSC's computer and related accumulated depreciation amounts to zero. Concurrently, she recommended decreasing depreciation expense by \$63,482 on the basis that the computers appeared to be fully depreciated. Utility witness Lubertozi disagreed with removal of all of the computer equipment from WSC; however, as previously noted, we find that there is nothing in the record of this case to support UIF's calculation of the balances for computer equipment and related accumulated depreciation in WSC's allocable rate base. Further, in its brief, UIF indicated that it accepts the staff witness's adjustments. Therefore, we find that witness Welch's recommended

adjustment to depreciation expense is appropriate. The adjusted balance of allocable WSC depreciation expense is \$132,871.

Schedule B-12 of the MFRs (Exhibit 5), included \$14,191 of interest expense allocated to UIF out of a WSC total of \$383,484. The WSC total is actually the net of \$392,910 of interest expense and \$9,426 of interest income. Witness Welch testified that, in Exception 2 of the Affiliate Transactions (AT) Audit report, she removed the interest expense from WSC's allocation from subsidiaries, because interest expense is recovered through the cost of capital calculation. She also recommended removing the interest income, noting that interest on short-term cash investments is only included as above-the-line income if the cash is part of working capital. In this case, UIF has not included any working capital amount from WSC.

With respect to the interest expense adjustment, UIF witness Lubertozi stated on rebuttal that interest allocated from WSC should be included in UIF's expenses "as the debt incurred at WSC is used to service UI affiliates." We find that witness Lubertozi's explanation is insufficient because in each rate case, the utility allocates its debt from UIF and WSC to each Florida subsidiary through the cost of capital calculation. Further, we note that the utility indicated its acceptance of our staff's adjustments in its brief. Accordingly, we find it appropriate to decrease WSC's allocable interest expense by \$392,910, and to decrease allocable interest income by \$9,426.

Witness Welch also made adjustments to WSC salary related costs. Schedule B-12 of the MFRs (Exhibit 5), reflected total WSC salaries of \$938,586, pension and benefit expense of \$357,963, and Taxes Other Than Income (TOTI) of \$312,586. The TOTI amount included \$256,430 of payroll taxes. In Exception 7 of the Affiliate Transaction Audit report, witness Welch recommended a decrease of \$74,025 to WSC total salaries to reflect staffing decreases subsequent to UI's merger with Nuon. Witness Welch also recommended corresponding decreases in pensions and benefits of \$98,169 related to the above salary adjustments and capitalized salaries. Also in Exception 7, witness Welch decreased WSC payroll tax expense by \$70,318 related to the above adjustments and to capitalized salaries. In Exception 6 of the audit report, witness Welch recommended a decrease of \$123,397 as a result of an error in

booking payroll tax costs. The total decrease in payroll tax expense at the WSC level recommended by witness Welch was \$193,715. On rebuttal, utility witness Lubertozi stated that UIF did not contest any of these adjustments. Accordingly, we find that the above adjustments are appropriate. The total WSC allocable expenses for salary shall be reduced by \$74,025 to \$864,561, pension and benefit expense shall be reduced by \$98,169 to \$259,794, and payroll tax expense shall be reduced by \$193,715 to \$62,715.

In the AT audit report, witness Welch recommended additional adjustments, totaling \$188,612, to decrease allocated O&M expenses from WSC. These decreases consist of \$12,600 for audit services, \$7,550 for other outside services, \$56,500 for directors' fees, \$7,850 for training costs, and \$104,112 for officers' insurance. On rebuttal, utility witness Lubertozi stated that UIF did not contest any of these adjustments. We find that all of the above adjustments are appropriate.

In Exception 5 of the AT audit report, staff witness Welch recommended removal of \$21,615 of finders' fees, which she stated are related to information about systems which can be purchased. Witness Welch maintained that these fees should be treated as acquisition costs and charged to the specific system involved. On rebuttal, UIF witness Lubertozi stated that these fees were related to employee recruitment, not acquisition of systems, and that they were properly allocable to all UI affiliates. Witness Lubertozi included a schedule with his rebuttal testimony which supported the utility's calculation of the finders' fee expense for the test year. However, in its brief, the utility stated that it accepted our staff's adjustments for this issue. We find that the effect of including these fees, after allocation of a small percentage to UIF, is immaterial, and as such we find it appropriate to remove the fees.

Allocation Methodology for Affiliate Expenses

The methodology for allocating costs from WSC to its affiliates, including UIF, was previously discussed in depth. The concerns and arguments of the parties relating to allocation of rate base are equally applicable to expenses. We find that it is appropriate to apply the allocation percentages derived by OPC's

alternative recommendation to the adjusted allocable amounts, as discussed in the preceding section. As a result of applying the revised percentages to the adjusted WSC allocable amounts, our approved allocations to UIF for salary expense, pension and benefits and payroll taxes are \$22,646, \$7,072 and \$1,757, respectively. These adjusted amounts are subsequently incorporated into additional discussion of these categories.

Our approved decrease to depreciation expense of \$63,482 results in total allocable expense of \$132,871. Using OPC's alternative allocation percentage, we approve an adjusted allocation to UIF of \$3,722, or a decrease of \$3,515. The removal of all net interest expense from WSC's allocated expenses results in a decrease of \$14,192 in the amount allocated to UIF. The utility's MFRs reflected an allocation of Other Income of \$601. Application of OPC's alternative recommended percentage reduces this amount to \$458, or a decrease of \$143.

In the preceding section, we approve adjustments to O&M expense (excluding salaries, pensions and benefits and payroll taxes) totaling \$210,227, resulting in adjusted allocable O&M expense of \$1,667,338. Application of OPC's alternative recommended allocation percentages results in an adjusted allocation to UIF of \$56,677, a decrease of \$16,221. Our approved adjustments by County and system are summarized in the following tables.

Depreciation Expense

	Utility Requested Allocation, per <u>MFRs, Sch B-12</u>	Commission Approved <u>Allocation</u>	Commission Approved <u>Adjustments</u>
Marion Water	\$437	\$257	(\$180)
Marion Wastewater	65	38	(27)
Orange Water	166	94	(72)
Pasco Water	1,997	997	(1,000)
Pasco Wastewater	624	311	(313)
Pinellas Water	557	182	(375)
Seminole Water	2,202	1,197	(1,005)
Seminole Wastewater	<u>1,189</u>	<u>646</u>	<u>(543)</u>
Total	<u>\$7,237</u>	<u>\$3,722</u>	<u>(\$3,515)</u>

Interest Expense

	Utility Requested Allocation, per <u>MFRs, Sch B-12</u>	Commission Approved <u>Allocation</u>	Commission Approved <u>Adjustments</u>
Marion Water	\$857	\$0	(\$857)
Marion Wastewater	128	0	(128)
Orange Water	325	0	(325)
Pasco Water	3,917	0	(3,917)
Pasco Wastewater	1,223	0	(1,223)
Pinellas Water	1,093	0	(1,093)
Seminole Water	4,318	0	(4,318)
Seminole Wastewater	<u>2,331</u>	<u>0</u>	<u>(2,331)</u>
Total	<u>\$14,192</u>	<u>\$0</u>	<u>(\$14,192)</u>

	<u>Other Income</u>		
	Utility Requested Allocation, per <u>MFRs, Sch B-12</u>	Commission Approved <u>Allocation</u>	Commission Approved <u>Adjustments</u>
Marion Water	(\$36)	(\$32)	\$4
Marion Wastewater	(5)	(5)	0
Orange Water	(14)	(12)	2
Pasco Water	(166)	(123)	43
Pasco Wastewater	(52)	(38)	14
Pinellas Water	(46)	(22)	24
Seminole Water	(183)	(147)	36
Seminole Wastewater	<u>(99)</u>	<u>(79)</u>	<u>20</u>
Total	<u>(\$601)</u>	<u>(\$458)</u>	<u>\$143</u>

O&M Expense (Excluding Salary, Pensions and Benefits, and Payroll Taxes)

	Utility Requested Allocation, per <u>MFRs, Sch B-12</u>	Commission Approved <u>Allocation</u>	Commission Approved <u>Adjustments</u>
Marion Water	\$4,403	\$3,917	(\$486)
Marion Wastewater	655	583	(72)
Orange Water	1,669	1,434	(235)
Pasco Water	20,117	15,172	(4,945)
Pasco Wastewater	6,284	4,739	(1,545)
Pinellas Water	5,612	2,777	(2,835)
Seminole Water	22,182	18,219	(3,963)
Seminole Wastewater	<u>11,976</u>	<u>9,836</u>	<u>(2,140)</u>
Total	<u>\$72,898</u>	<u>\$56,677</u>	<u>(\$16,221)</u>

In addition to the above adjustments related to allocations from WSC, the parties stipulated to removal of \$50,167 of O&M costs which had been allocated to UIF from Florida Cost Center 600. Staff witness Small, who recommended the adjustment in Exception 20

of the UIF Audit report, also recommended changes in the allocation of the remaining amount between UIF's systems. In Exception 21 of the UIF audit, witness Small noted that the utility had made several errors in its calculation of the allocations, and he recommended that the costs be reallocated using corrected customer equivalent factors. On rebuttal, UIF witness Lubertozi states that the company does not contest this adjustment. Based on our analysis, we find that it is appropriate to allocate the adjustments consistently with the percentages used to allocate WSC allocated costs. Accordingly, we approve the following adjustments to the costs allocated to UIF from Florida Cost Center 600:

	<u>O&M Expense</u>	<u>Percent</u>
Marion Water	(\$3,467)	6.91%
Marion Wastewater	(516)	1.03%
Orange Water	(1,269)	2.53%
Pasco Water	(13,430)	26.77%
Pasco Wastewater	(4,194)	8.36%
Pinellas Water	(2,458)	4.90%
Seminole Water	(16,127)	32.15%
Seminole Wastewater	<u>(8,706)</u>	<u>17.35%</u>
Total	<u>(\$50,167)</u>	<u>100.00%</u>

Our approved adjustments to O&M expense, including depreciation and interest, but excluding salaries, pensions and benefits, and payroll taxes, are summarized in the following table.

	<u>Water</u>	<u>Wastewater</u>
Marion	(\$4,986)	(\$743)
Orange	(1,899)	0
Pasco	(23,248)	(7,261)
Pinellas	(6,737)	0
Seminole	<u>(25,376)</u>	<u>(13,700)</u>
Total	<u>(\$62,246)</u>	<u>(\$21,704)</u>

Salaries, Pensions and Benefit Expense, and Payroll Taxes

On MFR Schedule B-3 for each County (Exhibit 5), the utility included its test year and pro forma adjustments to salaries, pension and benefits, and payroll tax expense. The pro forma adjustments reflected the difference between the actual 2001 test year amounts and the 2002 salaries for UIF operators and office staff. Staff witness Small testified that the utility provided schedules to staff auditors detailing the pro forma adjustments. The estimated salary and related expenses consisted of three components. The first component was an allocation of individual operator salaries and related expenses to UIF. The second component was an allocation of total UIF office salaries to all of UI's Florida subsidiaries. The third component was an allocation of WSC office salaries to UIF.

In Exception 22 of the UIF Audit Report, witness Small identified two errors in the utility's *pro forma* salary adjustment. First, the allocation percentage of direct office salaries to UIF for Pasco County was 10%, which should have been consistent with the 14% factor used for the other Counties. Second, witness Small testified that the test year allocation factors for UIF and WSC office staff for the five Counties in this filing were based on the regional vice-president's estimate of his time spent on each utility. Witness Small stated that subsequent to the test year, the allocation was based upon customer equivalents. Witness Small recommended recalculating the utility's adjustments consistently among the Counties and using the customer equivalent methodology. In its response to the staff audit, UIF agreed with these adjustments.

OPC witness DeRonne testified that the utility's pro forma adjustment reallocated the salary expense between Counties and incorporated a 4% increase for office salaries and a 7% increase for operator salaries. She stated that the utility calculated each adjustment on a County-specific basis and made numerous errors in its calculations from one system to another. First, she identified the utility's use of inconsistent salary amounts and allocation factors for twelve operators in assigning costs to the respective Counties within UIF. Second, consistent with witness Small's testimony, witness DeRonne stated that the Pasco County direct office salary allocation factor was inconsistent with that used for

the other Counties. Her last finding was that the utility actually granted increases of 5% and 4%, respectively, instead of the 4% and 7% increase factors included in the filing.

Witness DeRonne stated that, in its response to OPC's discovery, UIF provided revised schedules that corrected all but one of the errors and misstatements that she noted. The utility's response to OPC Interrogatory No. 144 was entered into the record as Exhibit 2. Witness DeRonne used this schedule as a starting point to reflect her recommended adjustments. First, she corrected the one remaining allocation error for a misstated operator's salary allocation and reduced Seminole County operator salaries by \$2,321. She also recommended that the unfilled operator positions should be removed to reflect the updated salary levels and positions. This resulted in reductions of \$2,280 and \$9,120 to Orange and Seminole Counties, respectively, as well as corresponding reductions of \$1,179, and \$719, respectively, to benefits and payroll taxes in Seminole County, and reductions of \$295, and \$179, respectively, in Orange County.

On cross-examination by staff, witness DeRonne stated that the staff audit adjustment did not pick up any of the adjustments she recommended except for the direct office allocation factors. The utility did not offer any testimony to refute these recommended adjustments.

Additionally, witness DeRonne testified that while the amounts decreased slightly from those included in the MFRs, she made no adjustments to the WSC-allocated salaries to UIF. Her calculations included the original \$31,307 amount and relied on witness Dismukes' testimony to address the allocations from WSC.

Finally, witness DeRonne testified that an adjustment should be made to recognize that a portion of the pro forma salary increase would be capitalized instead of expensed. She stated that the utility's pro forma increase in salaries should be capitalized proportionally to the test year salary expense capitalization rate of 13.14%.

On cross-examination by the utility, witness DeRonne stated that she did not increase plant to correspond with the capitalized salary adjustments. That would be inappropriate, she added, since

rate base was based upon an historic test year and the capitalized salary increases were pro forma expense adjustments. Further, witness DeRonne disagreed that recovery of those amounts would be lost to the utility. She responded that the capitalized portion of the pro forma salary increases would be added to the appropriate plant account balances as they are incurred in the future, and could be recovered in a subsequent rate case.

On rebuttal, UIF witness Lubertozi testified that the utility capitalizes a portion of operator salaries every year. But to reduce the expense without a corresponding increase to plant would be inappropriate. He stated that it would also be improper to increase plant for capitalized time without an invoice or plant account to charge. Witness Lubertozi recommended that since both methods were inappropriate, the Commission should adopt witness Small's recommendation with no further reductions.

We have reviewed the record regarding this issue and find it appropriate to approve witness DeRonne's adjustments to operator salaries. This includes a starting point with the utility's recalculation of salaries pursuant to Exhibit 2, and making the adjustments to remove the salaries for vacant operator positions in Orange and Seminole Counties and correcting the allocation for one operator in Seminole County. Witness Small's adjustments have been addressed by witness DeRonne, and she performed a more thorough analysis of the problems and inconsistencies with the utility's adjusted salaries.

The utility did not present any evidence disputing witness DeRonne's adjustments except for the adjustment for capitalized salaries. Because the utility annually recognizes that some portion of salaries should be capitalized instead of expensed, we find that expenses would be overstated if this adjustment were not made for rate setting purposes. We also agree with witness DeRonne that the utility does not lose recovery of the capitalized plant, as those amounts increase the amount of plant to be considered over the life of the plant. Further, had the utility used a projected test year, it would have been proper to increase plant for these amounts. The purpose of the salary adjustment was to reflect the increased salary levels for employee changes and pay levels, and was simply a known and measurable change, not a complete projection. As such, we find that, consistent with the utility's

method used during the test year, the salaries should reflect a reasonable level of capitalized labor.

In addition to the specific adjustments, we find that the allocation factors previously approved above should be consistently applied to reflect the proper test year salary amounts. The allocation factors are as follows:

Allocation Factors <u>Within UIF</u>	Per <u>County</u>	<u>Inside Counties</u>	
		<u>Water</u>	<u>Wastewater</u>
Marion	7.94%	87.04%	12.96%
Orange	2.53%	100.00%	
Pasco	35.13%	76.20%	23.80%
Pinellas	4.90%	100.00%	
Seminole	<u>49.50%</u>	64.94%	35.06%
Total	<u>100.00%</u>		
Allocation of UIF to Total Florida			<u>11.22%</u>

OPC witness DeRonne used the above factors to calculate her recommended salary expense, with one exception. Instead of using witness Dismukes' method to determine the portion of total Florida office salaries that should be allocated to UIF, witness DeRonne used the utility's filed 14% allocation. This factor, according to witness Small, was determined based on customer equivalents. We find that it is appropriate to be consistent with the approved factors previously addressed in this Order. Therefore, we approve an 11.22% allocation factor. This factor was calculated based on witness Dismukes schedules, which reflected that total Florida systems made up 27% of total UI, and UIF made up 3.03% of total Florida systems.

We have reviewed witness DeRonne's analysis of salaries and we agree that her theory is correct. However, her calculations for the amount of capitalized salaries and the overall adjustment to the MFR salary expense are incorrect. According to Schedule B-2 of her exhibit, witness DeRonne calculated her adjusted annual salary before removing the incremental capitalized portion for each system. She then compared those amounts to what she refers to as the "test year unadjusted amount, per company." Her footnote states that the source of these amounts was the utility's response to OPC Interrogatory No. 6, which was not entered into the record. Witness DeRonne took the difference between these two amounts and multiplied it by 13.14% for her capitalized salary adjustment. She

then compared her net adjustment to the utility's salary adjustment in the MFRs, not to the total salary expense requested. Upon review, none of the "unadjusted amounts, per company" match the salary expenses per system as reflected in the MFRs.

Moreover, we find that witness DeRonne's method of calculating the capitalized component overstates the incremental salary increase that would have been capitalized. The difference includes all impacts of changes to the salary expense which comes from errors in allocations and removal of vacant positions. We find that a more appropriate method to calculate the capitalized component is to remove the specific salary increase from the approved total salary amounts and then apply the capitalized factor to that difference. The amounts removed were the actual salary increases of 4% for operators and 5% for office salaries. We find that our method more accurately measures the incremental salary increase that would be capitalized, and does not net the salary changes that occurred because of reallocations and errors.

We find it appropriate to calculate a corrected test year salary expense for each system after all adjustments are made. This should be compared to the amount of salary expense reflected in the MFRs in the O&M expense accounts for salaries. To use the utility's unadjusted expense pursuant to an interrogatory response not entered into the record, instead of the amount included in the revenue requirement calculation, could easily result in an inaccurate adjustment. Whether the MFR amounts were originally right or wrong is irrelevant, as long as the correct expense amount is reflected for the test year.

We have made corresponding adjustments to benefits and payroll taxes consistent with our approved salary expense. The approved salary, payroll taxes, and benefits expense by system are detailed in the following table:

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<u>Salary Expense</u>	<u>Marion</u>		<u>Orange</u>	<u>Pasco</u>		<u>Pinellas</u>	<u>Seminole</u>		<u>Total UIF</u>
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	
Operators Salaries	\$36,535	\$5,440	\$17,151	\$89,002	\$27,799	\$14,445	\$122,126	\$65,934	\$378,433
UIF Office Salaries	\$3,798	\$566	\$1,390	\$14,712	\$4,595	\$2,693	\$17,667	\$9,538	\$54,960
WSC Salaries	\$1,565	\$233	\$573	\$6,062	\$1,893	\$1,110	\$7,280	\$3,930	\$22,646
Capitalized Salary	<u>(\$208)</u>	<u>(\$31)</u>	<u>(\$95)</u>	<u>(\$542)</u>	<u>(\$169)</u>	<u>(\$90)</u>	<u>(\$728)</u>	<u>(\$393)</u>	<u>(\$2,256)</u>
Total Salary Expense	\$41,690	\$6,208	\$19,019	\$109,235	\$34,118	\$18,158	\$146,345	\$79,009	\$453,783
Salary Expense per MFRs	<u>\$33,909</u>	<u>\$16,433</u>	<u>\$24,513</u>	<u>\$91,240</u>	<u>\$42,121</u>	<u>\$42,847</u>	<u>\$141,294</u>	<u>\$76,282</u>	<u>\$468,639</u>
Adjustment to Salaries	<u>\$7,781</u>	<u>(\$10,225)</u>	<u>(\$5,494)</u>	<u>\$17,995</u>	<u>(\$8,003)</u>	<u>(\$24,689)</u>	<u>\$5,051</u>	<u>\$2,727</u>	<u>(\$14,856)</u>

<u>Pension & Benefits Exp</u>	<u>Marion</u>		<u>Orange</u>	<u>Pasco</u>		<u>Pinellas</u>	<u>Seminole</u>		<u>Total UIF</u>
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	
Operators P&B	\$6,278	\$935	\$3,369	\$14,832	\$5,474	\$2,212	\$21,988	\$11,887	\$66,975
UIF Office P&B	\$711	\$106	\$26	\$2,755	\$861	\$504	\$3,309	\$1,786	\$10,293
WSC P&B	<u>\$489</u>	<u>\$73</u>	<u>\$179</u>	<u>\$1,893</u>	<u>\$591</u>	<u>\$347</u>	<u>\$2,273</u>	<u>\$1,227</u>	<u>\$7,072</u>
Total P&B Expense	\$7,478	\$1,113	\$3,574	\$19,480	\$6,926	\$3,063	\$27,570	\$14,900	\$84,340
Expense per MFRs	<u>\$8,621</u>	<u>\$1,283</u>	<u>\$4,736</u>	<u>\$20,102</u>	<u>\$6,278</u>	<u>\$10,017</u>	<u>\$28,680</u>	<u>\$15,483</u>	<u>\$95,200</u>
Adjustment to P&B Expense	<u>(\$1,143)</u>	<u>(\$170)</u>	<u>(\$1,162)</u>	<u>(\$622)</u>	<u>\$648</u>	<u>(\$6,954)</u>	<u>(\$1,110)</u>	<u>(\$583)</u>	<u>(\$10,860)</u>

<u>Payroll Tax Expense</u>	<u>Marion</u>		<u>Orange</u>	<u>Pasco</u>		<u>Pinellas</u>	<u>Seminole</u>		<u>Total UIF</u>
	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Water</u>	<u>Sewer</u>	
Operators Payroll Taxes	\$2,940	\$438	\$1,585	\$7,166	\$2,238	\$1,152	\$9,862	\$5,324	\$30,705
UIF Office Payroll Taxes	\$308	\$46	\$113	\$1,192	\$372	\$218	\$1,432	\$773	\$4,454
WSC Payroll Taxes	<u>\$121</u>	<u>\$18</u>	<u>\$44</u>	<u>\$470</u>	<u>\$147</u>	<u>\$86</u>	<u>\$565</u>	<u>\$305</u>	<u>\$1,757</u>
Total Payroll Taxes	\$3,369	\$502	\$1,742	\$8,829	\$2,757	\$1,456	\$11,858	\$6,402	\$36,916
Payroll Taxes per MFRs	<u>\$4,359</u>	<u>\$649</u>	<u>\$2,454</u>	<u>\$10,060</u>	<u>\$3,142</u>	<u>\$5,755</u>	<u>\$13,860</u>	<u>\$7,483</u>	<u>\$47,762</u>
Adjustment to Payroll Taxes	<u>(\$990)</u>	<u>(\$147)</u>	<u>(\$712)</u>	<u>(\$1,231)</u>	<u>(\$385)</u>	<u>(\$4,299)</u>	<u>(\$2,002)</u>	<u>(\$1,081)</u>	<u>(\$10,846)</u>

Based on the foregoing, we find that the following adjustments are necessary to salaries, benefits expense, and payroll taxes:

<u>Systems</u>	<u>Salaries</u>	<u>Pension & Benefits</u>	<u>Payroll Taxes</u>
Marion - Water	\$7,781	(\$1,143)	(\$990)
Marion - Wastewater	(\$10,225)	(\$170)	(\$147)
Orange - Water	(\$5,494)	(\$1,162)	(\$712)
Pasco - Water	\$17,995	(\$622)	(\$1,231)
Pasco - Wastewater	(\$8,003)	\$648	(\$385)
Pinellas - Water	(\$24,689)	(\$6,954)	(\$4,299)
Seminole - Water	\$5,051	(\$1,110)	(\$2,002)
Seminole - Wastewater	<u>\$2,727</u>	<u>(\$583)</u>	<u>(\$1,081)</u>
Total	<u>(\$14,856)</u>	<u>(\$10,860)</u>	<u>(\$10,846)</u>

Wastewater Interconnection to City of Sanford

In its MFRs (Exhibit 5), the utility included a pro forma adjustment to increase test year O&M expenses by \$100,296 for the Seminole County wastewater system. The utility's MFRs state that the adjustment was to reflect a full year of the purchase wastewater treatment expense due to the wastewater interconnection with the City of Sanford. The utility removed the wastewater treatment plant from service on July 1, 2001.

Staff witness Small testified that several adjustments to O&M expenses were necessary to properly reflect the retirement of the Lincoln Heights wastewater treatment plant and resulting interconnection to the City of Sanford. Witness Small testified that the following adjustments should be made.

<u>Account No.</u>	<u>Description of Adjustment</u>	<u>Amount</u>
710	Normalize purchased wastewater expense	\$55,032
715	Remove purchased power expense for treatment plant and include normalized purchased power expense for the new transfer lift station	(\$8,461)
720	Remove percolation pond maintenance expense	(\$2,700)
720	Remove sludge hauling expense	(\$17,830)
742	Remove wastewater testing expense	<u>(\$6,496)</u>
	Total Adjustment	<u>\$19,545</u>

Witness Small testified that the utility's purchased wastewater expense for Seminole County should be reduced by \$80,751 to remove excessive costs and to normalize purchased wastewater expense associated with the interconnection. Witness Small calculated a monthly average expense of \$11,841 using the utility's 14-month purchased wastewater expense from July 2001 to August 2002. He then took the annualized expense of \$142,086 and subtracted the actual test year purchased wastewater treatment expense of \$87,054, which resulted in a net increase of \$55,032. Further, witness Small annualized the utility's 6-month purchased power expense for the new transfer station and calculated a purchased power expense reduction of \$8,461. Also, witness Small removed all expenses related to the wastewater treatment plant that were no longer required. Thus, witness Small recommended that the utility's adjustment to test year O&M expenses for Seminole County wastewater should be reduced by \$80,751 (\$100,296 less \$19,545).

In its brief, UIF agreed with witness Small's reduction to O&M expenses of \$80,751 because test year expenses were overstated from emptying, cleaning, flushing and testing the retired wastewater treatment plant. On cross-examination by OPC, UIF witness Lubertozi confirmed that the first and second months (July and August 2001) included a billing from the City of Sanford that was based on 4,700,000 gallons. Further, he admitted that the 4,700,000 gallons included were necessary for emptying, cleaning, flushing and testing of the retired wastewater treatment plant.

OPC witness DeRonne testified that the July 2001 and August 2001 amounts that were included in witness Small's calculation were

not reflective of normal operating conditions or normal monthly expense levels. Witness DeRonne recalculated the annualized purchase wastewater treatment expense using the 12-month period from September 2001 through August 31, 2002. This resulted in an annualized expense level of \$134,635. Thus, she believes that an additional reduction of \$7,451 should be made to witness Small's recommended reduction for a total expense reduction of \$88,202.

Witness DeRonne's testimony cited UIF's response to OPC's discovery wherein UIF admitted that test year wastewater flows were "higher than normal." In that discovery response, UIF explained that the flows were higher for two reasons. First, the July bill included start-up and calibration tests and exercises that would not be reflective of on-going operations. Second, when the treatment plant was removed from service, all of the existing treated wastewater in the facility needed to be emptied. Witness DeRonne testified that her adjustment was necessary to remove two non-recurring, non-representative months of the interconnection.

We agree with witness DeRonne that the expense allowed for ratesetting purposes should reflect a normal year of operating costs. Further, we find that the inclusion of start-up and other non-recurring operational costs should be removed from test year expenses. Therefore, we find it appropriate to recalculate the annualized purchased wastewater treatment expense based on the actual expense incurred during the 12-month period from September 1, 2001 through August 31, 2002 to reflect a normal, on-going level.

Based on the foregoing, O&M expenses in Seminole County shall be reduced by \$88,202 to reflect the proper amount of purchased wastewater treatment expense and other discontinued expenses associated with the interconnection.

Rate Case Expense

In its MFRs, UIF requested total rate case expense of \$505,150. This amount was amortized over the four-year statutory period and then divided evenly between the five County systems. Thus, for each County, the utility made pro forma adjustments to increase test year O&M expenses by \$25,258. The utility then allocated this expense between water and wastewater based on

customer equivalents. Several systems had existing amounts included in rate case expense to which the utility added its pro forma adjustments in its filing.

As an exhibit attached to witness Lubertozi's rebuttal testimony, the utility updated its actual rate case expense incurred and its estimate to complete as of August 1, 2003. Exhibit 28 reflected a revised total of \$687,929, which was a net increase of \$182,779 to the amount of rate case expense requested in the MFRs. The majority of the increase in Exhibit 28 was related to a substantially higher estimate of legal fees to complete the case of \$218,616.

Based on our staff's request, witness Lubertozi, through late-filed Exhibit 29, again updated UIF's requested rate case expense. That exhibit shows total rate case expense (actual expenses to date and estimates to complete) of \$497,724. This exhibit also contained more supporting detail than Exhibit 28 for UIF's legal and consultant expenses and in-house WSC expenses. We note that the decrease from Exhibit 28 to late-filed Exhibit 29 primarily relates to a reduction of the amount of estimated legal fees.

Witness Lubertozi testified that one of the primary factors that increased expenses was the amount of time required to respond to the overwhelming number of discovery requests by OPC. Additionally, he testified that UIF incurred costs in challenging the testimony of OPC witnesses Cicchetti and Dismukes on issues concerning gain on sale, cost of capital and return on equity.

A comparison of the utility's actual and estimated expenses as reflected in Exhibits 5, 28 and 29 are listed in the table below:

<u>Type</u>	<u>EXH 5 MFR</u>	<u>EXH 28</u>	<u>Actual</u>	<u>Per EXH 29</u>	
	<u>Estimated</u>	<u>Estimated</u>		<u>Estimate</u>	<u>Total</u>
Legal Expenses	\$222,500	\$441,116	\$180,203	\$43,868	\$224,071
Consultant Exp.	123,025	71,814	37,965	40,850	78,815
WSC Expenses	99,625	141,615	130,716	9,903	140,619
Misc. Expenses	<u>60,000</u>	<u>33,384</u>	<u>54,219</u>	<u>0</u>	<u>54,219</u>
Totals	<u>\$505,150</u>	<u>\$687,929</u>	<u>\$403,103</u>	<u>\$94,621</u>	<u>\$497,724</u>

MFR Deficiencies and Quality of Books and Records

OPC witness DeRonne testified that the significant number of errors and subsequent re-filing of the utility's MFRs caused a great deal more work in reviewing the company's filing. Also, the utility was regularly late in responding to OPC interrogatory requests, and as a result, OPC was required to file many motions to compel in order to receive responses to interrogatories or requests for production of documents. Witness DeRonne also indicated that UI has a long-standing history of the Commission citing the utility for not being in compliance with several rules and the USOA. She stated that she was able to find seven cases dating back to 1995 through this current case where UI was cited or where there were audit reports indicating difficulty with the books and records not being in compliance with the USOA.

OPC witness Dismukes recommended that we disallow a substantial amount of the rate case expense that UIF requested. In agreement with witness DeRonne, witness Dismukes testified to the inadequate filing and the non-compliance of the utility's books and records. As a result, witness Dismukes did not think UIF's ratepayers should bear the costs associated with the deficiencies in the MFRs and discovery responses.

Witness Dismukes stated that there were several examples where this Commission has disallowed imprudent rate case expense in utility rate proceedings. One example was in Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS, In Re: Petition of Florida Cities Water Company for limited proceeding to recover environmental litigation costs for North and South Ft. Myers Divisions in Lee County and Barefoot Bay Division in Brevard County, at p. 26. In that case, the utility sought recovery of rate case expenses associated with the filing. The Commission found that the incurrence of rate case expense was imprudent and denied the utility's request for recovery.

Moreover, by Order No. PSC-96-1320-FOF-WS, issued October 30, 1996 in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange,

Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties, this Commission denied legal expense recovery of \$25,000 incurred for what it deemed an imprudent appeal of an oral decision on interim rates. Additionally, the Commission determined that expenditures for misspent time were imprudent and reduced the requested rate case expense by \$32,500. See also Order No. 18960, issued March 7, 1988, in Docket No. 861338-WS, In Re: Petition of Ferncrest Utilities, Inc. for rate increase in Broward County, Fl.

Witness Dismukes stated that the excessive rate case costs in this case should be absorbed by the stockholders of UI. As such, she recommended that we disallow three-quarters of the requested rate case expense, subject to the final submission of rate case expense documentation by the utility.

Staff witness Small testified that the utility was not in compliance with the NARUC USOA. Witness Small also indicated that the utility had not made any changes to its accounting system in order to comply with prior Commission orders related to the quality of its books and records. Witness Small referenced Order No. PSC-00-2388-AS-WU, issued December 13, 2000, in Docket No. 991437-WU, In Re: Application for Increase in Water Rates in Orange County by Wedgefield Utilities Inc. (the Settlement Order). In the Settlement Order, the utility agreed to improve the quality of its books and records and prepare its future MFR filings in compliance with Commission rules.

As addressed in the UIF Audit Report, witness Small testified that the utility's MFRs did not comply with the requirements agreed to by the utility in the Settlement Order. First, numerous rate base schedules should have reflected the balance per the general ledger when the balance per books was required. Witness Small found that the balances were those from UIF's annual report, which were not always the same as those in the general ledger. He also stated that the structure of the utility's accounting system continued to require significant amounts of the audit staff time to reconcile its MFRs to its books and records. Further, the materials and supplies and miscellaneous expense accounts, specifically identified in the Settlement Order, continued to require extraordinary audit staff attention because of the number of utility subaccounts involved and the allocation methodologies

applied. In spite of the settlement from the Wedgefield case, the audit staff continued to encounter problems conducting an efficient audit of the utility's books and records for this filing. The auditors expended a considerable amount of time reconciling the filing to the utility's MFRs and prior filings.

Staff witness Lingo testified primarily on technical rate matters, but included several references to the inadequacy of the MFRs. As part of her analysis, she reviewed the information provided by the utility through responses to data requests, production of documents, and late-filed deposition exhibits. Witness Lingo stated that staff had insufficient information to calculate rates in Pasco or Seminole Counties and she recommended that the requested rate relief be denied for UIF's systems in those Counties.

Witness Lingo also stated that, as originally filed, the MFRs contained numerous billing inconsistencies which made it impossible for the staff to evaluate the billing determinants or the proposed rate calculations for several of the systems. She also indicated that the utility's most recent billing data, submitted days before the hearing, should be reviewed by staff in its determination of the appropriate rates.

On cross-examination by OPC, witness Lingo was asked how many times the rate schedules had been filed or revised in this case. Witness Lingo stated that even with her assistance, it took the utility eight attempts to submit the correct rate schedules upon which her testimony was based.

On rebuttal, witness Lubertozi testified that he had spent 72 hours revising the MFRs, and he was the only utility individual who spent time revising the rate schedules. He also stated that there were additional costs for copying and delivery charges connected with preparing the MFR revisions. In Exhibit 29, the utility removed \$4,040 for the 72 hours of witness Lubertozi's time spent revising the MFRs, \$1,886 in copying costs for the additional MFR revisions, and \$5,642 in travel costs for PSC auditors, since the utility maintains its books and records out of state. In its brief, the utility argued that no OPC witness produced any quantifiable disallowance of rate case expense, nor did PSC staff

adduce any evidence that the requested expenses were unjustified or excessive.

In its brief, OPC argued that we should disallow a substantial portion of the rate case expense because UIF has been unable to produce reliable and accurate MFRs. OPC also stated that responses to discovery were often inadequate or late. Further, OPC believes that "UIF used its discovery obligations as an excuse for much of its excessive rate case expense." As such, OPC again recommended disallowing three-quarters of the requested rate case expense allowance.

Section 367.081(7), Florida Statutes, states that "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer." Additionally, this Commission enjoys a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973). Nevertheless, it would constitute an abuse of discretion for this Commission to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 529 So. 2d 694 (Fla. 1988). Further, it is the utility's burden to prove that its requested costs are reasonable, including costs associated with rate case expense. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla 1982).

We find that the record reflects that the utility has failed to maintain its books and records consistent with the NARUC USOA and to make adjustments pursuant to numerous prior Commission orders. As a result of this non-compliance, we believe that the number of discovery requests was much higher than might have been required had the utility maintained its books in a proper manner. Although UIF has attempted to show that the level of rate case expense was due to excessive OPC discovery requests, the record reflects why the additional discovery was sought. We find that UIF has not met its burden to show that all of its requested expenses are reasonable.

The record reflects that requests for information were incorrect or late, and in some cases were incorrect a number of times. Additionally, the MFR deficiencies and errors in the filing took the utility more than 72 hours to correct. We agree with OPC that the ratepayers should not be required to pay for the extra rate case expenses incurred by UIF under these circumstances.

While we agree that some reduction of rate case expense is appropriate, we do not find that an across-the-board 75% reduction, as recommended by OPC, is reasonable. There are a number of expenses included in consultant fees, legal fees, and WSC expenses, which would have been incurred even if the filings had been acceptable from the beginning. Some of these costs include the initial preparation of the MFRs, the preparation and review of testimony by the utility and its expert witnesses, the payment of the filing fee, and the preparation and filing of reasonable levels of discovery responses.

Based upon the foregoing, we find it appropriate to reduce legal fees and WSC salaries associated with revising the MFRs and responding to audit and discovery requests by 75%. Exhibits 28 and 29 both include a breakdown of WSC salaries for MFR preparation and discovery. These expenses are identified on page 1-1 of Exhibit 29 in the column titled "Assist w/ and Respond to Discovery, UIF and WSC Audit." The WSC salary expense for these tasks totaled \$71,758. A 75% reduction of allowed WSC expense reflects a reduction of \$53,819.

In order to make the adjustment to legal fees, we have reviewed all legal invoices to determine the number of hours that could be associated with these two functions. The detail on the legal invoices include descriptions of work performed and the hours worked on a daily basis. For those days that list tasks in addition to deficiencies and discovery, we have prorated the time spent based on the explanations. Based on our review, legal time spent on revising the MFRs and discovery totaled 220 hours. Given the hourly rate of \$225, we estimate the amount of legal expense for these two items to be \$49,500. Removing 75% of this amount results in a decrease to legal expense of \$37,125.

Consultants

We have also reviewed the invoices and estimated time-to-complete for the utility's consultants. Witness Ahern's schedule of actual and estimated rate case expenses includes an estimate of 35 hours for preparation, testimony, and attending the hearing. We have reviewed the documentation submitted for witness Ahern and we find it reasonable.

Witness Gower's invoice included an estimate of 52 hours for the same responsibilities as witness Ahern, but there were no detailed explanations reflecting how he spent the 52 hours. We note that witness Gower's direct and rebuttal testimony were both stipulated into the record with no cross-examination required. We believe that the time to read testimony, testify at the hearing and any other miscellaneous responsibilities should require approximately the same number of hours for both witnesses, unless otherwise supported. Accordingly, we find it appropriate to reduce the allowed expense of witness Gower by 17 hours, to the same 35-hour level allowed for witness Ahern. Witness Gower's hourly rate of \$300 times 17 hours results in a reduction of \$5,100.

We have also reviewed the invoices for billed expense and estimate-to-complete for witness Seidman. We find that his actual and estimated expenses are reasonable.

Miscellaneous Expenses

We have reviewed all invoices related to miscellaneous expenses. The invoices in this category were generally for mapping each service area for the UIF systems. Several invoices, however, were for services for systems which are other Florida subsidiaries of UI not included in this rate case. Those invoices related to Cypress Lakes, Alafaya, Mid-County and Sandalhaven and totaled \$4,083. We find it appropriate to remove this amount from UIF's requested rate case expense.

Summary

Based upon the foregoing adjustments, the appropriate total rate case expense for this proceeding is \$397,597. This includes

our adjustment of \$100,127 to the revised request in Exhibit 29 of \$497,724, as indicated below:

<u>Type</u>	<u>Per EXH 29 Total</u>	<u>Commission Adjustments</u>	<u>Commission Adj. Balance</u>
Legal Expenses	\$224,071	(\$37,125)	\$186,946
Consultant Expenses	78,815	(5,100)	73,715
WSC Expenses	140,619	(53,819)	86,800
Misc. Expenses	<u>54,219</u>	<u>(4,083)</u>	<u>50,136</u>
Totals	<u>\$497,724</u>	<u>(\$100,127)</u>	<u>\$397,597</u>
Annual Amortization			<u>\$99,399</u>

Pursuant to Section 367.0816, Florida Statutes, rate case expense shall be amortized over four years. This results in an annual approved rate case expense of \$99,399.

UIF's MFRs included \$19,347 in test year rate case expense, to which UIF added its pro forma increase of \$126,287. This resulted in annual rate case expense amortization of \$145,634 per year on a total company basis. Since we approve an annual amortization of \$99,399 per year, the approved decrease to rate case expense from the amount requested in the MFRs is \$46,235.

The utility allocated its total rate case expense equally to each County. The County expense, for those with both water and wastewater systems, was then allocated using UIF's customer equivalents. Orange and Pinellas Counties, which are water only, were not further allocated. This methodology was previously addressed in this Order.

We find that the utility's allocation method to spread the cost evenly among the Counties does not recognize that the five Counties in this case vary greatly in size. As it is, this method allocates to the ratepayers in the smaller Counties more than their fair share of rate case expense. Seminole and Pasco Counties have between five and six times more ratepayers than do Marion, Orange or Pinellas Counties. We find such an allocation method which does not recognize this difference to be discriminatory.

Section 367.081(2)(a)1, Florida Statutes, states that the Commission shall fix rates which are just, reasonable, compensatory, and not unduly discriminatory. While we do not agree with the customer equivalents expense allocation used by WSC, even WSC's method of expense allocation recognizes size differences between Counties. We find that meter equivalents more closely match rate case expense to ratepayers in each County than either the customer equivalent method or the equal allocation of rate case expense to each county used by UIF. For that reason, we find it appropriate to allocate the rate case expense approved herein to each County based on meter equivalents per system.

Our approved adjustments to each system are shown in the table below.

<u>System</u>	<u>Test Year Expense</u>	<u>Utility Pro Forma Adjust.</u>	<u>MFR Amort. Per Year</u>	<u>Commission Approved Expense</u>	<u>Commission Approved Adjustment</u>
Marion-W	\$1,448	\$21,984	\$23,432	\$7,668	(\$15,764)
Marion-WW	563	3,273	3,836	597	(3,239)
Orange-W	806	25,258	26,064	2,451	(23,613)
Pasco-W	3,988	19,246	23,234	38,060	14,825
Pasco-WW	2,745	6,011	8,756	15,152	6,396
Pinellas-W	519	25,258	25,777	4,226	(21,551)
Seminole-W	6,025	16,402	22,427	20,282	(2,145)
Seminole-WW	<u>3,253</u>	<u>8,855</u>	<u>12,108</u>	<u>10,964</u>	<u>(1,144)</u>
Total	<u>\$19,347</u>	<u>\$126,287</u>	<u>\$145,634</u>	<u>\$99,399</u>	<u>(\$46,235)</u>

Unaccounted For Water

Staff witness Redemann testified that unaccounted for water is the difference between the amount of water produced (or purchased), and the amount sold to customers or documented as being used for fire fighting, testing, flushing, or resulting from documented line breaks. Unaccounted for water is typically the result of un-metered usage, faulty meters, and leaks in the water system.

Utility witness Seidman stated that this Commission has often used 10% as the limit for an acceptable amount of unaccounted for water. It is not an amount set by rule, and is open for review in each rate case. Witness Seidman also noted that this Commission's Standard Operating Procedures (SOP) manual contains a statement that a fair average of unaccounted for water might be 10-20%.

Witness Seidman testified that some water management districts in Florida suggest that an acceptable range of unaccounted for water should be 12-15%. Specifically, he cited the SWFWMD's opinion that there is no need to address unaccounted for water when it is less than 15%. In a water use caution area, the district allows 12%. Witness Seidman suggests that an acceptable level is 12.5% as a conservative goal.

Witness Seidman testified that the Park Ridge and Oakland Shores systems recorded more water sold than water pumped. He stated that the reason for this could be that the meter at the well is running slow. Other reasons could be that incorrect readings were taken, errors were made in recording, or there had been purchased water that was not properly recorded. Based upon his review of the facts in the case, witness Seidman recommends no adjustment be made to expenses for excess unaccounted for water.

OPC witness Bidy analyzed the flow records for each of the seventeen water systems, calculating the amount of unaccounted for water. Ten of the seventeen systems had amounts exceeding 10%. Witness Bidy observed that historically, this Commission has considered unaccounted for water of over 10% to be excessive. He noted that while the utility believes that 12.5% may be acceptable, the policy of this Commission is a limit of 10%, and he based his calculations on the 10% historical allowance. Witness Bidy's calculations are shown in Exhibit 10, Schedule TLB-4.

Witness Bidy recommended that an adjustment be made for the following amounts of excess unaccounted for water:

	Excess Over 10%
Bear Lake	5.60%
Buena Vista	0.50%
Crescent Heights	0.00%
Crystal Lake	3.20%
Davis Shores	0.00%
Golden Hills/Crownwood	12.21%
Jansen	1.50%
Lake Tarpon	10.60%
Little Wekiva	3.04%
Oakland Shores	0.00%
Orangewood	7.50%
Park Ridge	0.00%
Phillips	6.80%
Ravenna Park/Lincoln Heights	0.80%
Summertree	6.20%
Weathersfield	0.20%
Wis-Bar	0.00%

NOTE: These percentages are listed for informational purposes only, and are not indicative of the percentages which this Commission shall apply.

Staff witness Redemann testified that Commission practice is to allow 10% unaccounted for water and to reduce chemical and electrical pumping expenses for amounts exceeding 10%. In addition to stating the Commission's practice, witness Redemann performed some independent review of other data sources that discuss acceptable amounts of unaccounted for water. He specifically reviewed AWWA Manuals M8 and M32, which essentially state that an acceptable amount of unaccounted for water might range from 10-20%

for fully metered systems with good meter maintenance and average service conditions, although values may range as high as 30%.

Witness Redemann found that the SJRWMD, in conjunction with the District's rule on consumptive use and water conservation, requires the utility to perform a meter survey. If the amount of unaccounted for water is found to exceed 10% as a result of the survey, the utility may need to initiate a meter change-out program and must complete a leak detection evaluation. The SWFWMD Consumptive Use Permit handbook requires water audits to be performed by utilities in the Northern Tampa Bay Water Use Caution Area, which include Pasco and Pinellas Counties. If the annual water losses exceed 12%, the permittee must complete a water audit within ninety days of submission of the annual report. For systems outside the Caution Area, which would include Marion County, the threshold for reduction of water losses is 15%. Based upon his review, witness Redemann concluded that for water systems with losses slightly over 10%, an adjustment to expenses would be immaterial. In addition, he concluded that for systems with losses over 10%, if the utility has performed a water audit and is proceeding to reduce the losses, no adjustment should be made.

Witness Redemann recommended no adjustment for the Weathersfield, Ravenna Park, Crescent Heights, and Buena Vista systems which had 10.2%, 10.8%, 10.3%, and 10.2% unaccounted for water, respectively, because the amount of the adjustment would be immaterial. Further, witness Redemann recommended no adjustments be made for Little Wekiva (13.0%) because a water audit had been performed and a representative of the Florida Rural Water Association had made specific recommendations, which UIF was implementing. He recommended no adjustment for the Phillips system (16.8%), since a main leak had recently been repaired, and the utility was awaiting results of that repair.

Adjustments to expenses were otherwise recommended by witness Redemann for unaccounted for water in excess of 10%. The recommended adjustments were 12.20% for Golden Hills/Crownwood in Marion County, 4.49% for all of the Pasco County systems, and 10.63% for the Lake Tarpon system. The recommended adjustments to the water expense accounts are as follows:

Golden Hills/Crownwood	Chemicals	140
	Electric Power	\$1,325
Pasco County Combined*	Chemicals	\$211
	Electric Power	\$700
Lake Tarpon	Chemicals	\$22
	Electric Power	\$272

* Electric and chemical expenses are not separated by system in the Pasco County MFRs.

We believe that while the 12.5% goal advocated by witness Seidman for unaccounted for water has merit, utilities should be encouraged to aggressively seek a goal of 10% or less. Water conservation is becoming increasingly important. We believe that utilities should make extra effort to track water sales, record water losses, and be vigilant to reduce those excessive amounts of unaccounted for water. However, when a utility is making an effort to reduce losses, such as in Little Wekiva, those efforts should be recognized.

For the foregoing reasons, we find it appropriate to make no adjustment for unaccounted for water of 10% or less. No adjustment shall be made for the Weathersfield, Ravenna Park, Crescent Heights, and Buena Vista systems, since those amounts would be immaterial. In addition, no adjustments shall be made for the Little Wekiva or Phillips systems, even though the unaccounted for water exceeds 10%, because the utility is working to correct the problems. Adjustments to electric power purchased and chemicals, as suggested by witness Redemann, shall be made for the Golden Hills/Crownwood system, all of the Pasco County systems, and the Lake Tarpon system. The total approved adjustments are to reduce electric power purchased by \$2,297 and chemicals by \$373.

Infiltration and Inflow

The utility and testifying staff's position is that only the Ravenna Park wastewater system has excessive inflow and infiltration. OPC's position is that all of the wastewater systems except the Wis-Bar system have excessive inflow and infiltration.

Both staff witness Redemann and OPC witness Bidy testified that inflow results from water entering a wastewater collection system through manholes or lift stations. Infiltration results from groundwater entering a wastewater collection system through broken or defective pipe and joints. Excessive amounts of inflow and infiltration create additional demand on the wastewater treatment system. Therefore, the amount of wastewater treated is examined to determine whether an adjustment should be made to plant or operating expenses such as chemicals, electricity, or purchased wastewater treatment.

As a general rule, utilities do not meter the amount of wastewater returned to the system from individual customers. However, by estimating the amount of water sold that is returned to the wastewater system and comparing it with the amount of wastewater actually treated, an estimate can be made as to the amount of inflow and infiltration that occurred in a particular system. Witnesses Redemann and Seidman testified that this Commission typically assumes that 80% of the water purchased by residential customers and 96% of the water purchased by general service customers is returned to the wastewater system for treatment. In most instances, witness Bidy assumed that 80% of all water purchased was returned to the wastewater system for treatment, although he acknowledged that in a service area with separate irrigation meters, more than 80% is likely to be returned.

Witnesses Redemann and Seidman testified that, based on the Water Pollution Control Federation Manual of Practice No. 9, developed in 1970, the allowance for infiltration should be 500 gpd/inch-diameter/mile for all pipes. In addition, witness Redemann testified that an additional 10% of water sold should be allowed for inflow.

Witness Bidy originally testified that he would normally analyze the collection lines to determine the amount of inflow and infiltration per inch of sewer diameter per mile (gpd/inch-diameter/mile) if the size and length of the collection system lines were available. In the absence of that information, he testified that inflow and infiltration above 10% of wastewater treated is excessive.

At the hearing, witness Bidy indicated that he was able to secure the detailed collection line information he needed to properly calculate the amount of allowable inflow and infiltration. He testified that, based on DEP's rule for new sewers, the allowable infiltration for a wastewater system is 200 gpd/inch-diameter/mile of sewer. He also testified that, while factors like the material and age of the system and soil will cause varying amounts of infiltration if the system is not maintained, OPC's position is simply that the system should be well maintained and, therefore, the reasonable allowance of infiltration should be closer to DEP's new sewer rule (200 gpd/inch-diameter/mile). Witness Bidy indicated that the use of 500 gpd/inch-diameter/mile, which was a standard set in the 1960s or 1970s by the Federal Water Pollution Control Administration, is very liberal and recognized what was happening rather than what was desirable. OPC's policy is to adopt a stringent requirement and to hope that the utility keeps the sewers well-maintained enough to meet that standard. Witness Bidy also testified that an allowance for inflow of 5% of water sold could be included. He testified that the inflow should be approximately equal to or less than the infiltration in the system as a general rule.

Wis-Bar

UIF witness Seidman testified that he performed the calculation for inflow and infiltration for the Wis-Bar system and found that it was not excessive. OPC witness Bidy also testified that the Wis-Bar system did not have excessive inflow and infiltration.

We agree with both parties that the Wis-Bar wastewater system does not have excessive inflow and infiltration. Therefore, we find that no adjustment is necessary.

Ravenna Park

Witness Seidman agreed with the calculations prepared by staff witness Redemann for inflow and infiltration at the Ravenna Park wastewater system. Witness Redemann testified that the Ravenna Park system has a problem with inflow and infiltration. He noted that the system was dedicated to public service on March 5, 1959, and that the collection system is constructed primarily of

vitriified clay pipe. Clay pipe is more brittle and joints are not as tight when compared to modern pipe.

Witness Redemann testified that the allowance for infiltration for the Ravenna Park system should be 500 gpd/inch-diameter/mile. The only way the utility could maintain the older, clay pipes is to dig them up with a backhoe or use a construction company that specializes in the rehabilitation of manholes and collection systems. Witness Redemann calculated an infiltration allowance based on the size and length of the utility's collection mains and service laterals. In addition, based on the amount of water the utility reported was sold to its wastewater customers, witness Redemann testified that an additional 10% of water sold should be allowed for inflow.

The utility pays a base charge of \$469.32 per month and a usage charge of \$4.13 per 1,000 gallons for wastewater treatment. Witness Redemann testified, and witness Seidman agreed, that based on the total of the estimated amount of water sold and returned to the wastewater system of 16,920,644 gallons, plus the allowance for infiltration of 3,030,000 gallons, and the allowance for inflow of 2,077,500 gallons, the cost to treat 22,028,164 gallons of wastewater would be \$96,608. The 12-month average cost for purchased wastewater treatment for Ravenna Park was \$142,086. Therefore, we find it appropriate to remove the cost of treating excessive inflow and infiltration at Ravenna Park of \$45,478 (\$142,086 - \$96,608) from the utility's expenses for ratemaking purposes.

At the hearing, witness Bidy provided Revised TLB-6 which reflects his calculation of allowable infiltration of 1,224,181 gallons based on 200 gpd/inch-diameter/mile. Witness Bidy also included an allowance for inflow of 5% of water sold (1,038,750 gallons). He calculated a cost of \$84,860 to treat the estimated amount of water returned to the wastewater system plus an allowance for inflow and infiltration. Witness Bidy testified that an adjustment of \$57,226 (\$142,086 - \$84,860) should therefore be made to the purchased wastewater expense for excessive inflow and infiltration.

We find that the criteria that witness Bidy proposed for estimating infiltration (200 gpd/inch-diameter/mile) appears too

strict for a system that was constructed more than 40 years ago. Witness Bidy correctly points out that the more stringent criteria assumes that the utility keeps the lines maintained well enough to meet that standard. We agree with witness Redemann that even a well-maintained collection system which is decades old will not be able to meet the design standard which DEP currently recommends for new construction. Therefore, we find that 500 gpd/inch-diameter/mile (3,030,000 gallons) is a reasonable basis for estimating infiltration for the Ravenna Park system.

We also agree with the utility and testifying staff that an additional 10% of water sold should be allowed for inflow rather than the 5% allowance proposed by witness Bidy. Witness Bidy testified that the inflow should be approximately equal to or less than the infiltration in the system as a general rule. Consistent with witness Bidy's testimony, our approved inflow allowance of 2,077,500 gallons is less than the approved infiltration allowance.

Based on the evidence of record, we find it appropriate to reduce the treatment costs associated with the Ravenna Park wastewater system by \$45,478 due to excessive inflow and infiltration, as proposed by the utility and testifying staff.

Golden Hills/Crownwood

Witness Seidman found no excess inflow and infiltration for the Crownwood wastewater system in Marion County. In the Marion County MFRs, Schedule F-6 states that treated flows were calculated using time clocks and theoretical pump rates from lift station pumps. Treatment plant flows were found to be less than billed gallons to customers. Witness Seidman used a multiplier to make the treated flows equal the billed gallons, plus an allowance of 10% excess over treated flows for infiltration. The schedule shows 11.43% more wastewater treated than sold.

In addition, witness Seidman prepared a supplemental analysis using an allowance of 500 gpd/inch-diameter/mile of pipe for infiltration, excluding service laterals, that shows that 773,689 gallons would be allowable. The analysis shows that, expecting 96% of water sold to residential customers to return to the wastewater plant, the estimated inflow and infiltration is 860,874. The difference between the estimated inflow and infiltration, and the

calculated allowance is 86,874 gallons annually, or 2.84% of the wastewater attributable to the Crownwood residential, multiplex customers. There is one bulk customer on this wastewater system whose inflow and infiltration flows were excluded in estimating the water returned to the wastewater system and the amount of treated wastewater. Witness Seidman concluded that the bulk customer's collection system did not contribute to the company's inflow and infiltration and that 2.84% of treated flows is not significant, and could be infiltration from the service laterals or inflow.

In Exhibit 11, p. 2, witness Bidy indicated that the utility's MFRs show that 11.43% more wastewater was treated than sold. No other data was available from the flow records to make an independent calculation. Therefore, the inflow and infiltration reported by the utility was accepted, with a resulting excessive amount of 1.43% (11.43% - 10.00%).

We recognize that the amounts of wastewater treated at the Golden Hills/Crownwood wastewater treatment plant are estimates. In one analysis, the utility relied on time clocks and theoretical pump rates from lift station pumps to estimate the amount of wastewater treated. In his supplemental analysis, witness Seidman did not explain the basis for the total wastewater treated and it is presumed that the time clocks were relied upon. We agree with the utility that the estimated inflow and infiltration at the Golden Hills/Crownwood wastewater system does not appear to be excessive given the age of the system. In addition, there is not sufficient, reliable data on which to draw conclusions about the amount of inflow and infiltration at the Golden Hills/Crownwood wastewater treatment plant. Therefore, no adjustment shall be made.

Summertree

For the Summertree system in Pasco County, witness Seidman advocates that there is no excess inflow and infiltration. Both witnesses Seidman and Bidy agree that 22,027,023 gallons of water were sold to wastewater customers and 23,690,000 gallons of wastewater were treated during the test year. However, witness Seidman disputes witness Bidy's assumptions that 80% of the water flows were returned as wastewater, and noted that witness Bidy did not adjust his figures for separately metered irrigation, nor make

a distinction between the flows for residential and general service customers. Witness Seidman testified that this issue was addressed in Summertree's last rate case, Docket No. 910020-WS, issued February 27, 1992, in Order No. 25821, In Re: Petition for rate increase in Pasco County by Utilities, Inc. of Florida, where this Commission agreed that due to the unique circumstances, it was proper to assume that 96% of the water sold was returned to the wastewater system. Based on that assumption, the total inflow and infiltration would be 2,554,058 gallons. Witness Seidman testified that based on the size and length of mains, excluding service laterals, and an allowance of 500 gpd/inch-diameter/mile of gravity mains, the allowable infiltration would be 8.14 million gallons, compared to the calculated total inflow and infiltration of 2,554,058.

In Exhibit 11, p. 1, witness Bidy calculated total inflow and infiltration of 6,068,382 gallons (25.62%), based on an assumption of 80% of water sold returned to the wastewater system for treatment. Witness Bidy proposed that an adjustment for excessive inflow and infiltration of 15.62% should be applied to the cost of pumping and purchased wastewater treatment.

We agree with the utility that witness Bidy underestimated the amount of water that would have been returned to the wastewater system when he used an 80% return factor. In addition, we agree with witness Seidman's use of the size and length of mains to estimate the allowable infiltration, rather than the 10% of treated wastewater used by witness Bidy. Therefore, we find that the Summertree wastewater system does not have excessive inflow and infiltration. Therefore, no adjustment is necessary.

Weathersfield

The Weathersfield system in Seminole County is a bulk customer of the City of Altamonte Springs' wastewater system. Billings are calculated on the basis of 70% of the water sold, and no measurement of treated flows occurs. Witness Seidman explained that although witness Bidy derived a number for wastewater treated, neither the company nor the City has that information. He concluded that since bulk wastewater billing was for 70% of the water sold, any inflow and infiltration that may exist is not being passed on to customers through the treatment cost.

OPC witness Bidy testified that he performed calculations, with the assumption of 80% of the water sold being returned as wastewater. He then allowed 10% for inflow and infiltration. Exhibit 11 contains witness Bidy's estimate of the gallons of water sold to wastewater customers and returned to the wastewater system compared with the total gallons of water sold. He found 1,107,952 gallons (1.23%) to be the amount of excessive inflow and infiltration. Witness Bidy's recommendation is to apply the excess cost of inflow and infiltration to operational pumping costs and to the cost of purchased wastewater treatment.

We agree with witness Seidman that, since bulk wastewater billing was for 70% of the water sold, any inflow and infiltration that may exist is not being passed on to customers through the treatment cost. Therefore, we find that no adjustment for excessive inflow and infiltration for the Weathersfield wastewater system is necessary.

Summary

Based upon all of the foregoing, we find it appropriate to reduce the treatment costs associated with the Ravenna Park wastewater system by \$45,478 due to excessive inflow and infiltration. The other wastewater systems in this case do not require an adjustment for excessive inflow and infiltration. In its brief, the utility requested that any adjustment for inflow and infiltration be offset by the cost of the inflow and infiltration investigation of \$25,000, amortized over three years. However, there is no evidence in the record to support the utility's request.

Gain on Sale

Amount of Gains on Sales

According to utility witness Lubertozi, the purchase agreements for the sale to the City of Maitland (Maitland sale) was executed in October of 1998 and the sale to the City of Altamonte Springs (Altamonte sale) was executed in August of 1999. The closing dates for the Maitland sale and the Altamonte sale were February 15, 1999 and August 19, 1999, respectively. The Maitland sale involved the transfer of UIF's Druid Isle water system and a

portion of its Oakland Shores water system in Orange County. The Altamonte sale involved the transfer of UIF's Green Acres water and wastewater facilities in Seminole County. See Order No. PSC-02-0657-PAA-WU, issued May 14, 2002, in Docket No. 991890-WS, In Re: Investigation into ratemaking consideration of gain on sale from sales of facilities of Utilities, Inc. of Florida to the City of Maitland in Orange County and the City of Altamonte Springs in Seminole County, p. 2-3.

In that Order, this Commission found that the gain on the Maitland sale was \$61,699 and the gain on the Altamonte sale was \$269,661. These amounts were calculated as follows:

	<u>Maitland Sale</u>	<u>Altamonte Sale</u>
Proceeds from Sale	\$159,000	\$427,000
Deductions:		
Book Basis of Plant	31,267	N/A(1)
Selling Costs	<u>27,832</u>	<u>18,422</u>
Pre-Tax Gain	\$ 99,901	\$408,578
Taxes (38.27%)	<u>38,232</u>	<u>138,917</u>
Net Gain	\$ 61,669	\$269,661

Note: (1) Booked as CIAC.

Utility witness Gower agreed with the above net gain calculations for both of these sales. OPC witness Dismukes agreed with the calculated net gain of \$269,661 for the Altamonte sale, but not the Maitland sale.

Witness Dismukes testified that, through discovery, OPC requested that UIF provide all invoices and other support documentation for the \$27,832 selling costs for the Maitland sale. Witness Dismukes stated that, in its response to OPC discovery, UIF stated it was unable to provide support for \$14,566 in selling costs. She also stated that Commission practice is to disallow costs which are not supported by the utility. As a result, witness Dismukes recommended that the selling costs should be reduced by \$14,566, which would result in a gain on sale of \$67,695.

Since UIF was not able to provide the support for all of its selling costs of the Maitland sale, we agree with OPC that the selling costs should be reduced by \$14,566. As a result, we find that the gains on the Maitland sale and the Altamonte sale are \$67,695 and \$269,661, respectively.

Gains on Sales Not Included in Cost of Service

UIF Witness Gower testified that, for several reasons, gains or losses on sales of utility systems should not be included in cost of service used for rate setting purposes. First, witness Gower asserted that the cost of service includes the cost of resources consumed or used during a given time period. He pointed out that the USOA, through its detailed instructions, limits the amount of operating expenses to the costs of providing utility service and has designated separate accounts for non-utility activities. He stated that the USOA also requires the sale of systems to be recorded in the income accounts to reflect any gains or loss, which signifies that shareholders's capital has been withdrawn from the utility.

Second, witness Gower stated that regulators allow utilities a reasonable return on capital for only original cost book values. He cited Order No. 25729, issued February 17, 1992, in Docket No. 891309, In Re: Investigation of Acquisition Adjustment Policy, p. 3, in which this Commission stated that we have "consistently interpreted the 'investment of the utility' as contained in Section 367.081(2)(a), Florida Statutes, to be the original cost of the property when first devoted to public service, not only in the context of acquisition adjustments, but elsewhere as well." Since book values of utility assets are far less than replacement values of those assets, witness Gower testified that customers are shielded from price increases which might otherwise reflect those increased costs. For assets providing service until retirement, witness Gower stated that neither depreciation nor return allowances included in rates reflect the higher costs which investors will face upon replacing such assets. As such, this risk is borne by the investors.

Third, witness Gower testified that ratepayers' rights cease with the payment for service received. He stated that such payments do not entitle ratepayers to receive any interest in the

property of the utility serving them. Witness Gower pointed out that in a 1926 case involving New York Telephone Company, the U.S. Supreme Court found that

[t]he relation between the company and its customers is not that of partners, agent and principal, or trustee and beneficiary. . . . Customers pay for service, not the property used to render it. Their payments are not contributions to depreciation of other operating expenses, or to capital of the company. By paying bills they do not acquire any interest, legal or equitable, in the property used for their moneys received for service belongs to the company, just as does that purchased out of proceeds of its bonds and stock.

Board of Public Utility Commissioners et al. v. New York Telephone Company, 271 U.S. 23, 31-32 (1926)

In witness Gower's fourth point, he testified that under rate base regulation, investors bear the risk of the success or failure of the enterprise, including the impacts of weather, customer usage, management's ability to control costs, inflation, regulatory lag, and market and product risks. He testified that because sales of securities are capital transactions, regulators can limit the rate of return on utility investment, but cannot limit capital transactions. Witness Gower stated that depreciation and rate of return included in rates customers pay for service cover only that part of those resources consumed during the period when the service was rendered. On direct examination, he concluded that "[f]ailure to assign to investors gains or losses on sales of this type is not only confiscatory, unfair and improper, but also has adverse implications to the utilities' ability to raise capital at reasonable costs."

Utility witness Lubertoizzi testified that the gain on sale issue has been litigated in numerous cases before this Commission. He stated that the Commission has a policy which allows the shareholders to retain the gains on sale of utility's facilities. Gains and losses on sale of utility property should flow to the stockholders as a return of the capital invested in the utility, and the ratepayer's payment for the cost of service does not vest any ownership interest in the utility property. Witness Lubertoizzi

testified that the remaining customers, like all customers, under a uniform rate structure pay only the cost of service for a specific period of time. He further stated that "[i]t is not possible to determine whether, over a period of time, one customer 'contributed' to a portion of the other facilities that are unrelated, except by virtue of their common rate."

OPC witness Dismukes testified that there are four specific reasons to assign gains in the instant case to ratepayers. First, she stated that this Commission has consistently required customers to bear the risk of losses with abandoned plants and early retirements. She testified that thus, for consistency, ratepayers should receive the benefit of gains associated with the sale of utility assets and/or systems. Witness Dismukes cited several cases in the past where the Commission required ratepayers to bear the loss of plant abandonments.

In her second point, witness Dismukes pointed out that the Commission has required ratepayers to bear the loss on the sale of an entire system, Southern States Utilities, Inc.'s Skyline Hills. Witness Dismukes cited Order No. 17168, issued February 10, 1987, in Docket No. 850166-WS, In Re: Application of Southern States Utilities, Inc., for increased water and sewer rates to its customers in Lake County, Florida, where the Commission found that the gain or loss on the sale of a system should be recognized in setting rates for the remaining systems. Witness Dismukes further testified that the Commission's practice in the electric industry regarding similar circumstances as the instant case has been to share all or part of the gains on sale with the ratepayers.

Third, witness Dismukes discussed the gain on sale policies of other state commissions. She included, as an exhibit to her testimony, a summary of the responses to a gain on sale questionnaire compiled by the Commission staff. Witness Dismukes testified that, while there is not complete agreement, there is a clear trend to recognize that ratepayers have borne the risks associated with utility assets and should be allocated any rewards, such as gains on sale. However, on cross-examination, she admitted that the use of the word "trend" was probably not the best word to use. She also agreed that only Illinois and Washington had allocated gains to ratepayers in water and wastewater cases, and that the Illinois' decision was remanded by the courts.

She stated that, although Utah has no established policy, the questionnaire indicated that Utah has a general policy that the gain should follow risk. Wisconsin's stated policy was to follow USOA accounting rules to record gains or losses, but one case was cited in which 100% of a gain was allocated to customers. She stated that Illinois allowed a portion of gain to be included in test year revenues in a recent case. However, she indicated that the Illinois decision was overturned by the courts because it erroneously concluded the gain was a non-recurring event and it improperly relied on accounting rules instead of previously recognized policy regarding treatment of land sale gains.

Further, witness Dismukes stated that staff's questionnaire reflected that Washington has deviated from its policy of allocating 100% gain to ratepayers based on compelling circumstances presented on a case-by-case basis. She pointed out two recent cases that Washington cited in response to the Commission staff's questionnaire. First, Washington ordered that the gain on sale of a coal plant be deferred, with interest, until the utility's next rate case. The second case involved the gain on sale of a utility's share of an electric plant. Witness Dismukes explained that Washington allowed the utility to recover its net book value (NBV) and that the gain above book value should be assigned to ratepayers, up to the amount of the original cost of the plant.

A commissioner questioned witness Dismukes's interpretation of one of the Washington state cases. Witness Dismukes agreed that a gain on sale should be recognized up to the amount of fully recovered depreciation and that anything above the full depreciable allowance should be attributed to the shareholders. In order to have this information for the instant case, the same commissioner requested a late-filed exhibit to reflect the original asset cost and the amount of accumulated depreciation at the time of sale. Exhibit 15, as filed, reflected that for the Maitland sale, the potential gain attributable to the ratepayers would be \$115,897, and as a result it would not change witness Dismukes' recommended adjustment. For the Altamonte sale, the original cost was not available. As noted previously, the NBV of the Altamonte sale was zero because the assets were fully contributed.

Witness Dismukes' fourth point concerned the factors that this Commission has considered in allowing a utility to keep its gain in previous cases. She testified that these factors do not exist in the instant case. She stated that, while the Commission in one case did not attribute any gain on sale to the ratepayers for two large systems, it did allow ratepayers to receive the gain on sales of assets. Witness Dismukes explained that the asset sales involved assets which had been included in rate base, under the Commission's jurisdiction, and had been included in uniform rates. Further, she pointed out that the Commission found that "when a utility sells property that was formerly used and useful or included in uniform rates, the ratepayers should receive the benefit of the gain on the sale of such utility property." Witness Dismukes asserted that the same situation exists in the instant case of Druid Isles, Oakland Shores, and Green Acres Campground because these facilities were included in rate base and were a part of a uniform rate structure. However, on cross-examination, witness Dismukes agreed that the gain on sale of the assets that were allocated to the customers was an insignificant amount in that case.

Witness Dismukes further testified that it is Commission practice, when a facility is purchased for more or less than its NBV, that the purchaser is only allowed to recover a return on the NBV. As a result, witness Dismukes commented that the ratepayers only pay rates on NBV, instead of on the actual purchase price. Thus, she expressed that it would be unfair to attribute any gain to the customers above the NBV. Using this logic, witness Dismukes testified that it would not be fair to the customers to attribute any loss incurred because of a sale below NBV. However, she pointed out that this Commission did allow the ratepayers to absorb the loss on the sale of the Skyline system. Witness Dismukes asserted that, for consistency, the customers should be attributed the gain which is a direct result of paying for the assets through depreciation and CIAC.

With regard to witness Gower's argument that gains and losses are capital transactions and assignable to shareholders, witness Dismukes testified that this argument is illogical and against traditional ratemaking practices. She noted that the Commission has allowed the ratepayers to absorb the loss on early plant retirement or abandonment. In addition, witness Dismukes asserted

that the proper accounting treatment does not always translate into the appropriate ratemaking treatment because this Commission and other state commissions have frequently treated costs for ratemaking purposes different from accounting purposes. For these reasons, she stated that the Commission should reject witness Gower's argument that the capital nature of gains warrants that the gain flow to the shareholders.

Witness Dismukes also addressed witness Gower's argument that the risk of exposure of the shareholders' capital dictates that gains or losses should be attributable to them. She argued that the ratepayers are captive and pay the rates whether the service is poor or the price is high. The shareholders generally do not bear the risk of loss on utility investment unless the loss was determined to be imprudent. She stated that customers are required to pay all prudent operating costs and a return on all prudently invested plant. Further, witness Dismukes testified that the customers bear the risk of inflation and increases from purchased utility services, as well as environmental compliance costs. With regard to witness Gower's argument that shareholders bear the risk of higher costs for replacing assets that are retired, she testified that the customers will pay the increased costs when the assets are placed into service.

Witness Dismukes disagreed with witness Gower's argument that attributing the gain to ratepayers would have adverse implications for the utility's ability to raise capital. She testified that UI competes for capital with other regulated utilities which are subject to the same regulatory rulings.

Further, witness Dismukes disagreed with witness Lubertoizzi's assertion that this Commission has established a policy of allowing the stockholders to keep gains on sales. First, she stated that there is no written policy by the Commission and that the Commission decides the regulatory treatment of gains on sales on a case-by-case basis. Second, witness Dismukes indicated that as the members of the Commission change, the decisions of one set of commissioners might differ from another set of commissioners. Finally, she stated that the Commission has allocated gains to ratepayers in other industries, as well as two gains on sale in the water and wastewater industry.

Witness Dismukes concluded by recommending that 100% of each gain should be attributable to the customers and amortized over a five-year period. Further, she testified that the annual amortized amount should be based on her recommended customer equivalent allocations to each County.

On cross-examination, witness Dismukes agreed that ratepayers do not obtain ownership interest of utility assets through the payment of its rates. Witness Dismukes also testified that, in recent years, the Commission has indicated that future profits are lost for systems sold along with the customers, and therefore has found it appropriate to assign the gain to shareholders.

OPC witness Cicchetti agreed with witness Dismukes that the gains should be assigned to ratepayers. He testified that cost of service regulation contemplates that customers pay the net cost of providing service including a fair rate of return. Witness Cicchetti stated that utilities realize a return of capital through depreciation and earn a return on capital through a fair allowed rate of return. If gain on sales are assigned to shareholders, he asserted that the utility would be allowed to recover more than the cost of providing service. Witness Cicchetti also testified that there has been divestiture of generation and transmission assets in recent years by electric utilities, in which the ratepayers have paid for losses.

Witness Cicchetti disagreed with witness Gower's assertion that neither gains nor losses should be included in the cost of service for ratemaking purposes. He stated that utilities have generally been allowed to recover stranded costs, which represents the lost value as compared to original cost of assets that the utility was forced to sell. Witness Cicchetti also disagreed with Messrs. Gower and Lubertozi's arguments that because the shareholders' capital is exposed to risk of ownership, any gains or losses should flow to them. He stated that shareholders are compensated for the risk of providing service through the allowed rate on equity, which includes a premium for the risks of ownership. The determination of the appropriate costs that the ratepayer must bear is relevant, instead of ownership of utility assets. For example, he asserted that salvage value is netted against the original cost to determine the amount of utility plant that is to be recovered through depreciation. Witness Cicchetti

stated that to his knowledge, he is not aware of any utility owners asserting that salvage value should not be used to reduce the net cost of depreciation to ratepayers and instead accrue to the shareholders.

Witness Cicchetti also responded to witness Gower's argument that failure to assign gains or losses of this kind to the shareholders would be confiscatory and adversely impact a utility's ability to raise capital. On the contrary, witness Cicchetti stated that assigning losses of 100% to shareholders would be confiscatory. Also, allowing a fair return on equity meets the capital attraction standard for raising capital at a fair price. Finally, on cross-examination, witness Cicchetti agreed that the gains on sale are treated differently between industries and by other commissions.

On rebuttal, witness Gower disagreed with witness Dismukes' argument that the gains should be assigned to ratepayers because the Commission has consistently required them to bear the cost and risk of plant abandonments. He indicated that prudent plant abandonments and prudent retirements result from unforeseen events. Witness Gower stated that when such events occur, a cost-benefit analysis is performed to determine the best option at the lowest long-run cost, which includes the consideration of the unrecovered cost of the asset being evaluated for replacement.

Witness Gower stated that Rule 25-30.433(9), Florida Administrative Code, demonstrates that prudence is a prerequisite to recover the loss of abandoned plant. To further illustrate his point regarding the issue of prudence, he pointed out that, by Order No. PSC-93-1023-FOF-WS, issued July 12, 1993, in Docket No. 911118-WS, In Re: Application for a rate increase in Lee County by Lehigh Utilities, Inc., p. 5, the Commission stated that:

[w]e also agree with the utility's argument that the Mad Hatter case was based on evidence that reflected the utility's actions were prudent. That finding was critical to the Commission's determination that the loss should be borne by the ratepayers. In the alternative, had the Commission found the utility's decision to be imprudent, the shareholders would have borne the loss. Consequently, we find OPC's argument that the Commission

routinely allows the recovery of losses on utility plant to be in error. (Emphasis added).

Witness Gower indicated that, in each plant abandonment case cited by witness Dismukes, she had ignored the Commission's finding of prudence. Specifically, he asserted that witness Dismukes ignored the developments subsequent to the 1991 Mad Hatter case (Order PSC-93-0295-FOF-WS, issued February 24, 1993, in Docket No. 910637-WS, In Re: Application for rate Increase in Pasco County by Mad Hatter Utility, Inc.), to which she cited. In that case, this Commission allowed recovery of the loss on two wastewater plants and the related land. Witness Gower noted that Mad Hatter had indicated that, for a number of reasons, the land could not be sold and should be included in the loss. The Commission later discovered that Mad Hatter had sold the land to an affiliated officer. By Order No. PSC-97-1233-AS-WS, issued October 13, 1997, in Docket No. 961471-WS, In Re: Initiation of Show Cause Proceedings Against Mad Hatter Utility, Inc. in Pasco County for Violation of Order No. PSC-93-0295-FOF-WS, the Commission required Mad Hatter to refund to its ratepayers both the loss recovered from the customers and the gain on sale of the land. Based on these subsequent events, witness Gower asserted that Witness Dismukes' claim that customers are consistently required to bear loss on abandonments is not well founded. On cross-examination, witness Dismukes agreed that shareholders bear the loss of imprudent abandonments.

With regard to witness Dismukes' citations to several electric cases in which the Commission attributed gains to ratepayers, witness Gower stated that the gains were associated with specific assets, rather than the sale of facilities, service territory, and the customers. He noted that as a consequence of a sale of facilities in the water and wastewater industry, a utility ceases to serve a portion of its territory and experiences a decline in revenue. In contrast, witness Gower pointed out that, in the electric cases, the specific asset sales did not result in loss of revenues or customers.

Witness Gower added that whether a utility has uniform or stand alone rates is not a relevant factor in deciding the disposition of gains. In fact, he stated that the courts have rejected the notion that there is any attachment created between

the rates paid for service and any particular element of the cost of service. To this point, witness Gower again cited to Board of Public Utility Commissioners et al. v. New York Telephone Company, 271 U. S. 23, at 31-32, where the U.S. Supreme Court found that customer payments are not contributions to depreciation or other operating expenses, nor are they contribution to the capital of the company.

Witness Gower disagreed with witness Dismukes' assertion that gains should be attributable to customers because the ratepayers paid the depreciation and CIAC of the utility assets sold. He asserted that her logic here would only be true if the depreciation booked by the utility was in excess of the amount required to reflect the useful lives of the assets. Witness Gower argued that a purchaser of utility assets pays for the remaining useful life of those assets, not for the value that has been already consumed. He argued that regardless of the source, ratepayers benefit from CIAC through lower rates because CIAC represents a reduction to rate base and depreciation expense. Witness Gower testified that the payment of CIAC does not vest any ownership rights to the utility's property. Witness Gower further testified that the remaining UIF customers to which OPC would attribute the gains paid nothing for depreciation and CIAC applicable to the property sold, and he noted that as such, witness Dismukes is proposing to give the gain to the wrong parties.

Witness Gower also disagreed with witness Dismukes' assertion that the shareholders bear no risk of loss, absent imprudent management actions. He argued that the shareholders' primary risk is inadequate earnings, which is the reason for the instant case. Witness Gower argued that shareholders also face the risk of regulatory disallowance by the Commission and that, before a utility files for rate relief for plant replacement costs, the shareholders must first finance the incremental investment. Witness Gower testified that, as a result, the shareholders absorb the increased costs in the meantime.

Witness Gower disagreed with witness Dismukes that attributing the gains to ratepayers is not improper, unfair, or confiscatory. He testified that assigning gains to customers represent an outright taking of the shareholders' property.

Regarding one of witness Dismukes' arguments, Witness Gower countered that UIF not only competes with regulated utilities but it also competes with other non-utility businesses in the capital markets. He stated that since investors are risk averse, confiscation of capital by assigning gains to ratepayers is a risk investors would attempt to avoid. Witness Gower also disagreed with witness Cicchetti's assertion that, all things being equal, attributing the gains to shareholders would allow the utility to recover more than the cost of service. He testified that things are not equal because the sale of assets are outside the cost of providing service. The sale of property represents a partial withdrawal of investor capital that was used in providing service. Witness Gower asserted that if customers are assigned the gains, the customers would receive a windfall because the utility's rates would be set at less than the actual cost of service.

Regarding witness Cicchetti's testimony about the recovery of stranded costs, witness Gower countered that deregulation is the abandonment of cost of service regulation for a part of a utility's business. He asserted that deregulation represents the termination of the social contract implicit in cost-based rate regulation. When this occurs, the recovery of stranded costs are deemed to be a transition cost to the new free market system. Witness Gower stated that the allowance of this cost is made in anticipation of net savings to be realized by customers even after absorbing the cost of stranded assets. Witness Gower argued that since deregulation is the polar opposite of cost-of-service regulation, witness Cicchetti's claim was invalid and inappropriate.

Utility witness Lubertozi testified that shareholders have the burden of regulatory lag, during which time owners experience a delay in realizing a reasonable return of their investment.

We find that witness Gower's arguments are very persuasive. As Witness Gower testified, it is clear that the courts have found that the rates paid by customers are only for the service received during a given period of time and that the rates paid by customers do not vest ratepayers with any ownership rights to property used to render service. Another compelling factor raised by witness Gower is that the customers pay rates based on original cost rather than on replacement values. We find that these are strong arguments to assign the gains to the shareholders.

Further, we agree with witnesses Gower and Lubertozzi that shareholders bear the risk of regulatory lag. However, we also agree with witness Cicchetti that assigning all losses to the shareholders would be confiscatory.

With regard to the Green Acres Campground system, witness Dismukes recognized that these facilities were recorded by the utility as CIAC. We agree with witness Gower that customers benefit from CIAC through lower rates because CIAC reduces rate base and depreciation. We find this to be another compelling reason to attribute the gain on the Altamonte Sale to the stockholders.

As witness Dismukes testified, the Skyline Hills case is the only case that had similar circumstances with the transfer of the Druid Isle water system in the instant case. Each of these sales involved the sale of the entire system and its customers. However, as witness Dismukes agreed, the basis for the Commission's decision to assign the loss to the customers in the Skyline Hills case was not explained in the order. Further, witness Dismukes testified that the members of this Commission change and what one Commission panel may have found relevant may not be the same for a different Commission panel. Without knowing the basis of the Commission's prior decision, we find that the Skyline Hills case does not provide much precedential value in determining who should be assigned the gain in the instant case.

We agree with witness Lubertozzi that it is impossible to measure subsidies among customers under a uniform rate structure. We also agree with witness Gower that the remaining UIF customers should not benefit from the sale of a system when the customers who paid for the facilities are now gone. Witness Dismukes admitted that the Commission has recognized that future profits are lost for systems sold along with the customers with a system, and that it has therefore found it appropriate to assign the gain to shareholders. We note that each of the sales in the instant case included the transfer of facilities and customers. Thus, we find that these are more compelling arguments to attribute the gains to the shareholders.

We disagree with witness Cicchetti's argument that the gains should be assigned to ratepayers because the Commission has allowed

recovery of stranded costs in the electric industry. As pointed out by witness Gower, stranded costs are actually transition costs from deregulating the generation and transmission assets. We agree with witness Gower that the recovery of the stranded costs in the electric industry are distinguishable from the losses in the water and wastewater industry because stranded costs are the result of deregulation and the water and wastewater industry remains under cost-based regulation.

Based upon the foregoing, we agree with the utility on this issue. In so doing, we note that it is our prerogative to evaluate the testimony of competing experts and accord whatever weight to the conflicting opinions we deem necessary. Gulf Power Co. v. FPSC, 453 So. 2d 799, 805 (Fla. 1984). Accordingly, we find it appropriate to attribute the gains on the Maitland and Altamonte sales to the shareholders. Thus, no adjustments are necessary to test year operating expenses.

Test Year Operating Income

As shown on the attached operating income schedules, after applying the adjustments approved herein, net operating income for the test year is listed below.

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	\$ 20,307	\$ 20,530
Orange	\$ (6,120)	N/A
Pasco	\$ 42,352	\$ 16,190
Pinellas	\$ 4,085	N/A
Seminole	\$ 80,335	\$ (11,509)

REVENUE REQUIREMENT

UIF's requested final rates are designed to generate the annual water and wastewater revenues, revenue increases and the overall rate of returns listed below.

	<u>Requested Revenue</u>	<u>\$ Increase</u>	<u>% Increase</u>	<u>Rate of Return</u>
Marion Water	\$201,221	\$49,509	32.63%	9.34%
Marion Wastewater	\$63,838	\$5,309	9.07%	9.34%
Orange Water	\$161,854	\$75,668	87.80%	9.10%
Pasco Water	\$526,505	\$103,509	24.47%	9.29%
Pasco Wastewater	\$364,369	\$77,600	27.06%	9.29%
Pinellas Water	\$158,531	\$103,443	187.78%	9.19%
Seminole Water	\$775,554	\$184,949	31.32%	8.53%
Seminole Wastewater	\$909,840	\$522,989	135.19%	9.29%

Based upon our findings concerning the underlying rate base, cost of capital, and operating income issues, we approve the following revenue requirements.

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase (Decrease)</u>	<u>Revenue Requirement</u>	<u>% Increase (Decrease)</u>
Marion Water	\$153,402	\$8,778	\$162,180	5.72%
Marion Wastewater	\$67,800	(\$24,950)	\$42,850	(36.80)%
Orange Water	\$85,713	\$17,080	\$102,793	19.93%
Pasco Water	\$432,971	\$70,299	\$503,270	16.24%
Pasco Wastewater	\$284,248	\$16,477	\$300,725	5.80%
Pinellas Water	\$56,629	\$24,186	\$80,815	42.71%
Seminole Water	\$607,594	\$95,002	\$702,596	15.64%
Seminole Wastewater	\$398,746	\$231,442	\$630,188	58.04%

RATES AND RATE STRUCTURE

Billing Determinants

In her prefiled testimony filed on June 16, 2003, staff witness Lingo stated that the bills, gallons, and ERCs for the systems in Pasco and Seminole Counties were inappropriate for setting rates. Other than the utility and staff witness Lingo, no other party provided testimony on the appropriate number of bills, gallons, and ERCs.

On August 19, 2003, the utility submitted revised MFR Schedules E-2 and E-14 (Exhibit 6) for Pasco and Seminole Counties, in which the utility purported to correct the billing determinant problems delineated by staff witness Lingo. Staff witness Lingo testified at the hearing that she did not have an opportunity to analyze the corrected MFRs and could not testify to the extent to which the utility had addressed her concerns. We have subsequently analyzed the corrected MFRs contained in Exhibit 6 and we find that the utility has corrected the problems identified in staff witness Lingo's testimony for Pasco and Seminole Counties. Therefore, we find that the utility's latest revised MFRs, updated to include the corrections contained in Exhibit 6, represent an appropriate starting point for establishing the billing determinants used to set water and wastewater rates. A detailed discussion of this set of billing determinants and our adjustments made to them follows on a county-by-county basis.

Pasco County

The utility operates four water systems in Pasco County; the Wis-bar, Buena-Vista, Summertree/Paradise Point, and Orangewood systems. Two of these systems, the Wis-Bar and Summertree/Paradise Point systems, also provide wastewater services.

Staff witness Lingo testified that there were several problems with the water and wastewater billing determinants for the four systems in Pasco County. For the Pasco County water systems, staff witness Lingo demonstrated in her Exhibit FJL-1, page 3, that the utility's billing determinants resulted in \$32,383 more revenues during the test year than was shown in the utility's filing. Similarly, for the Pasco County wastewater systems, staff witness Lingo demonstrated in Exhibit FJL-3, page 2, that the utility's billing determinants resulted in \$19,885 more revenues during the test year than was shown in the utility's filing. Staff witness Lingo also noted that the utility had inconsistently applied the meter equivalent factors used to establish the number of water and wastewater ERCs. Given these inconsistencies, staff witness Lingo concluded that the Pasco County water system billing determinants were inappropriate for setting water and wastewater rates and that rate relief for these systems should be denied.

As noted above, the utility's Exhibit 6 purported to contain corrected billing determinants for Pasco County. We have analyzed these billing determinants and have determined that the problems identified in staff witness Lingo's testimony has been appropriately addressed. The error associated with understating test year water revenues was attributable to the utility's failure to properly convert the number of billing units for the Orangewood system from bi-monthly to monthly billing units. The error associated with understating test year wastewater revenues was attributable to an incorrect number of gallons being used for the Summertree/Paradise Point system. Additionally, the utility revised the meter equivalent factors used to calculate the number of ERCs so that they are consistent with AWWA standards.

In addition to the corrections discussed above, we note that Stipulation No. 31 removes the 3,000 gallon allotment from the Wis-Bar water system and the 5,000 gallon allotment from the Buena Vista water system. The effect of making these two minor corrections to the billing determinants resulting from Stipulation No. 31 increases the number of gallons to 3,616,464 for the Wis-Bar water system and to 46,845,858 for the Buena-Vista water system.

After analyzing the revisions contained in Exhibit 6, we find that the revised billing determinants submitted by the utility for the Pasco County water and wastewater systems appropriately correct the inconsistencies identified in staff witness Lingo's testimony. With the inclusion of the effect of Stipulation No. 31, we hereby approve the revised billing determinants submitted by the utility for the Pasco County water and wastewater systems.

Seminole County

The utility operates nine water systems in Seminole County. Eight of these systems currently have consolidated rates, and therefore consolidated billing determinants. A portion of these systems also provide wastewater services. The remaining system, Oakland Shores, is a stand-alone water system.

Staff witness Lingo testified that the number of customers reported in MFR Schedules E-2 and E-14 (Exhibit 5) for the Oakland Shores system substantially differed from the number of customers shown in utility witness Seidman's Exhibit FS-1, Schedule No. 1.

Furthermore, staff witness Lingo indicated that even if the appropriate customer count for the system could be established, there still would be a problem determining the appropriate gallons associated with those customers. On rebuttal, utility witness Lubertozi acknowledged the discrepancy, stating that 16 of Oakland Shores customers' bills and gallons were reported on MFR Schedules E-2 and E-14. The bills and gallons of the remaining 209 customers were commingled across the utility's other systems in Seminole County. Furthermore, staff witness Lingo noted that the utility had inconsistently applied the meter equivalent factors used to establish the number of water ERCs. Given these problems, staff witness Lingo concluded that the Seminole water system billing determinants were inappropriate for setting water rates and that rate relief should be denied.

As noted above, the utility filed Exhibit 6 which was purported to contain corrected billing determinants for Seminole County. We have analyzed these billing determinants and we find that the problems identified in staff witness Lingo's testimony have been appropriately addressed. In its Exhibit 6, the utility revised its bills and gallons based on billing codes for the Oakland Shores system and for the other eight combined systems in the County. Based on our analysis, the revisions appear appropriate and agree with the customer counts originally reported by utility witness Seidman. Additionally, the utility revised the meter equivalent factors used to calculate the number of ERCs so that they are consistent with AWWA standards.

After analyzing the revisions contained in Exhibit 6, we find that the revised billing determinants for the Seminole County water and wastewater systems appropriately correct the problems identified in staff witness Lingo's testimony. Therefore, we hereby approve the revised billing determinants for the Seminole County water and wastewater systems.

Marion County

Staff witness Lingo testified that Staff Audit Exception No. 17 identified a two-inch bulk wastewater customer which was added during the test year. The utility reported in its MFRs the actual bills and gallons for this customer rather than the annualized bills and gallons, as would have been appropriate. Staff witness

Lingo recommended that the annualized billing determinants for this customer be used to set rates, resulting in 12 billing units and 5,384,615 gallons. Utility witness Lubertoizzi did not dispute this recommendation on rebuttal, nor did the utility contest Staff Audit Exception No. 17. Therefore, we find that the billing determinants contained in Exhibit 5, adjusted to reflect the annualization of the two-inch bulk wastewater customer, are appropriate for setting rates.

Pinellas and Orange Counties

No party disputed the billing determinants submitted by the utility in Exhibit 5 for Pinellas and Orange Counties. Our review of these billing determinants revealed no inconsistencies or errors. Therefore, we find that the billing determinants for Pinellas and Orange Counties are appropriate as filed.

Rate Consolidation

The utility currently has water rates in Pasco County for four stand-alone systems. The utility currently has two sets of water rates in Seminole County. One set of rates is for eight combined systems and one set is for a stand-alone system (Oakland Shores). In its initial filing, the utility proposed to consolidate its four stand-alone water systems in Pasco County into a consolidated county-wide rate. The utility also proposed to consolidate Oakland Shores with the other eight systems in Seminole County into a consolidated county-wide rate. County-specific single tariff pricing (also referred to as rate consolidation or county-wide rates) has been approved by this Commission since at least 1983. Commission decisions in which county or statewide pricing has been approved as an appropriate rate structure include Order No. 13014, issued February 20, 1984, in Docket No. 810386-W, In Re: Request of Sunshine Utilities, Inc. for staff assistance on a rate increase to customers in Marion County, Florida; Order No. PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In Re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.; and Order No. PSC-94-1123-FOF-WS, issued September 13, 1994, in Docket No. 930880-WS, In Re: Investigation into the appropriate rate structure for Southern States Utilities, Inc. for all regulated systems in Bradford, Brevard, Citrus, Clay, Collier, Duval, Hernando, Highlands, Lake,

Lee/Charlotte, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

Staff witness Lingo testified that county-wide consolidated rates aggregate the costs, investments, rate structures, and customers of a utility and computes an average water rate for that utility. The average rate is typically expressed in terms of a uniform BFC and gallonage charge. When computing an average rate, there will be some customers that pay more than the stand-alone rates and some customers that pay less than the stand-alone rates. In essence, customers of one system may benefit at the expense of other customers. This phenomenon is called subsidization. Staff witness Lingo testified that it is important to evaluate the level of subsidization to determine whether the consolidated rates are unduly discriminatory.

Pursuant to Chapter 367.081(2)(a)1, Florida Statutes, the Commission shall fix rates which are just, reasonable, compensatory and not unduly discriminatory. In order for us to make a determination as to whether consolidating the rates within a county results in rates which are not unduly discriminatory, it is essential that an analysis be done to evaluate the level of subsidization. Utility witness Lubertozi agreed that the Commission should have access to an analysis of potential subsidies. A subsidy analysis involves comparing a typical bill of each system under its stand-alone rates to a typical bill under the consolidated rate. Utility witness Lubertozi agreed that this methodology is acceptable in evaluating subsidies.

We also considered this Commission's findings in the most recent Southern States Utilities, Inc. (SSU, n/k/a Florida Water Services Corporation) rate case for guidance regarding subsidy analysis. (See Order No. PSC-96-1320-FOF-WS at 226-227, issued October 30, 1996, in Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties). In that case, the Commission approved a rate consolidation methodology in which 85 percent of

the customers paid subsidies, 15 percent of the customers received subsidies, and only 5 percent of the customers paid subsidies greater than \$2.00 per month, with a maximum subsidy of \$3.64 per month. Id.

Pasco County

As stated previously, the utility proposed to consolidate its four stand-alone water systems in Pasco County. They are the Wis-Bar, Buena Vista, Summertree, and Orangewood systems. At the time staff witness Lingo prepared her testimony, she was unable to evaluate any potential subsidies because the utility had not provided the information necessary to calculate stand-alone rates for the Wis-Bar system. The utility subsequently provided this information in Exhibit 6.

Utility witness Lubertozi indicated that an analysis had been performed to determine whether the utility's proposed rates were fair and reasonable. However, based on a review of the stand-alone rates provided by the utility in Exhibit 6, we find that these rates are inappropriate for use in a subsidy analysis. The stand-alone rates for the Wis-Bar and Buena Vista systems provided by the utility included gallonage allotments in the base facility charge while the rates for the Orangewood and Summertree systems did not. Stipulation No. 31 requires that approved rates, either on a stand-alone or consolidated basis, shall be based on the elimination of these gallonage allotments. Inclusion of a gallonage allotment in the stand-alone rates for some systems and not others would skew the cost comparisons necessary for an appropriate subsidy analysis. Furthermore, the utility's stand-alone rates are based upon the utility's requested revenue requirement, which does not include the effect of other stipulations that impact the rate calculations. Thus, we find that evaluating the subsidies using the utility's rates as filed in Exhibit 6 would result in a flawed analysis.

Instead, we find it appropriate to perform a subsidy analysis using stand-alone and consolidated rates that are based on all applicable stipulations. As previously noted in the billing determinants section, the revised billing determinants contained in Exhibit 6, adjusted to reflect the removal of the gallonage allotments per Stipulation No. 31, are appropriate for calculating rates. Also, our approved revenue requirement for the consolidated

Pasco County water systems reflects all other stipulations approved by this Commission. Therefore, we find it appropriate to use the billing determinants and revenue requirement approved herein to calculate stand-alone and consolidated rates.

In order to calculate appropriate stand-alone rates, it is necessary to estimate the stand-alone revenue requirements for each system. Based on the proposed stand-alone revenue requirements provided by the utility in Exhibit 6, we note that our approved consolidated revenue requirement for Pasco County was 3.7 percent less than the sum of the utility's proposed stand-alone revenue requirements. We therefore estimated each stand-alone revenue requirement in Pasco County by reducing the utility's proposed stand-alone revenue requirement by 3.7 percent.

Given the billing determinants and estimated stand-alone revenue requirements described below, we calculated stand-alone and consolidated rates for use in a subsidy analysis. For purposes of our analysis, both the stand-alone and consolidated rates for Pasco County were designed with the same fixed charge allocation of 61 percent to the BFC and a gallonage charge allocation of 39 percent. The rationale for this BFC/gallonage charge allocation is described above. The chart below presents an analysis of the subsidies that result from the consolidation of the four systems in Pasco County into a countywide consolidated rate.

PASCO COUNTY								
Change in Residential Bill Resulting from Shifting from Stand-Alone Water Rates to Consolidated Water Rates (Average Consumption Shaded for Each System)								
	WisBar		Buena Vista		Summertree		Orangewood	
	Monthly Bill Increase (Decrease)	% Incr in Bill	Monthly Bill Increase (Decrease)	% Incr in Bill	Monthly Bill Increase (Decrease)	% Incr in Bill	Monthly Bill Increase (Decrease)	% Incr in Bill
0	\$1.45	20%	\$0.19	2%	\$0.28	3%	(\$1.34)	-13%
1000	\$0.87	9%	\$0.20	2%	\$0.37	4%	(\$1.36)	-12%
2000	\$0.29	3%	\$0.21	2%	\$0.46	4%	(\$1.38)	-10%
3000	(\$0.29)	-2%	\$0.22	2%	\$0.55	4%	(\$1.40)	-9%
4000	(\$0.87)	-6%	\$0.23	2%	\$0.64	5%	(\$1.42)	-9%
5000	(\$1.45)	-8%	\$0.24	2%	\$0.73	5%	(\$1.44)	-8%
10000	(\$4.34)	-15%	\$0.30	1%	\$1.19	5%	(\$1.53)	-6%
15000	(\$7.23)	-19%	\$0.36	1%	\$1.68	5%	(\$1.62)	-5%
20000	(\$10.13)	-20%	\$0.41	1%	\$2.10	6%	(\$1.72)	-4%
25000	(\$13.02)	-22%	\$0.47	1%	\$2.56	6%	(\$1.81)	-4%
30000	(\$15.92)	-22%	\$0.52	1%	\$3.01	6%	(\$1.91)	-3%

The table above illustrates that by going to a consolidated rate structure, the average monthly residential bill for the Wis-Bar, Buena Vista, and Summertree systems increases by \$0.29, \$0.23, and \$0.64 respectively, while the average monthly residential bill for the Orangewood system decreases by \$1.42. Also, an examination of the billing analyses contained in Exhibit 6 indicates that 78 percent of customers would pay a higher bill under consolidated rates and 22 percent would pay a smaller bill. Therefore, given the relatively small costs described above, and this Commission's prior decision in the Southern States case in Order No. PSC-96-1320-FOF-WS, we find that the subsidies resulting from the consolidation of the stand-alone systems in Pasco County are not excessive, and are therefore not unduly discriminatory.

Seminole County

As stated previously, the utility has proposed to consolidate rates in Seminole County. Eight systems currently have consolidated rates and a ninth system (Oakland Shores) currently has stand-alone rates. At the time staff witness Lingo filed her testimony, she was unable to evaluate any potential subsidies because of concerns with the billing determinants and stand-alone rates provided by the utility. The utility subsequently provided corrected billing determinants and stand-alone rates in Exhibit 6.

As previously noted in our analysis of the rate consolidation request for the Pasco County systems, we find it appropriate to perform a subsidy analysis using our approved billing determinants and revenue requirement. In order to calculate appropriate stand-alone rates, it is necessary to estimate the stand-alone revenue requirements for each system. Based on the proposed stand-alone revenue requirements provided by the utility in Exhibit 6, we noted that our approved county-wide revenue requirement for Seminole County was 8.3 percent less than the sum of the utility's proposed stand-alone revenue requirements. We therefore estimated each stand-alone revenue requirement in Seminole County by reducing the utility's proposed stand-alone revenue requirement by 8.3 percent.

As described above, only 16 of the approximately 225 customers of the Oakland Shores system had their bills and gallons properly accounted for in the utility's billing determinant schedules. The remaining 209 customers' bills and gallons had been commingled with the billing determinants of the customers of the eight consolidated systems in Seminole County. The revised schedules in Exhibit 6 corrected this problem. But these revised schedules (Seminole County's MFR Schedule E-2, page 2 of 6) also revealed that the 209 customers whose bills had been commingled have been paying the same rates as the customers of the eight consolidated systems. Thus, only the originally reported 16 customers of the Oakland Shores system have rates that differ from the rates paid by the other 2,620 customers in Seminole County.

Given the billing determinants and estimated stand-alone revenue requirements described above, we have calculated stand-alone and consolidated rates appropriate for use in a subsidy analysis. For purposes of this analysis, both the stand-alone

rates and consolidated rates are designed with the same fixed charge allocation of 27 percent and a gallonage charge allocation of 73 percent. The rationale for this BFC/gallonage allocation is described below. The chart below represents an analysis of the subsidies that result from consolidation of the systems in Seminole County:

SEMINOLE COUNTY				
Change in Residential Bill Resulting from Shifting from Stand-Alone Water Rates to Consolidated Water Rates (Average Consumption Shaded for Each System)				
	OAKLAND SHORES		8 CONSOLIDATED SYSTEMS	
	Monthly Bill Increase (Decrease)	% Increase in Bill	Monthly Bill Increase (Decrease)	% Increase in Bill
0	(\$0.94)	-14.2%	\$0.01	0.2%
1,000	(\$0.61)	-7.4%	(\$0.02)	-0.3%
2,000	(\$0.29)	-2.9%	(\$0.06)	-0.6%
3,000	\$0.03	0.2%	(\$0.10)	-0.8%
4,000	\$0.35	2.6%	(\$0.14)	-1.0%
5,000	\$0.67	4.4%	(\$0.18)	-1.1%
8,000	\$1.64	7.9%	(\$0.29)	-1.3%
11,000	\$2.60	10.1%	(\$0.41)	-1.4%
15,000	\$3.89	11.8%	(\$0.56)	-1.5%
20,000	\$5.50	13.2%	(\$0.75)	-1.6%
25,000	\$7.11	14.1%	(\$0.94)	-1.6%

The table above illustrates that by going to a consolidated rate structure, the average monthly residential bill for the 225 customers of the Oakland Shores system increases by \$2.60 and decreases by \$.29 for customers of the other eight consolidated systems. Also, an examination of the billing analyses contained in Exhibit 6 indicates that eight percent of customers would pay a higher bill under consolidated rates and 92 percent would pay a smaller bill.

We find that the subsidies that result from consolidation in Seminole County are not unreasonable because of two mitigating factors. First, if rates are consolidated in Seminole County under the rate structure approved herein, the relatively high average consumption in Oakland Shores (approximately 11,300 gallons per month) will be significantly reduced. We have estimated that the repression effect on just the Oakland Shores customers will reduce their average consumption to 10,300 gallons per month. At this level of average consumption, the subsidy paid will fall to \$2.35. The second mitigating factor involves the \$2.00 per month subsidy "benchmark" employed by the Commission in the Southern States case referenced above (Order No. PSC-96-1320-FOF-WS). We note that this \$2.00 subsidy amount was found to be appropriate in 1996. Adjusting for the effects of inflation, that same benchmark in 2003 dollars would be \$2.35. Given these two mitigating factors, we find that consolidating rates in Seminole County and implementing the rate structure approved herein will result in Oakland Shores' customers paying a subsidy of \$2.35, and that this amount is not inconsistent with past Commission decisions. Therefore, we find that the subsidies resulting from the consolidation of the stand-alone systems in Seminole County are not excessive and that they are therefore not unduly discriminatory.

Based on the above, we hereby approve the utility's proposed rate consolidation for Pasco and Seminole Counties.

Water Rates

The permanent rates requested by the utility are designed to produce revenues of \$201,221 in Marion County, \$161,854 in Orange County, \$526,505 in Pasco County, \$158,531 in Pinellas County and \$789,146 in Seminole County. The requested revenues represent an increase of \$49,509 or 32.6% in Marion County, \$76,950 or 90.6% in Orange County, \$110,293 or 26.5% in Pasco County, \$102,494 or 182.9% in Pinellas County and \$184,949 or 30.6% in Seminole County. A comparison of the utility's original and requested rates, the Commission-approved interim rates and the final rates approved herein are shown on Schedules Nos. 4-A.

The rates approved herein are designed in accordance with three rate design goals. The first goal is to minimize, to the extent possible, the price increases at lower monthly consumption

levels. This is an appropriate goal because a high percentage of usage at lower levels of consumption represents nondiscretionary, essential consumption. Second, no more than 40% of the overall revenue requirement should be recovered through the Base Facility Charge (BFC). This Commission has a Memorandum of Understanding with all five Water Management Districts in which the parties recognize that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water in Florida. Staff witnesses Jenkins and Yingling both testified that, for SJRWMD and SWFWMD respectively, no more than 40% of the revenue should be recovered through fixed charges. The third goal, consistent with Stipulation No. 32, is to convert the utility's bi-monthly billing systems to monthly billing systems. By billing on a monthly basis, customers receive a more timely price signal enabling them to adjust their consumption accordingly. All three rate design goals are consistent with past Commission practice.

Finally, it has been Commission practice to determine whether a repression adjustment is appropriate following an increase in rates. A repression adjustment reflects the expected reduction in quantity demanded resulting from an increase in price. Consistent with Stipulation No. 28, we have calculated all repression adjustments utilizing the price elasticity methodology contained in staff witness Yingling's testimony. This methodology calls for a first year price elasticity of -0.1965 to be applied in order to calculate the repression adjustment. Repression adjustments were made in Pasco, Seminole, Orange, and Pinellas Counties to reflect the reduction in water demand resulting from increased rates. No repression adjustment was made in Marion County due to the low percentage increase of the rates approved herein. The repression adjustments in Pasco, Seminole, Orange, and Pinellas Counties were applied to consumption levels above 3,000 gallons per month in recognition of the relatively inelastic non-discretionary consumption below 3,000 gallons. We find that applying the repression adjustment only to consumption levels above 3,000 gallons is appropriate in each of the four counties listed above, and is consistent with past Commission decisions. See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., at 33-36. These adjustments are discussed in more detail below.

Marion County

The current rates in Marion County consist of a bi-monthly base facility charge (BFC)/gallage charge rate structure, in which the BFC is \$8.16, and all gallons used are charged \$2.25 per kgal. Marion County is located in the SWFWMD. According to staff witness Yingling, the utility's system in Marion County is within its per capital water use requirements, thereby eliminating the need to adopt a more aggressive rate structure. Therefore, the rates approved herein are designed with the continuation of Marion County's traditional BFC/gallage charge rate structure.

Based upon initial accounting allocations, 51% of the revenue requirement is recovered from the BFC and the remaining 49% from the gallage charge. We ran several iterations of the conservation adjustment calculation and determined that a 38% conservation adjustment is appropriate in Marion County. The results of our analysis regarding the appropriate conservation adjustment are shown in the following table:

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS			
CONS. PER MONTH	CONSERVATION ADJUSTMENT PERCENTAGES (CA) AND RESULTING BASE FACILITY CHARGE (BFC) ALLOCATION		
	CA=0% BFC=51%	CA=35% BFC=33%	CA=38% BFC=31%
0 kgal	61.5%	5.0%	0.1%
1 kgal	31.9%	5.4%	3.1%
2 kgal	17.8%	5.6%	4.5%
3 kgal	9.6%	5.7%	5.4%
4 kgal	4.2%	5.8%	5.9%
5 kgal	0.3%	5.9%	6.3%
8 kgal	-6.4%	5.9%	7.0%
10 kgal	-9.0%	6.0%	7.3%
15 kgal	-12.8%	6.0%	7.7%
20 kgal	-14.9%	6.0%	7.9%

The utility's proposed rates result in a BFC cost recovery allocation of 33%. Staff witness Lingo testified that a more conservation oriented rate structure for Marion County would be one that is based on a BFC cost recovery allocation level of less than the 33% allocation proposed by the utility. The 38% conservation adjustment results in a BFC cost recovery allocation level of 31%. As shown above, the 38% conservation adjustment accomplishes two rate design goals: 1) it minimizes the price increases for monthly usage at lower consumption levels; and 2) it maximizes the price increases for increasingly higher monthly usage.

As discussed previously, a repression adjustment was calculated to estimate the reduction in water demand resulting from increased rates. The rates approved herein result in a 8.4 percent increase in the gallonage charge, which yields an estimated reduction in consumption of only 1.2 percent. We find that the magnitude of this price increase is not sufficient to maintain a sustained reduction in demand. We therefore make no repression adjustment in Marion County.

For the foregoing reasons, the rates contained in Schedule 4A designed to generate revenues of \$160,905, excluding miscellaneous revenues, in Marion County, are hereby approved.

Orange County

The current rates in Orange County consist of a bi-monthly base facility charge (BFC)/gallonage charge rate structure, in which the BFC is \$12.16, and all gallons used are charged \$2.07 per kgal. Orange County is located in the SJRWMD. According to staff witness Jenkins, the utilities within the aforementioned district should implement a conservation rate structure that is generally a three- or four-tier inclining-block rate structure. Therefore, the rates approved herein for Orange County are designed using a three-tiered inclining-block rate structure.

The goal of an inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly usage will pay increasingly higher rates, thereby creating

a greater incentive to conserve. We have evaluated three factors in developing the inclining-block rate structure: 1) a conservation adjustment; 2) the usage blocks; and 3) the usage block rate factors.

Based upon initial accounting allocations, 34% of the revenue requirement is recovered from the BFC and the remaining 64% from the gallonage charge. We ran several iterations of the conservation adjustment calculation and determined that a 30% conservation adjustment is appropriate in Orange County. The 30% conservation adjustment results in a BFC cost recovery allocation of 24%.

In determining the usage blocks, it is Commission practice to consider revenue stability as the primary criteria when designing the first usage block. Based on Commission practice, the first usage block should capture at least 50 percent of total bills and gallons sold, thereby helping to mitigate revenue instability concerns. We find it appropriate to approve a first usage block for monthly usage of 0 to 8 kgal, a second usage block for monthly usage of 8 to 16 kgal, and a third usage block for monthly usage in excess of 16 kgal. We approve nominal usage block rate factors of 1.25 for the second block and 1.50 for the third block. Based on our analysis, any usage block rate factors greater than 1.25 and 1.50 would result in price decreases at lower levels of consumption, which is contrary to the goal of conservation oriented rate design. The results of our analysis regarding the appropriate conservation adjustment at the approved usage blocks are shown in the following table:

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS				
CONS. PER MONTH	CONSERVATION ADJUSTMENT PERCENTAGES (CA) AND RESULTING BASE FACILITY CHARGE (BFC) ALLOCATION			
	CA=0% BFC=34%	CA=10% BFC=31%	CA=20% BFC=28%	CA=30% BFC=24%
0 kgal	48.0%	33.2%	18.4%	3.6%
1 kgal	37.3%	27.6%	18.0%	8.4%
2 kgal	30.9%	24.3%	17.8%	11.2%
3 kgal	26.7%	22.1%	17.7%	13.0%
4 kgal	23.7%	20.5%	17.6%	14.4%
5 kgal	21.4%	19.3%	17.5%	15.3%
8 kgal	17.1%	17.1%	17.3%	17.2%
10 kgal	19.5%	20.4%	21.8%	22.7%
15 kgal	23.0%	25.6%	28.6%	31.1%
20 kgal	29.7%	33.3%	37.5%	41.2%

As shown above, the 30% conservation adjustment accomplishes two rate design goals: 1) it minimizes the price increases for monthly usage at lower levels of consumption; and 2) it maximizes the price increases for increasingly higher monthly usage. Any conservation adjustments above 30% would result in price decreases at lower consumption levels. Although we believe the 30% conservation adjustment to be appropriate, it will cause the utility to not meet its minimum cash requirements by an average of \$370 for five months of the year. However, the utility will have average surpluses of \$868 in the remaining seven months. Furthermore, the months in which the shortages are expected to occur are not consecutive. We also note that this Commission has previously approved revenue shortfalls when they have occurred for as many as eight consecutive months. See Order No. PSC-02-1114-PAA-WS, issued August 14, 2002, in Docket No. 011481-WS, In Re: Application for staff-assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, holder or Certificate Nos. 598-W abd 513-S., at 27-31. For these reasons, we find that revenue instability is not problematic in this instance.

As discussed previously, a repression adjustment was made to reflect the reduction in water demand resulting from increased rates. The adjustment was made to gallons above 3,000 per month to reflect the relatively inelastic non-discretionary usage below 3,000 gallons per month. The rates approved herein produce a rate increase of 22.2 percent in the first usage block, 52.7 percent in the second usage block, and a 83.6 percent increase in the third usage block. We believe that rate increases of this magnitude, particularly in the second and third usage blocks, are sufficient to maintain a sustained reduction in demand. Therefore, we find it appropriate to make a repression adjustment of 1,443,235 gallons in Orange County.

For the foregoing reasons, the rates contained in Schedule 4A designed to generate revenues of \$100,323, excluding miscellaneous revenues, in Orange County, are hereby approved.

Pasco County

The current rates in Pasco County consist of stand-alone rates for four systems. The Wis-Bar system's rates have a monthly base facility charge (BFC)/gallongage charge rate structure, in which the BFC is \$15.56 and includes a 3,000 gallon allotment, and all gallons used over 3,000 gallons are charged \$1.89 per kgal. The Buena Vista system's rates have a monthly BFC/gallongage charge rate structure, in which the BFC is \$8.88 and includes a 5,000 gallon allotment and all gallons used over 5,000 gallons are charged \$.43 per kgal. The Summertree system's rates have a monthly BFC/gallongage charge rate structure, in which the BFC is \$7.95 and all gallons used are charged \$1.51 per kgal. Finally, the Orangewood system's rates have a bi-monthly BFC/gallongage charge rate structure, in which the BFC is \$19.00 and all gallons are charged \$1.10 per kgal. As previously discussed, the stand-alone systems in Pasco County shall be consolidated. Therefore, the rates approved herein are a single tariff rate for all four water systems in Pasco County.

Pasco County is located in the SWFWMD in the Northern Tampa Bay Water Use Caution Area. The rate structure requirements for utilities in the Water Use Caution Area are found in Section 7.3.1.2 of the Basis of Review for Water Use Permitting. This section requires all affected utilities to adopt a water

conservation-oriented rate structure. However, staff witness Yingling testified that the utility's four systems in Pasco County are within their per capita water use requirements, eliminating the need to adopt a more aggressive rate structure. Therefore, we find it appropriate to maintain the traditional BFC/gallorage charge rate structure in Pasco County.

As illustrated in staff witness Lingo's testimony, the utility's current and proposed rates have BFC recovery rates of at least 70%. Based upon initial accounting allocations of the revenue requirement approved herein, 50% of the combined revenue requirement shall be recovered from the BFC and the remaining 50% from the gallorage charge. These recovery rates are greater than the suggested maximum recovery rate of 40 percent for water conservation oriented rates. Staff witness Yingling testified that BFC allocation should be lowered to as close to the 30% - 40% range as practical.

As previously discussed, we have designed stand-alone rates for each system in Pasco County. The approved BFC cost recovery allocations are 65% for Wis-Bar, 63% for Buena Vista, and 57% for Summertree and Orangewood. We note that any BFC allocation less than these allocations results in price decreases at lower levels of consumption. Also, due to the high seasonality of the customer base and low average consumption of approximately 3.2 kgal, reducing the BFC allocation below the aforementioned levels would introduce revenue instability concerns. We find that it would be appropriate to maintain the BFC allocation as close to the stand-alone allocations as practical. Therefore, we find it appropriate to use the average of the approved stand-alone BFC allocation rates of 61% for the consolidated BFC allocation.

We are unable to analyze the price increases at differing conservation adjustments for various levels of consumption because there are no current consolidated Pasco County rates.

A regression adjustment was made to reflect the reduction in water demand resulting from increased rates. The adjustment was made to gallons above 3,000 per month to reflect the relatively inelastic non-discretionary usage below 3,000 gallons per month. Based on the consolidated rates approved herein, the Wis-Bar system will experience a 18.5 percent rate decrease, the Buena Vista

system will have 258.1 percent rate increase, the Summertree system will have a 2.0 percent rate increase, and the Orangewood system will have a 40.0 percent rate increase. We note that the estimated repression effects of the rate decrease for the Wis-Bar system is virtually cancelled by the effect of the rate increase in the Summertree system. This leaves the majority of the repression adjustment attributable to the relatively large rate changes in the Buena Vista and Orangewood systems. We believe that rate increases of this magnitude are sufficient to maintain a sustained reduction in demand. Therefore, a repression adjustment of 16,773,823 gallons shall be made in Pasco County.

For the foregoing reasons, the rates contained in Schedule 4A designed to generate revenues of \$494,726, excluding miscellaneous revenues, in Pasco County, are hereby approved.

Pinellas County

The current rates in Pinellas County consist of a bi-monthly base facility charge (BFC)/gallongage charge rate structure, in which the BFC is \$9.10, and all gallons used are charged \$1.07 per kgal. Pinellas County is located in the SWFWMD in the Northern Tampa Bay Water Use Caution Area. The rate structure requirements for utilities in the Water Use Caution Area are found in Section 7.3.1.2 of the Basis of Review for Water Use Permitting. This section requires all affected utilities to adopt a water conservation-oriented rate structure. However, staff witness Yingling testified that the utility's system in Pinellas County is within its per capita water use requirements, thereby eliminating the need to adopt a more aggressive rate structure. Therefore, we find it appropriate to maintain the traditional BFC/gallongage charge rate structure in Pinellas County.

Based upon initial accounting allocations of the revenue requirement approved herein, 41% of the revenue requirement is recovered from the BFC and the remaining 59% from the gallongage charge. This initial allocation is slightly outside of the guidelines of the no more than 40% revenue recovery through the BFC. However, staff witness Lingo testified that the customer base in Pinellas County is very seasonal and lowering the utility's BFC allocation would place the utility at a greater risk for revenue instability. We ran several iterations of the conservation

adjustment calculation and determined that a conservation adjustment is not appropriate in Pinellas County due to the need to maintain revenue stability.

A repression adjustment was made to reflect the reduction in water demand resulting from increased rates. The adjustment was made to gallons above 3,000 per month to reflect the relatively in-elastic non-discretionary usage below 3,000 gallons per month. Based on the rates approved herein, the utility's Pinellas County system would experience a 95.3 percent rate increase. We find that a rate increase of this magnitude is sufficient to maintain a sustained reduction in demand. Therefore, we find it appropriate to make a repression adjustment of 1,997,369 gallons in Pinellas County.

For the foregoing reasons, the rates contained in Schedule 4A designed to generate revenues of \$79,625, excluding miscellaneous revenues, in Pinellas County, are hereby approved.

Seminole County

The current rates in Seminole County consist of two sets of bi-monthly base facility charge (BFC)/gallage charge rate structures. One rate structure applies to eight combined systems and the other applies to the Oakland Shores system. The BFC for the eight combined systems is \$11.12 with a gallage charge of 1.69/Kgal. The BFC for the Oakland Shores system is \$12.16 with a gallage charge of \$2.07/Kgal. (The Oakland Shores system is currently included in the uniform rates for Orange County.)

Seminole County is located in the SJRWMD. According to staff witness Jenkins, the utilities within the District should implement a conservation rate structure that is generally a three- or four-tier inclining-block rate structure. Also, as previously discussed, the rates in Seminole County shall be consolidated. Therefore, the rates approved herein are based on consolidating the systems in Seminole County into a three-tiered inclining-block rate structure.

Based upon initial accounting allocations, 44% of the revenue requirement is recovered from the BFC and the remaining 56% from the gallage charge. We ran several iterations of the

conservation adjustment calculation and determined that a 40% conservation adjustment is appropriate in Seminole County. The 40% conservation adjustment results in a BFC cost recovery allocation of 27%. As illustrated in staff witness Lingo's Exhibit 25, the utility's current and proposed rates have a BFC recovery rate of 30% and 36%, respectively. While the utility's BFC allocations are less than 40%, staff witness Lingo notes that the increase in the proposed BFC allocation from current allocation represents a move away from sending stronger conservation price signals. The 27% BFC recovery allocation resulting from a 40 percent conservation adjustment sends stronger price signals to the customers, while maintaining revenue stability.

As stated previously, we have designed a three-tiered inclining block rate structure. Based on Commission practice, the first usage block should capture at least 50 percent of total bills and gallons sold, thereby helping to mitigate revenue stability concerns. The first usage block shall be for monthly usage of 0 - 8 kgal, the second usage block shall be for monthly usage of 8 to 16 kgal and the third usage block shall be for monthly usage in excess of 16 kgal. We hereby approve usage block rate factors of 1.50 for the second block and 2.00 for the third block.

We were unable to analyze the price increases at differing conservation adjustments for various levels of consumption because there are no previous county-wide consolidated Seminole County rates.

A regression adjustment was made to reflect the reduction in water demand resulting from increased rates. The adjustment was made to gallons above 3,000 per month to reflect the relatively inelastic non-discretionary usage below 3,000 gallons per month. The rates approved herein produce a rate increase of 2.4 percent in the first usage block, 53.9 percent in the second usage block, and a 104.7 percent increase in the third usage block. We believe that rate increases of this magnitude, particularly in the second and third usage blocks, are sufficient to maintain a sustained reduction in demand. Therefore, a regression adjustment of 9,985,713 gallons shall be made in Seminole County.

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For the foregoing reasons, the rates contained in Schedule 4A designed to generate revenues of \$693,211, excluding miscellaneous revenues, in Seminole County, are hereby approved.

Summary

For all Counties, the utility shall file revised tariff sheets reflecting the rates shown in Schedules Nos. 4A, along with proposed customer notices to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date on 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 notices, and the notices have 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.

Wastewater Rates

The permanent rates requested by the utility are designed to produce revenues of \$63,838 in Marion County, \$364,369 in Pasco County, and \$909,839 in Seminole County. The requested revenues represent an increase of \$5,309 or 9.07% in Marion County, \$59,118 or 19.37% in Pasco County, and \$510,847 or 128.03% in Seminole County. A comparison of the utility's original and requested rates, the Commission-approved interim rates and the final rates approved herein are shown on Schedules Nos. 4-B.

Marion County

The utility operates a single wastewater system in Marion County. The current rate structure for this system consists of a bi-monthly base facility charge (BFC)/gallage charge, in which the BFC is \$58.07, and all gallons used are charged \$4.54/kgal with a gallage cap of 20,000 gallons.

Stipulation No. 32 specifies that the utility shall convert from a bi-monthly billing system to a monthly billing system. Stipulation No. 27 specifies that the current BFC/gallage rate structure shall be maintained and that a gallage cap of 10,000 gallons per month shall be approved. As discussed in Issue 32, the billing determinants filed by the utility failed to annualize the

addition of a two-inch bulk wastewater customer during the test year. Consistent with Stipulation No. 22, the billing determinants used to calculate the rates approved herein have been adjusted to reflect the annualization of this customer, as well as Stipulations Nos. 32 and 27.

Based on initial accounting allocations, 47 percent of the wastewater revenue requirement is recovered through the BFC and the remaining 53 percent is recovered through the gallonage charge. The wastewater rates approved herein are based on the initial accounting allocations and are designed to generate revenues of \$42,793, which excludes miscellaneous revenues. As shown on Schedule No. 4B, the approved monthly rate for a residential customer consists of a BFC of \$20.91 and a gallonage charge of \$2.59/kgal.

Pasco County

The utility operates two wastewater systems in Pasco County, the Wis-Bar system and the Summertree system. The Wis-Bar system's current rate structure consists of a monthly flat rate of \$10.98. The Summertree system's current rate structure consists of a monthly BFC/gallonage rate structure in which the BFC is \$10.36 and the residential gallonage charge is \$7.80/kgal with a gallonage cap of 6,000 gallons.

Stipulation No. 27 specifies that the current BFC/gallonage rate structure shall be maintained and that a gallonage cap of 6,000 gallons per month for the Summertree system shall be approved. The rates approved herein have been calculated to reflect Stipulation No. 27.

Consistent with the utility's request for consolidated water rates in Pasco County, the utility provided accounting information supporting a consolidated revenue requirement for its Pasco County wastewater systems as well. In its filing, however, the utility proposed a continuation of flat rates for the Wis-Bar system and a BFC/gallonage rate structure for the Summertree system. We note that Rule 25-30.437(6), Florida Administrative Code, states that a utility "shall use the base facility and usage charge rate structure, unless an alternative rate structure is adequately supported by the applicant." We also note that of the 163

customers of the Wis-Bar system, 135 customers also receive water service from the utility, for whom metered consumption data is available. Therefore, we find it appropriate to approve a BFC/gallonage rate structure for customers for whom metered consumption data is available, and to approve a flat rate for the remaining 28 customers without metered usage.

Stipulation No. 27 specifies that the current BFC/gallonage rate structure shall be maintained and that a gallonage cap of 6,000 gallons per month for the Summertree system shall be approved. The rates approved herein have been calculated to reflect Stipulations No. 27. Furthermore, we find it appropriate to approve a gallonage cap of 6,000 gallons for the Wis-Bar system as well, since the Wis-Bar and Summertree systems have similar consumption patterns.

Although not requested by the utility, we have also evaluated whether it is appropriate to consolidate rates for the two wastewater systems in Pasco County. As previously discussed, a subsidy analysis was performed comparing the stand-alone rates for each system to county-wide consolidated rates. In order to calculate the stand-alone rates, we first estimated the stand-alone revenue requirements for the Wis-Bar and Summertree systems. These stand-alone revenue requirements were estimated by allocating the county-wide revenue requirement approved herein, using the utility's requested stand-alone revenue requirements provided in Exhibit 6. In this Exhibit, Wis-Bar's requested revenue requirement is \$47,601 and Summertree's requested revenue requirement is \$315,481, yielding a total Pasco County wastewater revenue requirement of \$363,082. Of this amount, Wis-Bar accounts for 13.1 percent and Summertree accounts for 86.9 percent of the utility's total revenue requirement request. We used these percentages to allocate the revenue requirements approved herein between the two systems.

Using the estimated stand-alone revenue requirements discussed above, we calculated stand-alone and consolidated rates for the Pasco County wastewater systems. Both sets of rates were based on the initial accounting allocations of 38 percent revenue recovery through the base facility charge and a 62 percent revenue recovery through the gallonage charge. For the Wis-Bar system, the average bill under consolidated rates is \$25.02, and under stand-alone

rates is \$20.13. This results in a \$4.89 subsidy being paid by the customers of Wis-Bar resulting from rate consolidation. For the Summertree system, the average bill under consolidated rates is \$23.82, and under stand-alone rates is \$24.73. This results in a \$0.91 subsidy being received by the customers of Summertree resulting from rate consolidation. We believe that the subsidy that would be paid by the customers of the Wis-Bar system under consolidated rates is not consistent with the requirements of Section 367.081(2)(a)1, Florida Statutes, requiring that rates not be unduly discriminatory, or with prior Commission decisions, as previously discussed. Therefore, wastewater rates in Pasco County shall be calculated on a stand-alone basis rather than on a consolidated basis.

Based on initial accounting allocations, 38 percent of the wastewater revenue requirement shall be recovered through the BFC and the remaining 62 percent recovered through the gallonage charge. The wastewater rates approved herein are based on these initial accounting allocations and are designed to generate revenues of \$39,244 for the Wis-Bar system and \$259,964 for the Summertree system, excluding miscellaneous revenues. As shown on Schedule No. 4B, the monthly rate approved herein for a residential customer of the Wis-Bar system with metered water service consists of a BFC of \$7.66 and a gallonage charge of \$6.02/kgal. For customers without metered water service, we approve a flat rate of \$20.13 per month. The monthly rate approved herein for a residential customer of the Summertree system consists of a BFC of \$9.64 and a gallonage charge of \$7.89/kgal.

We note that based on the rates approved herein, the average bill for a residential customer of the Wis-Bar system would increase by 128 percent, while the average bill for a residential customer of the Summertree system would decrease by 5.8 percent. This apparent inequity is explained by the fact that the Wis-Bar system (which was acquired by this utility in June of 2000) has not had a rate case since 1972. (See Order No. PSC-01-1655-PAA-WS, issued August 13, 2001, In Re: Application for transfer of facilities and Certificates Nos. 484-W and 421-S in Pasco County from Bartelt Enterprises, Inc. to Utilities, Inc. of Florida, holder of Certificates Nos. 107-W and 229-S; for amendment of Certificates Nos. 107-W and 229-S; and for cancellation of Certificate Nos. 484-W and 421-S at 2).

Seminole County

The utility operates a consolidated wastewater rate structure in Seminole County. The current rate structure for this system consists of a bi-monthly base facility charge (BFC)/gallage charge, in which the BFC is \$16.83, and all gallons used are charged \$2.36/kgal with a gallage cap of 20,000 gallons.

Stipulation No. 32 specifies that the utility shall convert from a bi-monthly billing system to a monthly billing system. Stipulation No. 27 specifies that the current BFC/gallage rate structure shall be maintained and that a gallage cap of 10,000 gallons per month shall be approved. The rates approved herein have been calculated to reflect Stipulations Nos. 27 and 32.

Based on initial accounting allocations, 25 percent of the wastewater revenue requirement is recovered through the BFC and the remaining 75 percent is recovered through the gallage charge. The wastewater rates approved herein are based on the initial accounting allocations and are designed to generate revenues of \$626,157 which excludes miscellaneous revenues. As shown on Schedule No. 4B, the approved monthly rate for a residential customer consists of a BFC of \$8.86 and a gallage charge of 4.43/kgal.

Summary

For all Counties, the utility shall file revised tariff sheets reflecting the rates shown in Schedules Nos. 4B, along with proposed customer notices to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date on 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 notices, and the notices have 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.

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 total company revenues of \$104,083 associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. The reduction in revenues will result in the rate reduction as shown on Schedules Nos. 4-A and 4-B.

UIF shall file revised tariff sheets for each system to reflect the rate reduction approved herein no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice for each system, setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates shall be effective for service rendered on or after the stamped approval date on 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 notices, and the notice has been received by the customers. The utility shall provide proof of the date notices were given no less than 10 days after the date of the notices.

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 and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Partial Refund of Interim Rates

By Order No. PSC-03-0568-PCO-WS, issued May 5, 2003, we approved interim rates for several of the UIF systems subject to refund with interest, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirements, and the resulting rate increases are shown below:

<u>System</u>	<u>Test Year Revenues</u>	<u>\$ Revenue Increase</u>	<u>Interim Revenue Requirement</u>	<u>% Increase</u>
Marion Water	\$151,712	\$15,113	\$166,825	9.96%
Orange Water	\$84,904	\$11,972	\$96,696	13.89%
Pinellas Water	\$56,101	\$3,575	\$59,776	3.55%
Seminole Wastewater	\$398,991	\$202,023	\$601,014	50.63%

Marion County wastewater, Pasco County water and wastewater and Seminole County water did not receive an interim increase.

Pursuant to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed.

Stipulation 29, which we approved at the hearing, addresses the methodology to be used to establish the proper refund amount, as follows:

. . . a revised interim revenue requirement shall be calculated utilizing the same data used to establish final rates. Rate case expense and other *pro forma* adjustments that were not incurred during the interim collection period shall be removed. This adjusted interim period revenue requirement shall be compared with the final revenue requirement, after miscellaneous service revenues have been removed.

UIF's requested test year for final and interim purposes is the historical year ended December 31, 2001. The approved interim test year revenues did not include any provisions or consideration of *pro forma* adjustments in 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. In this case, we find it appropriate to remove rate case expense, along with the approved adjustments for repression.

Using the principles discussed above, we have calculated the revenue requirement for the interim collection period for those systems that received interim rate increases. The following schedule compares the revenue requirements granted for interim test year to that recalculated for the interim collection period. If the revenue requirement for the interim test year is greater than the interim collection period, then a refund is required. Under no circumstances should the refund percentage be greater than the interim rate increase percentage.

<u>System</u>	<u>Interim Test Year Revenue Requirement</u>	<u>Interim Period Revenue Requirement</u>	<u>Refund Percent²</u>
Marion Water	\$166,825	\$154,151	7.66%
Orange Water	\$96,696	\$102,798	N/A
Pinellas Water	\$59,776	\$77,009	N/A
Seminole Wastewater	\$601,014	\$618,708	N/A

(1) Refund percent removes miscellaneous revenues.

As reflected above, the only refund required is for the Marion County water system. The utility shall refund 7.66% of water revenues for Marion County collected under interim rates. The refund 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. Further, the utility shall treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), Florida Administrative Code.

SHOW CAUSE ISSUE

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. We find that the utility's failure to maintain its books and records in conformance with the USOA was a "willful" act, within the meaning and intent of Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, 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

²Refund percent removes miscellaneous revenues.

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).

Pursuant to PAA Order No. PSC-97-0531-FOF-WU, issued May 9, 1995, in Docket No. 960444-WU, In Re: Application for Rate Increase and for Increase in Service Availability Charges in Lake County by Lake Utility Services, Inc., this Commission issued a show cause order which identified problems the utility had with its books and records. That Order, including the show cause, was protested by the utility, as well as OPC, and ultimately the docket was settled. However, that settlement was silent regarding any action addressing the issue of the quality of the utility's books and records.

By Order No. PSC-00-2388-AS-WU, issued December 13, 2000, in Docket No. 991437-WU, In Re: Application for Increase in Water Rates in Orange County by Wedgefield Utilities Inc. (Settlement Order), the utility was ordered to "correct any remaining areas of noncompliance with the NARUC USOA by January 31, 2001." The settlement offer, approved in Order No. PSC-00-2388-AS-WU, stated:

The utility has determined that there are a few accounts remaining, especially Utility Account Nos. 620 and 675, which the Utility may not be utilizing to tally in accordance with NARUC Uniform System of Accounts. The Utility further promises to sufficiently correct these differences by January 31, 2001, if given some guidance by the Commission audit staff.

The utility shall correct any remaining areas of non-compliance with the NARUC USOA by January 31, 2001. Further, the utility and its parent shall file, in future rate 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 MFR. The utility shall file a statement which affirms that the MFRs begin with actual book balances.

Staff witness Small testified that the utility's books and records were not in compliance with the NARUC USOA or the settlement terms agreed to by the utility in Order No. PSC-00-2388-

AS-WU. In 2002, witness Small conducted an undocketed compliance audit of Wedgefield's books and records as of December 31, 2001. The scope of the audit included the determination of Wedgefield's compliance with the Settlement Order. Witness Small testified that the compliance investigation audit report recommended that Wedgefield was not in substantial compliance with the above order and deferred its recommendation to this rate case proceeding. Witness Small stated that, in its response to the compliance audit, the utility stated that its books and records were in substantial compliance with NARUC USOA and that it was not aware of any specific corrections required. As such, witness Small concluded that the utility had made no changes to its accounting system in order to comply with the Settlement Order.

As addressed in the UIF Audit Report, witness Small testified that the utility's MFRs did not comply with the requirements agreed to by the utility in the Settlement Order. First, on numerous rate base schedules, when the balance per books was required, the schedules should have reflected the balance per the general ledger. Witness Small found that the balances were those from UIF's annual report, which were not always the same as those in the general ledger. He also stated that the structure of the utility's accounting system continued to require significant amounts of the audit staff time to reconcile its MFRs to its books and records. Further, the materials and supplies and miscellaneous expense accounts specifically identified in the Settlement Order continue to require extraordinary audit staff attention because of the number of utility subaccounts involved and the allocation methodologies applied.

Witness Small stated that the utility has not consistently recorded adjustments from prior Commission orders, nor properly recorded plant retirements in a timely manner. He also testified that the utility lacked sufficient supporting documentation that should have been readily available to determine the reasonableness of the utility's allocation methodologies. The audit staff requested supporting documentation for the utility's allocation methodologies three different times and was given two additional documents that did not reconcile to the filing.

In conclusion, witness Small testified that the audit staff encountered problems conducting an efficient audit of the utility's

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books and records for this filing and expended a considerable amount of time reconciling the books to the utility's MFRs and prior orders. He recommended that this Commission readdress this issue and require the utility to maintain its books and records in accordance with the NARUC USOA and Commission rules.

OPC witness DeRonne testified that she agreed with staff's audit report. Witness DeRonne added that the Settlement Order references numerous staff audit reports addressing non-compliance and cites four other Commission orders in which UI was notified that it was not in compliance with the NARUC USOA, as required by Rule 25-30.115, Florida Administrative Code. Witness DeRonne stated that obviously non-compliance with Rule 25-30.115 has been a long-standing issue with UI and its utility systems.

On rebuttal, utility witness Lubertoizzi testified that UIF is committed, and has expressed a desire, to work with the Commission staff to address any concerns that the Commission may have. His testimony, along with the utility's arguments in its brief, are outlined in detail elsewhere in this Order.

Pursuant to Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WU, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., this Commission found that the utility's failure to keep its books and records in conformance with the NARUC USOA was an apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. PSC-00-2388-AS-WU. The Commission found that a show cause proceeding was warranted at that time. The Commission ordered that the utility 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.

By Order No. PSC-03-0647-PAA-WS, this Commission further required that the utility's response to the show cause order must contain specific allegations of fact and law. If the utility had filed a timely response that raised material questions of fact and made a request for a hearing pursuant to Section 120.57(1), Florida Statutes, further proceedings would have been scheduled on the matter before a final determination was made. A failure to file a timely response to the show cause order would have constituted an admission of the facts alleged in the order and would have waived

the utility's rights to a hearing. Our staff was directed to meet with representatives of the utility to identify which specific areas of non-compliance existed. Further, the staff was directed to prepare a letter to the utility to communicate the specific requirements for the utility to change or implement in order to come into compliance with the rules and orders of this Commission.

In addition to its response to the order to show cause, the utility was ordered to file a plan with a time schedule by which it intended to come into compliance with all the compliance issues. These included the points discussed above and those which would result from the discussions and directions from our staff, on how the utility intends to maintain its books and records in accordance with the NARUC USOA.

The record reflects that the utility is in apparent violation of Rule 25-30.115, Florida Administrative Code, as well as of numerous Commission orders. Nevertheless, we do not find it appropriate at this time to require that the utility show cause as to why it should not be fined for its apparent noncompliance. Based on the utility's testimony in this case, it appears that the utility will voluntarily take steps to improve and maintain its books in the required manner. This is evidenced by the utility's timely response to this Commission's show cause order filed in Docket No. 020407-WS and entered as an exhibit in the record of this case.

We find that the interests of the customers will be best served if the utility is brought into compliance without another formal proceeding initiated in this case, which would be duplicative and costly since the issues are identical. Further, the utility's future compliance and actions will be monitored in conjunction with Docket No. 020407-WS, and in future rate filings for UI systems in Florida.

DOCKET CLOSURE

This docket shall remain open pending our staff's verification that the utility's revised tariff sheets and notice are consistent with our decision and that the utility has properly administered the interim refund. Once our staff has verified that the refund has been made, the corporate undertaking shall be released. Upon

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staff's verification that the above requirements have been met and after the time for filing an appeal has run, the docket shall be administratively closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities, Inc. of Florida's application for general rate relief is approved to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings contained 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 schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that the stipulations set forth in the body of this Order are hereby approved: It is further

ORDERED that the Office of Public Counsel's Motion for Directed Verdict is granted, as set forth in the body of this Order. It is further

ORDERED that Utilities, Inc. shall use ERCs as its primary allocation factor for affiliate costs in future cases in Florida as of January 1, 2004, and shall use the end of the applicable test year as the measurement date. It is further

ORDERED that the Utilities, Inc. of Florida shall file revised tariff sheets reflecting the rates shown in Schedules Nos. 4A and 4B, attached hereto, along with proposed customer notices to reflect the rates and charges approved herein. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on 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 notices, and the notices have been received by the customers. Utilities, Inc. of Florida shall provide proof of the date notice was given no less

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than ten days after the date of the notice. It is further

ORDERED that the gains on the sales to the City of Maitland and to the City of Altamonte Springs shall not be included in Utilities, Inc. of Florida's cost of service. It is further

ORDERED that Utilities, Inc. of Florida shall refund 7.66% of water revenues for Marion County collected under interim rates. The refund shall be made with interest, in accordance with Rule 25-30.360(4), Florida Administrative Code. Utilities, Inc. of Florida shall submit proper refund reports, pursuant to Rule 25-30.360(7), Florida Administrative Code. Further, Utilities, Inc. of Florida shall treat any unclaimed refunds as CIAC, pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period. Utilities, Inc. of Florida shall file revised tariff sheets for each system to reflect the four-year rate reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-40.475(1), Florida Administrative Code. Utilities, Inc. of Florida shall file a proposed customer notice for each system, setting forth the lower rates and the reason for the reduction with the revised tariffs. The rates shall not be implemented until our staff has approved the proposed customer notices, and the notice has been received by the customers. Utilities, Inc. of Florida shall provide proof of the date notices were given no less than 10 days after the date of the notices. It is further

ORDERED that if Utilities, Inc. of Florida files the four-year rate reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that this docket shall remain open pending our staff's verification that Utilities, Inc. of Florida's revised tariff sheets and notice are consistent with our decision and that the utility has properly administered the interim refund. Once our

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staff has verified that the refund has been made, the corporate undertaking shall be released. Upon our staff's verification that the above requirements have been met and after the time for filing an appeal has run, this docket shall be administratively closed.

By ORDER of the Florida Public Service Commission this 22nd Day of December, 2003.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

RG

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.

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Any party adversely affected by the Commission's final action 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/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.

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UTILITIES, INC. OF FLORIDA - MARION COUNTY				SCHEDULE NO. 1-A	
SCHEDULE OF WATER RATE BASE				DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/2001					
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	\$639,911	\$0	\$639,911	(\$42,529)	\$597,382
2 LAND & LAND RIGHTS	\$12,615	\$0	\$12,615	\$4,467	\$17,082
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$302,255)	\$0	(\$302,255)	\$25,514	(\$276,741)
5 CIAC	(\$134,337)	\$0	(\$134,337)	\$0	(\$134,337)
6 AMORTIZATION OF CIAC	\$44,137	\$0	\$44,137	\$395	\$44,532
7 ALLOCATED PLANT	\$4,925	\$0	\$4,925	\$109	\$5,034
8 WORKING CAPITAL ALLOWANCE	<u>\$114,826</u>	<u>\$0</u>	<u>\$114,826</u>	<u>(\$101,443)</u>	<u>\$13,383</u>
9 RATE BASE	<u>\$379,822</u>	<u>\$0</u>	<u>\$379,822</u>	<u>(\$113,487)</u>	<u>\$266,335</u>

UTILITIES, INC. OF FLORIDA - MARION COUNTY SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/2001				SCHEDULE NO. 1-B DOCKET NO. 020071-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	\$149,912	\$0	\$149,912	(\$2,547)	\$147,365
2 LAND	10,080	0	10,080	720	10,800
3 NON-USED & USEFUL COMPONENTS	(17,812)	0	(17,812)	0	(17,812)
4 ACCUMULATED DEPRECIATION	(64,041)	0	(64,041)	(21,075)	(85,116)
5 CIAC	(450)	0	(450)	0	(450)
6 AMORTIZATION OF CIAC	18	0	18	0	18
7 ALLOCATED PLANT	733	0	733	17	750
8 WORKING CAPITAL ALLOWANCE	<u>44,914</u>	<u>0</u>	<u>44,914</u>	<u>(41,340)</u>	<u>3,574</u>
RATE BASE	<u>\$123,354</u>	<u>\$0</u>	<u>\$123,354</u>	<u>(\$64,226)</u>	<u>\$59,128</u>

UTILITIES, INC. OF FLORIDA - MARION COUNTY		SCHEDULE NO. 1-C	
ADJUSTMENTS TO RATE BASE		DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/2001			
EXPLANATION		WATER	WASTEWATER
<u>PLANT IN SERVICE</u>			
. To reflect prior Commission-ordered adjustments (S-1)		(\$14,314)	(\$1,633)
? To reflect Organization costs adjustment (S-2)		(263)	0
} To reclassify plant as non-recurring (S-3)		(1,122)	(901)
! To record retirement of plt. no longer in service (S-8)		(26,688)	0
; Retirement of assets replaced during the TY (S-11)		<u>(142)</u>	<u>(13)</u>
Total		<u>(\$42,529)</u>	<u>(\$2,547)</u>
<u>LAND</u>			
To reflect prior Commission-ordered adjustments (S-1)		<u>\$4,467</u>	<u>\$720</u>
<u>ACCUMULATED DEPRECIATION</u>			
. To reflect prior Commission-ordered adjustments (S-1)		(\$1,307)	\$675
? To reflect Organization costs adjustments (S-2)		263	0
} To reclassify plant as non-recurring (S-3)		17	13
! Retirements of plant no longer in service (S-8)		26,688	0
; To reflect appropriate depreciation rates (S-10)		0	(21,744)
; Retirement of assets replaced during the TY (S-11)		<u>(147)</u>	<u>(19)</u>
Total		\$25,514	(\$21,075)
<u>ACCUM. AMORT. OF CIAC</u>			
To reflect appropriate CIAC amortization rates (S-12)		<u>\$395</u>	<u>\$0</u>
<u>ALLOCATED PLANT</u>			
To reflect appropriate allocations from WSC (I-5)		<u>\$109</u>	<u>\$17</u>
<u>WORKING CAPITAL</u>			
Appropriate allocation of working capital (S-16&17)		<u>(\$101,443)</u>	<u>(\$41,340)</u>

UTILITIES, INC. OF FLORIDA - MARION COUNTY					SCHEDULE NO. 2		
CAPITAL STRUCTURE - 13 MONTH AVERAGE					DOCKET NO. 020071-WS		
TEST YEAR ENDED 12/31/2001							
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$72,476,923	\$0	(\$72,245,460)	\$231,463	46.00%	8.73%	4.02%
2 SHORT-TERM DEBT	13,255,885	0	(13,213,565)	42,320	8.41%	3.01%	0.25%
3 COMMON EQUITY	73,349,304	0	(73,115,046)	234,258	46.56%	11.02%	5.13%
4 CUSTOMER DEPOSITS	72,664	0	(77,529)	(4,865)	-0.97%	6.00%	-0.06%
5 DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
6 TOTAL CAPITAL	<u>\$159,154,776</u>	<u>\$0</u>	<u>(\$158,651,600)</u>	<u>\$503,176</u>	<u>100.00%</u>		<u>9.34%</u>
PER COMMISSION							
7 LONG TERM DEBT	\$72,476,923	\$0	(\$72,330,933)	\$145,990	44.86%	8.63%	3.87%
8 SHORT-TERM DEBT	13,255,885	0	(13,229,184)	26,701	8.20%	5.18%	0.42%
9 COMMON EQUITY	73,349,304	0	(73,201,557)	147,747	45.40%	11.45%	5.20%
10 CUSTOMER DEPOSITS	72,664	(67,638)	0	5,026	1.54%	6.00%	0.09%
11 DEFERRED INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
12 TOTAL CAPITAL	<u>\$159,154,776</u>	<u>(\$67,638)</u>	<u>(\$158,761,674)</u>	<u>\$325,464</u>	<u>100.00%</u>		<u>9.59%</u>
					<u>LOW</u>	<u>HIGH</u>	
Per Stip 20, the AFUDC rate is:						<u>10.45%</u>	<u>12.45%</u>
& the monthly discount rate is:						<u>9.13%</u>	<u>10.04%</u>
					RETURN ON EQUITY		
					OVERALL RATE OF RETURN		

UTILITIES, INC. OF FLORIDA - MARION COUNTY						SCHEDULE NO. 3-A	
STATEMENT OF WATER OPERATIONS						DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/2001							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$151,712</u>	<u>\$49,509</u>	<u>\$201,221</u>	<u>(\$47,819)</u>	<u>\$153,402</u>	<u>\$8,778</u> 5.72%	<u>\$162,180</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$106,262	\$10,911	\$117,173	(\$16,171)	\$101,002		\$101,002
3 DEPRECIATION	16,934	200	17,134	(1,770)	15,364		15,364
4 AMORTIZATION	161	(161)	0	0	0		0
5 TAXES OTHER THAN INCOME	16,742	3,255	19,997	(8,467)	11,530	395	11,925
6 INCOME TAXES	<u>(4,954)</u>	<u>16,414</u>	<u>11,460</u>	<u>(6,261)</u>	<u>5,199</u>	<u>3,155</u>	<u>8,354</u>
7 TOTAL OPERATING EXPENSES	<u>\$135,145</u>	<u>\$30,619</u>	<u>\$165,764</u>	<u>(\$32,669)</u>	<u>\$133,095</u>	<u>\$3,550</u>	<u>\$136,645</u>
8 OPERATING INCOME	<u>\$16,567</u>	<u>\$18,890</u>	<u>\$35,457</u>	<u>(\$15,150)</u>	<u>\$20,307</u>	<u>\$5,229</u>	<u>\$25,535</u>
9 RATE BASE	<u>\$379,822</u>		<u>\$379,822</u>		<u>\$266,335</u>		<u>\$266,335</u>
10 RATE OF RETURN	<u>4.36%</u>		<u>9.34%</u>		<u>7.62%</u>		<u>9.59%</u>

UTILITIES, INC. OF FLORIDA - MARION COUNTY STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/2001						SCHEDULE NO. 3-B DOCKET NO. 020071-WS	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$58,529</u>	<u>\$5,309</u>	<u>\$63,838</u>	<u>\$3,962</u>	<u>\$67,800</u>	<u>(\$24,950)</u> -36.80%	<u>\$42,850</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$41,564	(\$398)	\$41,166	(\$14,197)	\$26,969		\$26,969
3 DEPRECIATION	4,143	(1,157)	2,986	2,730	5,716		5,716
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	4,151	392	4,543	(779)	3,764	(1,123)	2,642
6 INCOME TAXES	<u>2,178</u>	<u>1,447</u>	<u>3,625</u>	<u>7,196</u>	<u>10,821</u>	<u>(8,966)</u>	<u>1,855</u>
7 TOTAL OPERATING EXPENSES	<u>\$52,036</u>	<u>\$284</u>	<u>\$52,320</u>	<u>(\$5,050)</u>	<u>\$47,270</u>	<u>(\$10,089)</u>	<u>\$37,182</u>
8 OPERATING INCOME	<u>\$6,493</u>	<u>\$5,025</u>	<u>\$11,518</u>	<u>\$9,012</u>	<u>\$20,530</u>	<u>(\$14,861)</u>	<u>\$5,669</u>
9 RATE BASE	<u>\$123,354</u>		<u>\$123,354</u>		<u>\$59,128</u>		<u>\$59,128</u>
10 RATE OF RETURN	<u>5.26%</u>		<u>9.34%</u>		<u>34.72%</u>		<u>9.59%</u>

UTILITIES, INC. OF FLORIDA - MARION COUNTY		SCHEDULE NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/2001			
EXPLANATION	WATER	WASTEWATER	
<u>OPERATING REVENUES</u>			
1 Remove requested final revenue increase	(\$49,509)	(\$5,309)	
2 To reflect staff adjustment to TY revenue (I-19)	1,690	(2,103)	
3 To adjust for annualization for bulk service (S-22)	0	11,374	
Total	<u>(\$47,819)</u>	<u>\$3,962</u>	
<u>OPERATION & MAINTENANCE EXPENSE</u>			
1 To amortize non-recurring expense (S-3)	\$224	\$180	
2 To adjust O&M exp. for allocations from WSC (I-22)	(4,986)	(743)	
3 To adjust salary, pension and benefit expense (I-23)	6,638	(10,395)	
4 To reflect the appropriate rate case exp (I-25)	(15,764)	(3,239)	
5 Adjust exp. to properly reflect invoiced amts (S-25)	(818)	0	
6 To adjust for excessive unaccounted for water (I-26)	<u>(1,465)</u>	<u>0</u>	
Total	<u>(\$16,171)</u>	<u>(\$14,197)</u>	
<u>DEPRECIATION EXPENSE-NET</u>			
1 To reflect prior Commission-ordered adjustments (S- 1)	(\$603)	\$126	
2 To reflect the appropriate organization costs (S- 2)	(7)	0	
3 To reclassify plant as non-recurring expense (S- 3)	(34)	(26)	
4 Retirements of plant no longer in service (S-8)	(721)	0	
5 To reflect appropriate depreciation rates (S-10)	0	2,632	
6 Retirement of assets replaced during the TY (S-11)	(10)	(2)	
7 To reflect appropriate CIAC amortization rates(S- 12)	<u>(395)</u>	<u>0</u>	
Total	<u>(\$1,770)</u>	<u>\$2,730</u>	
<u>TAXES OTHER THAN INCOME</u>			
1 RAFs on revenue adjustments above	(\$2,152)	\$178	
2 To adjust P/R taxes to reflect alloc. from WSC (I-23)	(990)	(147)	
3 To correct errors and reallocate prop tax exp. (S-26)	(4,225)	(609)	
4 To correct test year RAFs	<u>(1,100)</u>	<u>(201)</u>	
Total	<u>(\$8,467)</u>	<u>(\$779)</u>	
<u>INCOME TAXES</u>			
To adjust to test year income tax expense	<u>(\$6,261)</u>	<u>\$7,196</u>	

UTILITIES, INC. OF FLORIDA - MARION COUNTY		SCHEDULE 4-A			
MONTHLY WATER SERVICE RATES					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Comm. Approved Interim	Monthly Utility Requested Final	Monthly Comm. Approved Final	Four-Year Rate Reduction
WATER SERVICE - Residential, General Service & Multi-Family					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$8.16	\$8.98	\$5.30	\$4.08	\$0.20
1"	\$20.40	\$22.45	\$13.26	\$10.21	\$0.51
1-1/2"	\$40.79	\$44.89	\$26.51	\$20.42	\$1.01
2"	(1) \$65.28	\$71.84	NR	\$32.68	\$1.62
3"	(1) \$130.54	\$143.65	NR	\$65.35	\$3.24
4"	\$203.98	\$224.47	\$132.59	\$102.11	\$5.06
6"	(1) \$407.95	\$448.93	NR	\$204.22	\$10.11
Gallonage Charge, per 1,000 Gallons	\$2.25	\$2.48	\$2.96	\$2.44	\$0.12
<u>Typical Monthly Residential Water Bills - 5/8" x 3/4" Meter (2)</u>					
3,000 Gallons	\$10.83	\$11.93	\$14.18	\$11.40	
5,000 Gallons	\$15.33	\$16.89	\$20.10	\$16.28	
10,000 Gallons	\$26.58	\$29.29	\$34.90	\$28.48	
(1) Prior and interim rate typical bills have been converted to monthly.					
(2) The utility has approved rates, but currently no customers, for these meter sizes.					

UTILITIES, INC. OF FLORIDA - MARION COUNTY					SCHEDULE 4-B
MONTHLY WASTEWATER SERVICE RATES					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Comm. Approved Interim (1)	Monthly Utility Requested Final	Monthly Comm. Approved Final	Four-Year Rate Reduction
WASTEWATER SERVICE - Residential (3)					
Base Facility Charge: Meter Size					
All meter sizes	\$58.07	\$58.07	\$31.07	\$20.91	\$0.31
Gallonage Charge - Per 1,000					
gallons (10,000 gallon cap)	\$4.54	\$4.54	\$5.01	\$2.59	\$0.04
WASTEWATER SERVICE - General Service (3)					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$58.07	\$58.07	\$31.07	\$20.91	\$0.31
1"	(2) \$145.16	\$145.16	NR	\$52.28	\$0.76
1-1/2"	(2) \$290.32	\$290.32	NR	\$104.55	\$1.53
2"	\$464.51	\$464.51	\$248.51	\$167.28	\$2.44
3"	(2) \$929.02	\$929.02	NR	\$334.56	\$4.88
4"	(2) \$1,451.58	\$1,451.58	NR	\$522.75	\$7.63
6"	(2) \$2,903.18	\$2,903.18	NR	\$1,045.50	\$15.26
Gallonage Charge, per 1,000 Gallons	\$5.46	\$5.46	\$6.02	\$3.11	\$0.05
Typical Monthly Residential Wastewater Bills (3)					
3,000 Gallons	\$42.66	\$42.66	\$46.10	\$28.68	
5,000 Gallons	\$51.74	\$51.74	\$56.12	\$33.86	
10,000 Gallons	\$74.44	\$74.44	\$81.17	\$46.81	
(1) The utility was not granted interim wastewater rates in Marion County.					
(2) The utility has approved rates, but currently no customers, for these meter sizes.					
(3) Prior and interim rate typical bills have been converted to monthly.					

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY				SCHEDULE NO. 1-A	
SCHEDULE OF WATER RATE BASE				DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$192,409	\$0	\$192,409	(\$48,141)	\$144,268
2 LAND & LAND RIGHTS	2,783	0	2,783	(2,783)	0
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(105,540)	0	(105,540)	39,965	(65,575)
5 CIAC	(38,403)	0	(38,403)	(17,592)	(55,995)
6 AMORTIZATION OF CIAC	21,337	0	21,337	(10,531)	10,806
7 ALLOCATED PLANT	3,994	0	3,994	(2,151)	1,843
8 WORKING CAPITAL ALLOWANCE	<u>80,701</u>	<u>0</u>	<u>80,701</u>	<u>(69,395)</u>	<u>11,306</u>
9 RATE BASE	<u>\$157,281</u>	<u>\$0</u>	<u>\$157,281</u>	<u>(\$110,628)</u>	<u>\$46,653</u>

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY		SCHEDULE NO.1-C
ADJUSTMENTS TO RATE BASE		DOCKET NO. 020071-WS
TEST YEAR ENDED 12/31/01		
EXPLANATION	WATER	
<u>PLANT IN SERVICE</u>		
1 To reflect prior Commission-ordered adjustments - (S-1)	(\$7,056)	
2 Plant retirement in Cresent Heights and Davis Shores (S-5)	(40,606)	
3 Retirements of assets replaced during the test year (S-11)	<u>(479)</u>	
Total	<u>(\$48,141)</u>	
<u>LAND</u>		
Plant retirement in Cresent Heights and Davis Shores (S-5)	<u>(\$2,783)</u>	
<u>ACCUMULATED DEPRECIATION</u>		
1 To reflect prior Commission-ordered adjustments (S-1)	\$8,292	
2 To reflect prior Commission-ordered adjustments (S-1)	100	
3 Plant retirement in Cresent Heights and Davis Shores (S-5)	31,056	
4 Retirements of assets replaced during the test year (S-11)	<u>517</u>	
Total	<u>\$39,965</u>	
<u>CIAC</u>		
To reconcile MFRs to general ledger balances - (S-14)	<u>(\$17,592)</u>	
<u>ACCUM. AMORT. OF CIAC</u>		
1 To reflect appropriate CIAC amortization rates (S-12)	\$178	
2 To reconcile MFRs to general ledger balances(S-14)	<u>(10,709)</u>	
Total	<u>(\$10,531)</u>	
<u>ALLOCATED PLANT</u>		
To reflect appropriate allocations from WSC (I-5)	<u>(\$2,151)</u>	
<u>WORKING CAPITAL</u>		
To reflect appropriate working capital (S-16&17)	<u>(\$69,395)</u>	

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY CAPITAL STRUCTURE-13 MONTH AVERAGE TEST YEAR ENDED 12/31/01		SCHEDULE NO. 2 DOCKET NO. 020071-WS						
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST- MENTS (EXPLAIN)	PRO RATA ADJUST- MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST	
PER UTILITY								
1 LONG TERM DEBT	\$72,476,923	\$0	(\$72,408,707)	\$68,216	43.37%	8.73%	3.79%	
2 SHORT-TERM DEBT	13,255,885	0	(13,243,413)	12,472	7.93%	3.01%	0.24%	
3 COMMON EQUITY	73,349,304	0	(73,280,265)	69,039	43.90%	11.14%	4.89%	
4 CUSTOMER DEPOSITS	72,664	0	(67,899)	4,765	3.03%	6.00%	0.18%	
5 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>1.77%</u>	<u>0.00%</u>	<u>0.00%</u>	
6 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>\$0</u>	<u>(\$159,000,284)</u>	<u>\$157,280</u>	<u>100.00%</u>		<u>9.10%</u>	
PER COMMISSION								
7 LONG TERM DEBT	\$72,476,923	\$0	(\$72,459,153)	\$17,770	38.09%	8.63%	3.29%	
8 SHORT-TERM DEBT	13,255,885	0	(13,252,635)	3,250	6.97%	5.18%	0.36%	
9 COMMON EQUITY	73,349,304	0	(73,331,321)	17,983	38.55%	11.45%	4.41%	
10 CUSTOMER DEPOSITS	72,664	(67,802)	0	4,862	10.42%	6.00%	0.63%	
11 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>5.98%</u>	<u>0.00%</u>	<u>0.00%</u>	
12 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>(\$67,802)</u>	<u>(\$159,043,109)</u>	<u>\$46,653</u>	<u>100.00%</u>		<u>8.69%</u>	
					LOW	HIGH		
Per Stip 20, the AFUDC rate is:		<u>8.69%</u>	RETURN ON EQUITY		<u>10.45%</u>	<u>12.45%</u>		
& the monthly discount rate is:		<u>0.723691%</u>	OVERALL RATE OF RETURN		<u>8.30%</u>	<u>9.07%</u>		

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY						SCHEDULE NO. 3-A	
STATEMENT OF WATER OPERATIONS						DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UIF	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$86,186</u>	<u>\$75,668</u>	<u>\$161,854</u>	<u>(\$76,141)</u>	<u>\$85,713</u>	<u>\$17,080</u> 19.93%	<u>\$102,793</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$74,682	\$48,587	\$123,269	(\$37,945)	\$85,324		\$85,324
3 DEPRECIATION	7,229	2	7,231	(2,099)	5,132		5,132
4 AMORTIZATION	(1,265)	0	(1,265)	0	(1,265)		(1,265)
5 TAXES OTHER THAN INCOME	9,323	4,325	13,648	(6,111)	7,537	768	8,306
6 INCOME TAXES	<u>(\$6,592)</u>	<u>\$11,257</u>	<u>\$4,665</u>	<u>(\$9,560)</u>	<u>(\$4,895)</u>	<u>\$6,137</u>	<u>\$1,242</u>
7 TOTAL OPERATING EXPENSES	<u>\$83,377</u>	<u>\$64,171</u>	<u>\$147,548</u>	<u>(\$55,715)</u>	<u>\$91,833</u>	<u>\$6,906</u>	<u>\$98,739</u>
8 OPERATING INCOME	<u>\$2,809</u>	<u>\$11,497</u>	<u>\$14,306</u>	<u>(\$20,426)</u>	<u>(\$6,120)</u>	<u>\$10,174</u>	<u>\$4,054</u>
9 RATE BASE	<u>\$157,281</u>		<u>\$157,281</u>		<u>\$46,653</u>		<u>\$46,653</u>
10 RATE OF RETURN	<u>1.79%</u>		<u>9.10%</u>		<u>-13.12%</u>		<u>8.69%</u>

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY		SCHEDULE NO. 3-C
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020071-WS
TEST YEAR ENDED 12/31/01		
EXPLANATION		WATER
<u>OPERATING REVENUES</u>		
1 Remove requested final revenue increase		(\$76,950)
2 To reflect appropriate annualized revenues (S-21)		809
Total		<u>(\$76,141)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 To adjust allocations from UIF cost centers (S-23)		(\$121)
2 To properly reflect actual invoiced amounts Acct #610 (S-25)		(3,200)
3 To reflect appropriate allocations from WSC (I-22)		(1,899)
4 To reflect the appropriate amount of rate case expense (I-25)		(23,613)
5 To adjust salary, pension and benefit expense (I-23)		(6,656)
6 To adjust purchased water for repression (S-28)		<u>(2,456)</u>
Total		<u>(\$37,945)</u>
<u>DEPRECIATION EXPENSE-NET</u>		
1 To reflect prior Commission-ordered adjustments (S-1)		(\$199)
2 Plant retirement in Cresent Heights and Davis Shores (S-5)		(1,715)
3 To retire assets replaced during the test year (S-11)		(7)
4 To reflect appropriate CIAC amortization rates (S-12)		<u>(178)</u>
Total		<u>(\$2,099)</u>
<u>TAXES OTHER THAN INCOME</u>		
1 RAFs on revenue adjustments above.		(\$3,426)
2 To correct RAFs on test year revenues		(20)
3 To correct errors and reallocate property tax expense (S-26)		(1,953)
4 To adjust salary, pension and benefit expense (I-23)		<u>(712)</u>
Total		<u>(\$6,111)</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense		<u>(\$9,560)</u>

UTILITIES, INC. OF FLORIDA - ORANGE COUNTY		SCHEDULE NO. 4-A			
WATER MONTHLY SERVICE RATES					
TEST YEAR ENDED 12/31/01					
	BI-MONTHLY RATES - PRIOR TO FILING	BI-MONTHLY COMM. APPROVED INTERIM	MONTHLY UTILITY REQUESTED FINAL	COMM. APPROVED FINAL	4-YEAR RATE REDUCTION
<u>Residential and General</u>					
<u>Service</u>					
Base Facility Charge: Meter					
<u>Size</u>					
5/8" x 3/4"	\$12.16	\$13.90	\$11.67	\$6.30	\$0.33
1"	\$30.32	\$34.66	\$29.10	\$15.75	\$0.83
1-1/2" (2)	\$60.74	\$69.43	NR	\$31.50	\$1.66
2" (2)	\$97.19	\$111.10	NR	\$50.40	\$2.66
3" (2)	\$194.33	\$222.14	NR	\$100.80	\$5.32
4" (2)	\$303.66	\$347.11	NR	\$157.50	\$8.31
6" (2)	\$607.30	\$694.20	NR	\$315.00	\$16.62
Gallonge Charge, per 1,000 Gallons					
<u>Residential</u>					
All levels	\$2.07	\$2.37	\$3.94	NA	NA
0-8 kgal	NA	NA	NA	\$2.60	\$0.14
8-16 kgal	NA	NA	NA	\$3.25	\$0.17
over 16 kgal	NA	NA	NA	\$3.90	\$0.21
<u>General Service</u>	\$2.07	\$2.37	\$3.94	\$2.79	\$0.15
<u>Typical Monthly Residential Bills - 5/8"x3/4" Meter (1)</u>					
3,000 Gallons	\$12.29	\$14.06	\$23.49	\$14.10	
8,000 Gallons	\$22.64	\$25.91	\$43.19	\$27.10	
10,000 Gallons	\$26.78	\$30.65	\$51.07	\$33.60	
17,000 Gallons	\$41.27	\$47.24	\$78.65	\$57.00	
(1) Prior and interim rate typical bills have been converted to monthly.					
(2) The utility has approved rates, but currently no customers, for these meter sizes.					

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DOCKET NO. 020071-WS

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UTILITIES, INC. OF FLORIDA - PASCO COUNTY SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/01				SCHEDULE NO. 1-A DOCKET NO. 020071-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	\$1,625,381	\$0	\$1,625,381	\$210,674	\$1,836,055	
2 LAND & LAND RIGHTS	6,713	0	6,713	2,095	8,808	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(573,642)	0	(573,642)	(149,832)	(723,474)	
5 CIAC	(466,708)	0	(466,708)	(110,859)	(577,567)	
6 AMORTIZATION OF CIAC	158,830	0	158,830	76,805	235,635	
7 CWIP	42,635	0	42,635	0	42,635	
8 ALLOCATED PLANT	25,310	0	25,310	(5,812)	19,498	
9 WORKING CAPITAL ALLOWANCE	<u>244,252</u>	<u>0</u>	<u>244,252</u>	<u>(205,937)</u>	<u>38,315</u>	
RATE BASE	<u>\$1,062,771</u>	<u>\$0</u>	<u>\$1,062,771</u>	<u>(\$182,866)</u>	<u>\$879,905</u>	

ORDER NO. PSC-03-1440-FOF-WS
 DOCKET NO. 020071-WS
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UTILITIES, INC. OF FLORIDA - PASCO COUNTY SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/01				SCHEDULE NO. 1-B DOCKET NO. 020071-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	\$996,546	\$0	\$996,546	(\$128,417)	\$868,129
2 LAND	10,000	0	10,000	(8,500)	1,500
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(323,941)	0	(323,941)	188	(323,753)
5 CIAC	(463,032)	0	(463,032)	(105,691)	(568,723)
6 AMORTIZATION OF CIAC	119,079	0	119,079	128,907	247,986
7 CWIP	11,042	0	11,042	0	11,042
8 ALLOCATED PLANT	7,905	0	7,905	(1,815)	6,090
9 WORKING CAPITAL ALLOWANCE	<u>255,410</u>	<u>0</u>	<u>255,410</u>	<u>(226,005)</u>	<u>29,405</u>
RATE BASE	<u>\$613,009</u>	<u>\$0</u>	<u>\$613,009</u>	<u>(\$341,333)</u>	<u>\$271,676</u>

UTILITIES, INC. OF FLORIDA - PASCO COUNTY		SCHEDULE NO. 1-C	
ADJUSTMENTS TO RATE BASE		DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01			
EXPLANATION	WATER	WASTEWATER	
<u>PLANT IN SERVICE</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	\$290,504	\$114,133	
2 To reflect the appropriate organization costs (S-2)	(25,539)	(872)	
3 To reclassify plant as non-recurring expense (S-3)	(3,317)	(6,171)	
4 To record retirements no longer in service (S-8)	(50,162)	0	
5 To record retirements no longer in service (S-9)	0	(235,208)	
6 Retirements replaced during the test year (S-11)	(812)	(299)	
Total	<u>\$210,674</u>	<u>(\$128,417)</u>	
<u>LAND</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	\$2,095	\$500	
2 To record retirements no longer in service (S-9)	0	(9,000)	
Total	<u>\$2,095</u>	<u>(\$8,500)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	(\$226,469)	(\$19,943)	
2 To reflect the appropriate organization costs (S-2)	25,539	872	
3 To reclassify plant as non-recurring expense (S-3)	83	59	
4 To record retirements no longer in service (S-8)	50,162	0	
5 To record retirements no longer in service (S-9)	0	76,713	
6 To reflect appropriate depreciation rates (S-10)	0	(57,828)	
7 Retirements replaced during the test year (S-11)	853	315	
Total	<u>(\$149,832)</u>	<u>\$188</u>	
<u>CIAC</u>			
To reflect prior Commission-ordered adjustments (S-1)	<u>(\$110,859)</u>	<u>(\$105,691)</u>	
<u>ACCUM. AMORT. OF CIAC</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	\$80,927	\$90,586	
2 To reflect appropriate CIAC amortization rates (S-12)	3,845	911	
3 To reflect appropriate CIAC amortization amounts (S-13)	27,713	37,410	
4 To reconcile MFRs to general ledger balances (S-14)	(35,680)	0	
Total	<u>\$76,805</u>	<u>\$128,907</u>	
<u>ALLOCATED PLANT</u>			
To reflect appropriate allocations from WSC (I-5)	<u>(\$5,812)</u>	<u>(\$1,815)</u>	
<u>WORKING CAPITAL</u>			
To reflect appropriate working capital (S-16 & 17)	<u>(\$205,989)</u>	<u>(\$226,045)</u>	

UTILITIES, INC. OF FLORIDA - PASCO COUNTY					SCHEDULE NO. 2		
CAPITAL STRUCTURE					DOCKET NO. 020071-WS		
TEST YEAR ENDED 12/31/01							
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$72,476,923	\$0	(\$71,721,529)	\$755,394	45.08%	8.73%	3.94%
2 SHORT-TERM DEBT	13,255,885	0	(13,117,772)	138,113	8.24%	3.01%	0.25%
3 COMMON EQUITY	73,349,304	0	(72,584,791)	764,513	45.62%	11.06%	5.05%
4 CUSTOMER DEPOSITS	72,664	0	(57,691)	14,973	0.89%	6.00%	0.05%
5 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>0.17%</u>	<u>0.00%</u>	<u>0.00%</u>
6 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>\$0</u>	<u>(\$157,481,783)</u>	<u>\$1,675,781</u>	<u>100.00%</u>		<u>9.28%</u>
PER COMMISSION							
7 LONG TERM DEBT	\$72,476,923	\$0	(\$71,960,499)	\$516,424	44.84%	8.63%	3.87%
8 SHORT-TERM DEBT	13,255,885	0	(13,161,432)	94,453	8.20%	5.18%	0.42%
9 COMMON EQUITY	73,349,304	0	(72,826,664)	522,640	45.38%	11.45%	5.20%
10 CUSTOMER DEPOSITS	72,664	(57,388)	0	15,276	1.33%	6.00%	0.08%
11 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>0.24%</u>	<u>0.00%</u>	<u>0.00%</u>
12 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>(\$57,388)</u>	<u>(\$157,948,596)</u>	<u>\$1,151,580</u>	<u>100.00%</u>		<u>9.57%</u>
					<u>LOW</u>	<u>HIGH</u>	
Per Stip 20, the AFUDC rate is:						<u>10.45%</u>	<u>12.45%</u>
& the monthly discount rate is:						<u>9.12%</u>	<u>10.03%</u>
					RETURN ON EQUITY		
					OVERALL RATE OF RETURN		

UTILITIES, INC. OF FLORIDA - PASCO COUNTY
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/01

SCHEDULE NO. 3-A
DOCKET NO. 020071-WS

	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$422,996</u>	<u>\$103,509</u>	<u>\$526,505</u>	<u>(\$93,534)</u>	<u>\$432,971</u>	<u>\$70,299</u> 16.24%	<u>\$503,270</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$226,035	\$56,889	282,924	6,229	289,153		289,153
3 DEPRECIATION	49,574	2,565	52,139	(68)	52,071		52,071
4 AMORTIZATION	3,072	(3,072)	0	0	0		0
5 TAXES OTHER THAN INCOME	55,109	4,948	60,057	(12,993)	47,064	3,163	50,227
6 INCOME TAXES	<u>38,814</u>	<u>(6,204)</u>	<u>32,610</u>	<u>(30,279)</u>	<u>2,331</u>	<u>25,261</u>	<u>27,591</u>
7 TOTAL OPERATING EXPENSES	<u>372,604</u>	<u>55,126</u>	<u>427,730</u>	<u>(37,111)</u>	<u>390,619</u>	<u>28,424</u>	<u>419,042</u>
8 OPERATING INCOME	<u>\$50,392</u>	<u>\$48,383</u>	<u>\$98,775</u>	<u>(\$56,423)</u>	<u>\$42,352</u>	<u>\$41,875</u>	<u>\$84,228</u>
9 RATE BASE	<u>\$1,062,771</u>		<u>\$1,062,771</u>		<u>\$879,905</u>		<u>\$879,905</u>
10 RATE OF RETURN	<u>4.74%</u>		<u>9.29%</u>		<u>4.81%</u>		<u>9.57%</u>

UTILITIES, INC. OF FLORIDA - PASCO COUNTY						SCHEDULE NO. 3-B	
STATEMENT OF WASTEWATER OPERATIONS						DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01							
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	COMM. ADJUST- MENTS	COMM. ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$286,769</u>	<u>\$77,600</u>	<u>\$364,369</u>	<u>(\$80,121)</u>	<u>\$284,248</u>	<u>\$16,477</u> 5.80%	<u>\$300,725</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$236,361	\$9,675	\$246,036	(\$24,125)	\$221,911		\$221,911
3 DEPRECIATION	17,214	(2,565)	14,649	(381)	14,268		14,268
4 AMORTIZATION	701	(701)	0	0	0		0
5 TAXES OTHER THAN INCOME	24,372	3,582	27,954	1,326	29,280	741	30,021
6 INCOME TAXES	<u>(24,974)</u>	<u>43,725</u>	<u>18,751</u>	<u>(16,152)</u>	<u>2,599</u>	<u>5,919</u>	<u>8,518</u>
7 TOTAL OPERATING EXPENSES	<u>253,674</u>	<u>53,716</u>	<u>307,390</u>	<u>(39,332)</u>	<u>268,058</u>	<u>6,661</u>	<u>274,719</u>
8 OPERATING INCOME	<u>\$33,095</u>	<u>\$23,884</u>	<u>\$56,979</u>	<u>(\$40,789)</u>	<u>\$16,190</u>	<u>\$9,816</u>	<u>\$26,006</u>
9 RATE BASE	<u>\$613,009</u>		<u>\$613,009</u>		<u>\$271,676</u>		<u>\$271,676</u>
10 RATE OF RETURN	<u>5.40%</u>		<u>9.29%</u>		<u>5.96%</u>		<u>9.57%</u>

UTILITIES, INC. OF FLORIDA - PASCO COUNTY		SCHEDULE NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01			
EXPLANATION	WATER	WASTEWATER	
<u>OPERATING REVENUES</u>			
1 Remove requested final revenue increase	(\$110,293)	(\$59,118)	
2 To reflect appropriate annualized revenues (S-21)	<u>16,759</u>	<u>(21,003)</u>	
Total	<u>(\$93,534)</u>	<u>(\$80,121)</u>	
<u>OPERATION & MAINTENANCE EXPENSE</u>			
1 To reclassify plant as non-recurring expense (S-3)	\$664	\$1,234	
2 To adjust for allocations from UIF cost centers (S-23)	(574)	(212)	
3 To properly reflect actual invoiced amounts (S-25)	1,599	(16,927)	
4 To reflect appropriate allocations from WSC (I-22)	(23,248)	(7,261)	
5 To adjust salary, pension and benefit expense (I-23)	17,373	(7,355)	
6 To reflect the appropriate amt. of rate case exp. (I-25)	14,825	6,396	
7 To adjust for excessive unaccounted for water (I-26)	(911)	0	
8 Purchased water, purch. power & chemicals for repression (S-28)	<u>(3,499)</u>	<u>0</u>	
Total	<u>\$6,229</u>	<u>(\$24,125)</u>	
<u>DEPRECIATION EXPENSE-NET</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	\$6,050	(\$520)	
2 To reflect the appropriate organization costs (S-2)	(639)	(22)	
3 To reclassify plant as non-recurring expense (S-3)	(166)	(118)	
4 To record retirements of plant no longer in service (S-8)	(1,409)		
5 To record retirements of plant no longer in service (S-9)	0	(6,760)	
6 To reflect appropriate depreciation rates (S-10)	0	7,972	
7 To reflect retirements replaced during the test year (S-11)	(59)	(22)	
8 To reflect appropriate CIAC amortization rates (S-12)	<u>(3,845)</u>	<u>(911)</u>	
Total	<u>(\$68)</u>	<u>(\$381)</u>	
<u>TAXES OTHER THAN INCOME</u>			
1 RAFs on revenue adjustments above.	(\$4,209)	(\$3,605)	
2 To correct RAFs on TY revenues	(265)	(270)	
3 To correct errors and reallocated property tax expense (S-26)	(7,288)	5,587	
4 To adjust salary, pension and benefit expense (I-23)	<u>(1,231)</u>	<u>(385)</u>	
Total	<u>(\$12,993)</u>	<u>\$1,326</u>	
<u>INCOME TAXES</u>			
To adjust to test year income tax expense	<u>(\$30,279)</u>	<u>(\$16,152)</u>	

UTILITIES, INC. OF FLORIDA - PASCO COUNTY					SCHEDULE 4-A
WATER SERVICE RATES					Page 1 of 2
TEST YEAR ENDED 12/31/01					
	MONTHLY RATES PRIOR TO FILING	MONTHLY COMMISSION APPROVED INTERIM (1)	MONTHLY UTILITY REQUESTED FINAL	MONTHLY COMM. APPROVED FINAL (2)	4-YEAR RATE REDUCTION
<u>Residential - Buena Vista (formerly Bartelt Sunshine)</u>					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$8.88	\$8.88	\$12.78	\$8.79	\$0.70
These residential rates prior to filing include 5,000 gallons					
Gallonage Charge, per 1,000 Gallons	\$0.43	\$0.43	\$1.21	\$1.74	\$0.14
<u>General Service - Buena Vista (formerly Bartelt Sunshine)</u>					
Base Facility Charge: Meter Size					
5/8" x 3/4"	(3) \$8.88	\$8.88	NR	\$8.79	\$0.70
3/4"	\$0.00	\$0.00	NR	\$13.19	\$1.04
1"	\$22.20	\$22.20	\$25.00	21.98	\$1.74
1-1/2"	(3) \$44.40	\$44.40	NR	43.95	\$3.48
2"	\$71.04	\$71.04	\$50.00	70.32	\$5.57
3"	(3) \$133.20	\$133.20	NR	\$140.64	\$11.14
4"	(3) \$222.00	\$222.00	NR	219.75	\$17.40
6"	(3) \$444.00	\$444.00	NR	\$439.50	\$34.80
Gallonage Charge, per 1,000 Gallons	\$0.43	\$0.43	\$1.21	\$1.74	\$0.14
<u>Typical Monthly Residential Bills 5/8"x3/4" Meter</u>					
3,000 Gallons	\$8.88	\$8.88	\$16.41	\$14.01	
5,000 Gallons	\$8.88	\$8.88	\$18.83	\$17.49	
10,000 Gallons	\$11.03	\$11.03	\$24.88	\$26.19	
<u>Residential & General Service - Summertree/Paradise Point West/Arborwood at Summertree</u>					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$7.95	\$7.95	\$12.78	\$8.79	\$0.70
3/4"	(3) \$11.95	\$11.95	NR	\$13.19	\$1.04
1"	\$19.91	\$19.91	\$25.00	21.98	\$1.74
1-1/2"	(3) \$39.81	\$39.81	NR	43.95	\$3.48
2"	\$63.70	\$63.70	\$50.00	70.32	\$5.57
3"	(3) \$127.39	\$127.39	NR	\$140.64	\$11.14
4"	(3) \$199.04	\$199.04	NR	219.75	\$17.40
6"	(3) \$398.09	\$398.09	NR	\$439.50	\$34.80
Gallonage Charge, per 1,000 Gallons	\$1.51	\$1.51	\$1.21	\$1.74	\$0.14
<u>Typical Monthly Residential Bills 5/8"x3/4" Meter</u>					
3,000 Gallons	\$12.48	\$12.48	\$16.41	\$14.01	
5,000 Gallons	\$15.50	\$15.50	\$18.83	\$17.49	
10,000 Gallons	\$23.05	\$23.05	\$24.88	\$26.19	
(1) The Commission did not approve any interim increase for these systems.					
(2) The tariffs for each system should be consolidated for Pasco County by class of service.					
(3) The utility has approved rates, but currently no customers, for these meter sizes.					

UTILITIES, INC. OF FLORIDA - PASCO COUNTY					SCHEDULE 4-A
WATER SERVICE RATES					Page 2 of 2
TEST YEAR ENDED 12/31/01					
	MONTHLY RATES PRIOR TO FILING	MONTHLY COMMISSION APPROVED INTERIM	MONTHLY UTILITY REQUESTED FINAL	MONTHLY COMM. APPROVED FINAL (2)	4-YEAR RATE REDUCTION
(1)					
Residential - Buena Vista Manor, Oak Hill (formerly Wis-Bar)					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$15.56	\$15.56	\$12.78	\$8.79	\$0.70
These residential rates prior to filing include 3,000 gallons					
Gallonge Charge, per 1,000 Gallons	\$1.89	\$1.89	\$1.21	\$1.74	\$0.14
Typical Monthly Residential Bills 5/8"x3/4" Meter					
3,000 Gallons	\$15.56	\$15.56	\$16.41	\$14.01	
5,000 Gallons	\$19.34	\$19.34	\$18.83	\$17.49	
10,000 Gallons	\$28.79	\$28.79	\$24.88	\$26.19	
	BI-MONTHLY RATES PRIOR TO FILING	BI-MONTHLY COMM. APPROVED INTERIM	MONTHLY UTILITY REQUESTED FINAL	MONTHLY STAFF RECOMM. FINAL	4-YEAR RATE REDUCTION
(1)					
Residential and General Service - Orangewood					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$19.00	\$19.00	\$12.78	\$8.79	\$0.70
3/4"	\$0.00	\$0.00	NR	\$13.19	\$1.04
1"	\$47.54	\$47.54	\$25.00	21.98	\$1.74
1-1/2"	\$95.02	\$95.02	\$32.50	43.95	\$3.48
2"	\$152.05	\$152.05	\$50.00	70.32	\$5.57
3"	(3) \$304.07	\$304.07	NR	\$140.64	\$11.14
4"	\$475.12	\$475.12	\$262.50	219.75	\$17.40
6"	(3) \$950.24	\$950.24	NR	\$439.50	\$34.80
Gallonge Charge, per 1,000 Gallons	\$1.10	\$1.10	\$1.21	\$1.74	\$0.14
Typical Monthly Residential Bills 5/8"x3/4" Meter (4)					
3,000 Gallons	\$12.80	\$12.80	\$16.41	\$14.01	
5,000 Gallons	\$15.00	\$15.00	\$18.83	\$17.49	
10,000 Gallons	\$20.50	\$20.50	\$24.88	\$26.19	
(1) The Commission did not approve any interim increase for these systems.					
(2) The tariffs for each system should be consolidated for Pasco County by class of service.					
(3) The utility has approved rates, but currently no customers, for these meter sizes.					
(4) Prior and interim rate typical bills have been converted to monthly.					

UTILITIES, INC. OF FLORIDA - PASCO COUNTY				SCHEDULE NO. 4-B	
WASTEWATER SERVICE RATES				DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01					
	MONTHLY RATES PRIOR TO FILING	MONTHLY COMMISSION APPROVED INTERIM (1)	MONTHLY UTILITY REQUESTED FINAL	MONTHLY COMM. APPROVED FINAL	4-YEAR RATE REDUCTION
Residential - Summertree/Paradise Point West/Arborwood at Summertree					
Base Facility Charge:					
All Meter Sizes	\$10.36	\$10.36	\$22.51	\$9.64	\$0.51
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)					
	\$7.80	\$7.80	\$4.41	\$7.89	\$0.42
General Service - Summertree/Paradise Point West/Arborwood at Summertree					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$10.36	\$10.36	\$22.51	\$9.64	\$0.51
3/4"	(2) \$15.54	\$15.54	NR	\$14.46	\$0.76
1"	\$25.90	\$25.90	\$45.25	\$24.10	\$1.27
1-1/2"	(2) \$51.82	\$51.82	NR	\$48.20	\$2.54
2"	\$82.90	\$82.90	\$112.50	\$77.12	\$4.07
3"	(2) \$166.89	\$166.89	NR	\$154.24	\$8.14
4"	(2) \$259.05	\$259.05	NR	\$241.00	\$12.71
6"	(2) \$518.11	\$518.11	NR	\$482.00	\$25.43
Gallonge Charge, per 1,000 Gallons	\$8.17	\$8.17	\$4.41	\$9.47	\$0.50
Typical Residential Wastewater Bills 5/8"x3/4" Meter					
3,000 Gallons	\$33.76	\$33.76	\$35.74	\$33.31	
5,000 Gallons	\$49.36	\$49.36	\$44.56	\$49.09	
6,000 Gallons (Wastewater Cap - 6,000 Gallons)	\$57.16	\$57.16	\$48.97	\$56.98	
Residential - Buena Vista Manor, Oak Hill (formerly Wis-Bar)					
Base Facility Charge: Meter Size					
5/8" x 3/4" Meter	\$10.98	\$10.98	\$22.51	7.66	\$0.40
Gallonge Charge, per 1,000 Gallons (6,000 gallon cap)	(3)	(3)	\$4.41	6.02	\$0.32
Residential Flat Rate (Unmetered)	\$10.98	\$10.98	\$22.51	20.13	\$1.06
Multi-Residential - Buena Vista Manor, Oak Hill (formerly Wis-Bar)					
Flat Rate - Unmetered	\$7.32	\$7.32	\$22.51	13.29	\$0.70
Typical Residential Wastewater Bills 5/8"x3/4" Meter					
3,000 Gallons	\$10.98	\$10.98	\$35.74	\$25.72	
5,000 Gallons	\$10.98	\$10.98	\$22.51	\$37.76	
6,000 Gallons Cap	\$10.98	\$10.98	\$22.51	\$43.78	
(1) The Commission did not approve any interim increase for these systems.					
(2) The utility has approved rates, but currently no customers, for these meter sizes.					
(3) Rates prior to filing were flat rates with no gallonge charge.					

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UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY			SCHEDULE NO. 1-A		
SCHEDULE OF WATER RATE BASE			DOCKET NO. 020071-WS		
TEST YEAR ENDED 12/31/01					
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	\$374,376	\$0	\$374,376	(\$41,072)	\$333,304
2 LAND & LAND RIGHTS	6,106	0	6,106	(3,701)	2,405
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(69,149)	0	(69,149)	9,262	(59,887)
5 CIAC	(138,847)	0	(138,847)	3,791	(135,056)
6 AMORTIZATION OF CIAC	42,423	0	42,423	2,437	44,860
7 ALLOCATED PLANT	6,750	0	6,750	(3,181)	3,569
8 WORKING CAPITAL ALLOWANCE	<u>31,222</u>	<u>0</u>	<u>31,222</u>	<u>(25,370)</u>	<u>5,852</u>
9 RATE BASE	<u>\$252,881</u>	<u>\$0</u>	<u>\$252,881</u>	<u>(\$57,834)</u>	<u>\$195,047</u>

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY		SCHEDULE NO. 1-C
ADJUSTMENTS TO RATE BASE		DOCKET NO. 020071-WS
TEST YEAR ENDED 12/31/01		
EXPLANATION		WATER
<u>PLANT IN SERVICE</u>		
1 To reflect prior Commission-ordered adjustments (S-1)		(\$30,651)
2 To record retirements of plant no longer in service (S-8)		(10,250)
3 Retirements of assets replaced during the test year (S-11)		<u>(171)</u>
Total		<u>(\$41,072)</u>
<u>LAND</u>		
To reflect prior Commission-ordered adjustments (S-1)		<u>(\$3,701)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1 To reflect prior Commission-ordered adjustments (S-1)		(\$813)
2 To record retirements of plant no longer in service (S-8)		\$10,250
3 Retirements of assets replaced during the test year (S-11)		<u>(175)</u>
Total		<u>\$9,262</u>
<u>CIAC</u>		
To reconcile MFRs to general ledger balances (S-14)		<u>\$3,791</u>
<u>ACCUM. AMORT. OF CIAC</u>		
1 To reflect appropriate CIAC amortization rates (S-12)		\$785
2 To reconcile MFRs to general ledger balances (S-14)		<u>1,652</u>
Total		<u>\$2,437</u>
<u>ALLOCATED PLANT</u>		
To reflect appropriate allocations from WSC (I-5)		<u>(\$3,181)</u>
<u>WORKING CAPITAL</u>		
To reflect appropriate allocation of working capital (S-16&17)		<u>(\$25,370)</u>

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY						SCHEDULE NO. 2	
CAPITAL STRUCTURE - 13 MONTH AVERAGE						DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01							
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$72,476,923	\$0	(\$72,367,344)	\$109,579	44.41%	8.73%	3.88%
2 SHORT-TERM DEBT	13,255,885	0	(13,235,850)	20,035	8.12%	3.01%	0.24%
3 COMMON EQUITY	73,349,304	0	(73,238,402)	110,902	44.95%	11.09%	4.99%
4 CUSTOMER DEPOSITS	72,664	0	(69,251)	3,413	1.38%	6.00%	0.08%
5 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>1.13%</u>	<u>0.00%</u>	<u>0.00%</u>
6 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>\$0</u>	<u>(\$158,910,847)</u>	<u>\$246,717</u>	<u>100.00%</u>		<u>9.19%</u>
PER COMMISSION							
7 LONG TERM DEBT	\$72,476,923	\$0	(\$72,391,027)	\$85,896	44.04%	8.73%	3.84%
8 SHORT-TERM DEBT	13,255,885	0	(13,240,175)	15,710	8.05%	5.18%	0.42%
9 COMMON EQUITY	73,349,304	0	(73,262,374)	86,930	44.57%	11.45%	5.10%
10 CUSTOMER DEPOSITS	72,664	(68,941)	0	3,723	1.91%	6.00%	0.11%
11 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>1.43%</u>	<u>0.00%</u>	<u>0.00%</u>
12 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>(\$68,941)</u>	<u>(\$158,893,576)</u>	<u>\$195,047</u>	<u>100.00%</u>		<u>9.48%</u>
					<u>LOW</u>	<u>HIGH</u>	
Per Stip 20, the AFUDC rate is:						<u>10.45%</u>	<u>12.45%</u>
& the monthly discount rate is:						<u>9.03%</u>	<u>9.93%</u>
					RETURN ON EQUITY		
					OVERALL RATE OF RETURN		

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY							SCHEDULE NO. 3-A	
STATEMENT OF WATER OPERATIONS							DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/01								
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	\$55,088	\$103,443	\$158,531	(\$101,902)	\$56,629	\$24,186 42.71%	\$80,815	
OPERATING EXPENSES:								
2 OPERATION & MAINTENANCE	\$28,893	\$76,205	\$105,098	(\$60,934)	\$44,164		\$44,164	
3 DEPRECIATION	\$8,428	\$0	8,428	(1,940)	6,488		6,488	
4 AMORTIZATION	\$2,602	(\$2,602)	0	0	0		0	
5 TAXES OTHER THAN INCOME	\$4,767	\$9,423	14,190	(9,614)	4,576	1,088	5,665	
6 INCOME TAXES	<u>\$2,077</u>	<u>\$5,501</u>	<u>\$7,578</u>	<u>(\$10,263)</u>	<u>(\$2,685)</u>	<u>\$8,692</u>	<u>\$6,006</u>	
7 TOTAL OPERATING EXPENSES	<u>\$46,767</u>	<u>\$88,527</u>	<u>\$135,294</u>	<u>(\$82,750)</u>	<u>\$52,544</u>	<u>\$9,780</u>	<u>\$62,323</u>	
8 OPERATING INCOME	<u>\$8,321</u>	<u>\$14,916</u>	<u>\$23,237</u>	<u>(\$19,152)</u>	<u>\$4,085</u>	<u>\$14,406</u>	<u>\$18,491</u>	
9 RATE BASE	<u>\$252,881</u>		<u>\$252,881</u>		<u>\$195,047</u>		<u>\$195,047</u>	
10 RATE OF RETURN	<u>3.29%</u>		<u>9.19%</u>		<u>2.09%</u>		<u>9.48%</u>	

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY		SCHEDULE NO. 3-C
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020071-WS
TEST YEAR ENDED 12/31/01		
EXPLANATION		WATER
<u>OPERATING REVENUES</u>		
1 Remove requested final revenue increase		(\$102,494)
2 To reflect appropriate annualized revenues (S-21)		592
Total		<u>(\$101,902)</u>
<u>OPERATION & MAINTENANCE EXPENSE</u>		
1 To adjust allocations from UIF cost centers (S-23)		(\$117)
2 To reflect appropriate allocations from WSC (I-22)		(6,737)
3 To adjust salary, pension and benefit expense (I-23)		(31,643)
4 To reflect the appropriate amount of rate case expense (I-25)		(21,551)
5 To remove excessive unaccounted for water (I-26)		(294)
6 To adjust purch. water, power & chemicals for repression (S-28)		(591)
Total		<u>(\$60,934)</u>
<u>DEPRECIATION EXPENSE-NET</u>		
1 To reflect prior Commission-ordered adjustments (S-1)		(\$905)
2 To record retirements of plant no longer in service (S-8)		(238)
3 Retirements of assets replaced during the test year (S-11)		(12)
4 To reflect appropriate CIAC amortization rates (S-12)		(785)
Total		<u>(\$1,940)</u>
<u>TAXES OTHER THAN INCOME</u>		
1 RAFs on revenue adjustments above		(\$4,586)
2 To correct RAFs on TY revenues		7
3 To correct error and reallocate property tax expense (S-26)		(736)
4 To adjust salary, pension and benefit expense (I-23)		(4,299)
Total		<u>(\$9,614)</u>
<u>INCOME TAXES</u>		
To adjust to test year income tax expense		<u>(\$9,614)</u>

UTILITIES, INC. OF FLORIDA - PINELLAS COUNTY		SCHEDULE NO. 4-A			
WATER MONTHLY SERVICE RATES		DOCKET 020071-WS			
TEST YEAR ENDED 12/31/01					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Commission Approved Interim	Monthly Utility Requested Final	Monthly Comm. Approved Final	4-Year Rate Reduction
Residential, General Service and Multi-Family					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$9.10	\$9.71	\$13.20	\$4.96	\$0.27
1"	\$22.76	\$24.28	\$33.00	\$12.40	\$0.68
1-1/2" (1)	\$45.52	\$48.57	NR	\$24.80	\$1.36
2"	\$72.81	\$77.68	\$105.57	\$39.68	\$2.17
3" (1)	\$145.64	\$155.38	NR	\$79.36	\$4.35
4" (1)	\$227.53	\$242.75	NR	\$124.00	\$6.79
6" (1)	\$455.05	\$485.49	NR	\$248.00	\$13.58
Gallonage Charge, per 1,000 Gallons	\$1.07	\$1.14	\$2.92	\$2.26	\$0.12
Typical Monthly Residential Bills - 5/8" x 3/4" Meter (2)					
3,000 Gallons	\$7.76	\$8.28	\$21.96	\$11.74	
5,000 Gallons	\$9.90	\$10.56	\$27.80	\$16.26	
10,000 Gallons	\$15.25	\$16.26	\$42.40	\$27.56	
(1) The utility has approved rates, but currently no customers, for these meter sizes.					
(2) Prior and interim rate typical bills have been converted to monthly.					

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/2001			SCHEDULE NO. 1-A DOCKET NO. 020071-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	\$2,462,506	\$0	\$2,462,506	(\$146,793)	\$2,315,713
2 LAND & LAND RIGHTS	16,778	0	16,778	(513)	16,265
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(1,224,197)	0	(1,224,197)	177,060	(1,047,137)
5 CIAC	(737,162)	0	(737,162)	(52,000)	(789,162)
6 AMORTIZATION OF CIAC	475,217	0	475,217	9,654	484,871
7 CWIP	375,277	0	375,277	0	375,277
8 ALLOCATED PLANT	21,036	0	21,036	2,377	23,413
9 WORKING CAPITAL ALLOWANCE	<u>397,399</u>	<u>0</u>	<u>397,399</u>	<u>(346,797)</u>	<u>50,602</u>
RATE BASE	<u>\$1,786,854</u>	<u>\$0</u>	<u>\$1,786,854</u>	<u>(\$357,012)</u>	<u>\$1,429,842</u>

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/2001				SCHEDULE NO. 1-B DOCKET NO. 020071-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	\$2,299,836	\$0	\$2,299,836	(\$636,400)	\$1,663,436
2 LAND	24,281	0	24,281	(7,809)	16,472
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0
4 ACCUMULATED DEPRECIATION	(774,978)	0	(774,978)	149,295	(625,683)
5 CIAC	(610,051)	0	(610,051)	(155,000)	(765,051)
6 AMORTIZATION OF CIAC	380,218	0	380,218	(13)	380,205
7 CWIP	581,322	0	581,322	0	581,322
8 ALLOCATED PLANT	11,358	0	11,358	1,283	12,641
9 UNFUNDED POST-RETIRE. BENEFITS	0	0	0	0	0
11 WORKING CAPITAL ALLOWANCE	<u>465,807</u>	<u>0</u>	<u>465,807</u>	<u>(409,746)</u>	<u>56,061</u>
RATE BASE	<u>\$2,377,793</u>	<u>\$0</u>	<u>\$2,377,793</u>	<u>(\$1,058,390)</u>	<u>\$1,319,403</u>

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/2001		SCHEDULE NO. 1-C DOCKET NO. 020071-WS	
EXPLANATION	WATER	WASTEWATER	
<u>PLANT IN SERVICE</u>			
1 Prior Commission-ordered adjustments (S-1)	(\$70,137)	\$0	
2 To reflect the appropriate organization costs (S-2)	(2,952)	(19,303)	
3 To reclassify plant as non-recurring expense (S-3)	0	(2,725)	
4 To reflect retirement of Lincoln Heights WWTP (S-6)	0	(398,852)	
5 To reclassify costs of interconnection (S-7)	0	5,542	
6 Retirements of plant no longer in service (S-8)	(69,891)	(67,270)	
7 To record retirement of Weathersfield Plant (S-9)	0	(151,733)	
8 Retirement of assets replaced during test year (S- 11)	<u>(3,813)</u>	<u>(2,059)</u>	
Total	<u>(\$146,793)</u>	<u>(\$636,400)</u>	
<u>LAND</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	(\$513)	\$0	
2 To reclassify costs of interconnection (S-7)	0	<u>(7,809)</u>	
Total	<u>(\$513)</u>	<u>(\$7,809)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1 To reflect prior Commission-ordered adjustments (S-1)	\$102,934	\$0	
2 To reflect the appropriate organization costs (S-2)	74	552	
3 To reclassify plant as non-recurring expense (S-3)	0	31	
4 To reflect retirement of Lincoln Heights WWTP (S-6)	0	75,169	
5 To reclassify costs of interconnection (S-7)	0	(890)	
6 Retirements of plant no longer in service (S- 8)	69,891	67,270	
7 To record retirement of Weathersfield Plant (S-9)	0	88,054	
8 To reflect appropriate depreciation rates (S-10)	0	(83,141)	
9 Retirement of assets replaced during test year (S-11)	<u>4,161</u>	<u>2,250</u>	
Total	<u>\$177,060</u>	<u>\$149,295</u>	
<u>CIAC</u>			
1 Reclassify unsubst. balances in Adv. for Const. (S-15)	(\$52,000)	(\$48,000)	
2 CIAC for contrib. from City of Altamonte Springs (I-6)	0	<u>(107,000)</u>	
Total	<u>(\$52,000)</u>	<u>(\$155,000)</u>	
<u>ACCUM. AMORT. OF CIAC</u>			
1 Appropriate composite CIAC amortization rates (S-12)	\$7,429	(\$2,881)	
2 Reclassify unsubst. balances in Adv. for Const.(S-15)	2,225	1,085	
3 CIAC for contrib. from City of Altamonte Springs (I-6)	0	<u>1,783</u>	
Total	<u>\$9,654</u>	<u>(\$13)</u>	
<u>ALLOCATED PLANT</u>			
UPIS to reflect appropriate allocations (I-5)	<u>\$2,377</u>	<u>\$1,283</u>	
<u>WORKING CAPITAL</u>			
Appropriate allocation of working capital (S- 16 & 17)	<u>(\$346,797)</u>	<u>(\$409,746)</u>	

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY		SCHEDULE NO. 2					
CAPITAL STRUCTURE		DOCKET NO. 020071-WS					
TEST YEAR ENDED 12/31/2001							
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	\$72,476,923	\$0	(\$70,600,803)	\$1,876,120	45.05%	8.73%	3.93%
2 SHORT-TERM DEBT	13,255,885	0	(12,912,863)	343,022	8.24%	3.00%	0.25%
3 COMMON EQUITY	73,349,304	0	(71,450,535)	1,898,769	45.59%	11.07%	5.05%
4 CUSTOMER DEPOSITS	72,664	0	(28,716)	43,948	1.06%	6.00%	0.06%
5 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>0.07%</u>	<u>0.00%</u>	<u>0.00%</u>
6 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>\$0</u>	<u>(\$154,992,917)</u>	<u>\$4,164,647</u>	<u>100.00%</u>		<u>9.29%</u>
PER COMMISSION							
7 LONG TERM DEBT	\$72,476,923	\$0	(\$71,245,603)	\$1,231,320	44.79%	8.63%	3.87%
8 SHORT-TERM DEBT	13,255,885	0	(13,030,679)	225,206	8.19%	5.18%	0.42%
9 COMMON EQUITY	73,349,304	0	(72,103,163)	1,246,141	45.33%	11.45%	5.19%
10 CUSTOMER DEPOSITS	72,664	(28,875)	0	43,789	1.59%	6.00%	0.10%
11 DEFERRED INCOME TAXES	<u>2,788</u>	<u>0</u>	<u>0</u>	<u>2,788</u>	<u>0.10%</u>	<u>0.00%</u>	<u>0.00%</u>
12 TOTAL CAPITAL	<u>\$159,157,564</u>	<u>(\$28,875)</u>	<u>(\$156,379,444)</u>	<u>\$2,749,245</u>	<u>100.00%</u>		<u>9.58%</u>
					<u>LOW</u>	<u>HIGH</u>	
Per Stip 20, AFUDC rate is:		<u>9.58%</u>	RETURN ON EQUITY		<u>10.45%</u>	<u>12.45%</u>	
The monthly discount rate is:		<u>0.797650%</u>	OVERALL RATE OF RETURN		<u>9.12%</u>	<u>10.03%</u>	

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY				SCHEDULE NO. 3-A			
STATEMENT OF WATER OPERATIONS				DOCKET NO. 020071-WS			
TEST YEAR ENDED 12/31/2001							
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>\$590,605</u>	<u>\$184,949</u>	<u>\$775,554</u>	<u>(\$167,960)</u>	<u>\$607,594</u>	<u>\$95,002</u> 15.64%	<u>\$702,596</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$367,760	\$44,747	412,507	(30,625)	381,882		381,882
3 DEPRECIATION	\$81,234	\$23,800	105,034	(13,712)	91,322		91,322
4 AMORTIZATION	\$84	(\$84)	0	0	0		0
5 TAXES OTHER THAN INCOME	\$39,401	\$11,323	50,724	(7,309)	43,415	4,275	47,690
6 INCOME TAXES	<u>\$6,560</u>	<u>\$48,341</u>	<u>\$54,901</u>	<u>(\$44,261)</u>	<u>\$10,640</u>	<u>\$34,141</u>	<u>\$44,781</u>
7 TOTAL OPERATING EXPENSES	<u>\$495,039</u>	<u>\$128,127</u>	<u>\$623,166</u>	<u>(\$95,907)</u>	<u>\$527,259</u>	<u>\$38,416</u>	<u>\$565,675</u>
8 OPERATING INCOME	<u>\$95,566</u>	<u>\$56,822</u>	<u>\$152,388</u>	<u>(\$72,053)</u>	<u>\$80,335</u>	<u>\$56,586</u>	<u>\$136,922</u>
9 RATE BASE	<u>\$1,786,854</u>		<u>\$1,786,854</u>		<u>\$1,429,842</u>		<u>\$1,429,842</u>
10 RATE OF RETURN	<u>5.35%</u>		<u>8.53%</u>		<u>5.62%</u>		<u>9.58%</u>

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY				SCHEDULE NO. 3-B			
STATEMENT OF WASTEWATER OPERATIONS				DOCKET NO. 020071-WS			
TEST YEAR ENDED 12/31/2001							
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>\$386,851</u>	<u>\$522,989</u>	<u>\$909,840</u>	<u>(\$511,094)</u>	<u>\$398,746</u>	<u>\$231,442</u> 58.04%	<u>\$630,188</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$431,066	\$124,454	\$555,520	(\$132,439)	\$423,081		\$423,081
3 DEPRECIATION	35,301	(24,250)	11,051	(7,022)	4,029		4,029
4 AMORTIZATION	0	0	0	0	0		0
5 TAXES OTHER THAN INCOME	24,276	24,824	49,100	(24,104)	24,996	10,415	35,410
6 INCOME TAXES	<u>(66,831)</u>	<u>140,008</u>	<u>73,177</u>	<u>(115,027)</u>	<u>(41,850)</u>	<u>83,172</u>	<u>41,322</u>
7 TOTAL OPERATING EXPENSES	<u>\$423,812</u>	<u>\$265,036</u>	<u>\$688,848</u>	<u>(\$278,593)</u>	<u>\$410,255</u>	<u>\$93,587</u>	<u>\$503,842</u>
8 OPERATING INCOME	<u>(\$36,961)</u>	<u>\$257,953</u>	<u>\$220,992</u>	<u>(\$232,501)</u>	<u>(\$11,509)</u>	<u>\$137,855</u>	<u>\$126,346</u>
9 RATE BASE	<u>\$2,377,793</u>		<u>\$2,377,793</u>		<u>\$1,319,403</u>		<u>\$1,319,403</u>
10 RATE OF RETURN	<u>-1.55%</u>		<u>9.29%</u>		<u>-0.87%</u>		<u>9.58%</u>

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY		SCHEDULE NO. 3-C	
ADJUSTMENTS TO OPERATING INCOME		DOCKET NO. 020071-WS	
TEST YEAR ENDED 12/31/2001			
EXPLANATION	WATER	WASTEWATER	
<u>OPERATING REVENUES</u>			
1 Remove requested final revenue increase	(\$184,949)	(\$510,847)	
2 To reflect appropriate annualized revenues (S-21)	<u>16,989</u>	<u>(247)</u>	
Total	<u>(\$167,960)</u>	<u>(\$511,094)</u>	
<u>OPERATION & MAINTENANCE EXPENSE</u>			
1 To adjust for alloc. from UIF cost centers (S-23)	(\$978)	(\$529)	
2 To properly reflect actual invoiced amounts (S-25)	(2,069)	14,470	
3 Purchased water to reflect a normalized level (I-20)	(1,632)	0	
4 Uncollectible expense to a normalized level (I-21)	(538)	0	
5 To reflect appropriate allocations (I-22)	(25,376)	(13,700)	
6 Adjust salary, pension and benefit expense (I-23)	3,941	2,144	
7 Adjust intercon. with the City of Sanford (I-24)	0	(88,202)	
8 The appropriate amount of rate case expense (I-25)	(2,145)	(1,144)	
9 Adjust for excessive infiltration and inflow (I-27)	0	(45,478)	
10 Purch. H2O, power and chemical for repress. (S-28)	(1,828)	0	
Total	<u>(\$30,625)</u>	<u>(\$132,439)</u>	
<u>DEPRECIATION EXPENSE-NET</u>			
1 Reflect prior Commission-ordered adjustments (S-1)	(\$2,073)	\$0	
2 Reflect the appropriate organization costs (S-2)	(74)	(552)	
3 To reclassify plant as non-recurring expense (S-3)	0	(61)	
4 Reflect retirement of Lincoln Heights WWTP (S-6)	0	(11,267)	
5 To reclassify costs of interconnection (S-7)	0	890	
6 Record retirements of plant (S-8)	(1,854)	(1,495)	
7 To record retirement of Weathersfield Plant (S-9)	0	(4,723)	
8 To reflect appropriate depreciation rates (S-10)	0	11,988	
9 Reflect retirements of assets replaced (S-11)	(57)	(31)	
10 Appropriate composite CIAC amort. rates (S-12)	(7,429)	2,881	
11 Reclass. unsubst. balances in Adv. for Const. (S-15)	(2,225)	(1,085)	
12 CIAC for contribution from City of Alt. Springs (I-6)	0	(3,567)	
Total	<u>(\$13,712)</u>	<u>(\$7,022)</u>	
<u>TAXES OTHER THAN INCOME</u>			
1 RAFs on revenue adjustments above	(\$7,558)	(\$22,999)	
2 To correct RAF	(695)	(151)	
3 Property tax for realloc. & correct errors (S-26)	2,946	127	
4 To adjust salary, pension and benefit expense (I-23)	<u>(2,002)</u>	<u>(1,081)</u>	
Total	<u>(\$7,309)</u>	<u>(\$24,104)</u>	
<u>INCOME TAXES</u>			
To adjust to test year income tax expense	<u>(\$44,261)</u>	<u>(\$115,027)</u>	

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY					SCHEDULE NO. 4-A	
WATER SERVICE RATES					PAGE 1 OF 2	
TEST YEAR ENDED 12/31/2001						
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Commission Approved Interim (1)	Monthly Utility Requested Final	Monthly Comm. Approved Final	4-Year Rate Reduction	
Residential and General Service - All Except Oakland Shores						
Base Facility Charge: Meter Size						
5/8" x 3/4"	\$11.12	\$11.12	\$8.37	\$5.67	\$0.17	
1"	\$27.79	\$27.79	\$19.04	\$14.81	\$0.45	
1-1/2"	\$55.53	\$55.53	\$38.04	\$28.35	\$0.86	
2"	\$88.92	\$88.92	\$60.91	\$45.36	\$1.37	
3"	\$177.80	\$177.80	\$121.79	\$90.72	\$2.74	
4"	\$277.83	\$277.83	\$190.31	\$141.75	\$4.28	
6" (2)	\$555.63	\$555.63	NR	\$283.50	\$8.57	
Gallonage Charge, per 1,000 Gallons						
Current/Requested Residential & GS	\$1.69	\$1.69	\$2.01	NA	NA	
Residential						
0 - 8 kgal	NA	NA	NA	\$1.84	\$0.06	
8 - 16 kgal	NA	NA	NA	\$2.76	\$0.08	
Over 16 kgal	NA	NA	NA	\$3.68	\$0.11	
General Service	NA	NA	NA	\$2.16	\$0.07	
Typical Residential Bills - 5/8"x3/4" Meter (3)						
3,000 Gallons	\$10.63	\$10.63	\$14.40	\$11.19		
8,000 Gallons	\$19.08	\$19.08	\$24.45	\$20.39		
10,000 Gallons	\$22.46	\$22.46	\$28.47	\$25.91		
17,000 Gallons	\$34.29	\$34.29	\$42.54	\$46.15		
(1) The Commission did not approve any interim increase for these systems.						
(2) The utility has approved rates, but currently no customers, for these meter sizes.						
(3) Prior and interim rate typical bills have been converted to monthly.						

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY					SCHEDULE NO. 4-A	
WATER SERVICE RATES					PAGE 2 OF 2	
TEST YEAR ENDED 12/31/2001						
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Commission Approved Interim	Monthly Utility Requested Final	Monthly Comm. Approved Final	4-Year Rate Reduction	
Residential and General Service - Oakland Shores						
Base Facility Charge: Meter Size						
5/8" x 3/4"	\$12.16	\$12.16	\$8.37	\$5.67	\$0.17	
1"	\$30.32	\$30.32	\$19.04	\$14.81	\$0.45	
1-1/2"	\$60.74	\$60.74	\$38.04	\$28.35	\$0.86	
2"	\$97.19	\$97.19	\$60.91	\$45.36	\$1.37	
3"	\$194.33	\$194.33	\$121.79	\$90.72	\$2.74	
4"	\$303.66	\$303.66	\$190.31	\$141.75	\$4.28	
6"	(2) \$607.30	\$607.30	NR	\$283.50	\$8.57	
Gallonage Charge, per 1,000 Gallons						
Current & Requested Residential & GS	\$2.07	\$2.07	\$2.01	NA	NA	
Residential						
0 - 8 kgal	NA	NA	NA	\$1.84	\$0.06	
8 - 16 kgal	NA	NA	NA	\$2.76	\$0.08	
Over 16 kgal	NA	NA	NA	\$3.68	\$0.11	
General Service	NA	NA	NA	\$2.16	\$0.07	
Typical Residential Bills - 5/8"x3/4" Meter (3)						
3,000 Gallons	\$12.29	\$12.29	\$14.40	\$11.19		
8,000 Gallons	\$22.64	\$22.64	\$24.45	\$20.39		
10,000 Gallons	\$26.78	\$26.78	\$28.47	\$25.91		
17,000 Gallons	\$41.27	\$41.27	\$42.54	\$46.15		
(1) The Commission did not approve any interim increase for these systems.						
(2) The utility has approved rates, but currently no customers, for these meter sizes.						
(3) Prior and interim rate typical bills have been converted to monthly.						

UTILITIES, INC. OF FLORIDA - SEMINOLE COUNTY		SCHEDULE NO. 4-B			
WASTEWATER MONTHLY SERVICE RATES					
TEST YEAR ENDED 12/31/2001					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Commission Approved Interim	Monthly Utility Requested Final	Monthly Comm. Approved Final	4-Year Rate Reduction
Residential					
Base Facility Charge:					
All meter sizes	\$16.83	\$25.44	\$18.93	\$8.86	\$0.16
Gallage Charge - Per 1,000 gallons (10,000 gallon cap monthly (1))	\$2.36	\$3.57	\$5.02	\$4.43	\$0.08
Flat Rate (Unmetered)	\$49.66	\$75.06	\$55.87	\$34.39	\$0.63
General Service					
Base Facility Charge: Meter Size					
5/8" x 3/4"	\$16.83	\$25.44	\$18.93	\$8.86	\$0.16
1"	\$42.06	\$63.57	\$47.32	\$22.15	\$0.40
1-1/2"	\$84.19	\$127.25	\$94.71	\$44.30	\$0.81
2"	\$134.70	\$203.60	\$151.54	\$70.88	\$1.29
3" (2)	\$269.38	\$407.17	NR	\$141.76	\$2.58
4"	\$420.91	\$636.21	\$473.52	\$221.50	\$4.04
6" (2)	\$841.81	\$1,272.40	NR	\$443.00	\$8.07
Gallage Charge, per 1,000 Gallons	\$2.81	\$4.25	\$5.02	\$5.32	\$0.10
Typical Residential Bills 5/8"x3/4" Meter (3)					
3,000 Gallons	\$15.50	\$23.43	\$33.99	\$22.15	
5,000 Gallons	\$20.22	\$30.57	\$44.03	\$31.01	
10,000 Gallons	\$32.02	\$48.42	\$69.13	\$53.16	
(Wastewater Gallage Cap - 10,000 Gallons)					
(1) The wastewater gallage cap was switched from 20,000 bi-monthly to 10,000 monthly gallons.					
(2) The utility has approved rates, but currently no customers, for these meter sizes.					
(3) Prior and interim rate typical bills have been converted to monthly.					