

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water rates in
Polk County by Park Water Company.

DOCKET NO. 050563-WU
ORDER NO. PSC-06-1027-PAA-WU
ISSUED: December 11, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

NOTICE OF PROPOSED AGENCY ACTION ORDER
APPROVING AN AFUDC RATE, A TWO-PHASE INCREASE IN WATER RATES, AND
AN INCREASE IN MAIN EXTENSION CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the statutory four-year rate reduction and the requirement to make the appropriate adjustments to its books for all of the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Background

Park Water Company (Park Water or utility) is a Class B utility providing water service to approximately 783 customers in Polk County. Water rates were last established for this utility by Order No. PSC-00-1774-PAA-SU, issued September 27, 2000.¹

On November 21, 2005, Park Water filed its Application for Rate Increase at issue in the instant docket. However, the application contained a large number of deficiencies requiring extensive revisions by the utility. These revisions were not received by our staff until March 8, 2006. On March 13, 2006, the utility was notified that the official filing date had been

¹ See Order No. PSC-00-1774-PAA-SU, issued September 27, 2000, in Docket No. 991627-SU, In re: Application for rate increase in Polk County by Park Water Company Inc. Consummating Order No. PSC-00-1957-CO-WU, issued October 23, 2000, made Order No. PSC-00-1774-PAA-SU final and effective.

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established as March 8, 2006. By letter dated May 30, 2006, the utility initially extended the five-month statutory deadline for consideration of its requested final rates until August 15, 2006. By letter dated June 19, 2006, the utility further extended the statutory deadline until September 29, 2006, due to the unanticipated loss of two large general service customers.

The utility is planning to replace much of its distribution system with the proceeds from a low-cost loan obtained from the Florida Department of Environmental Protection (DEP). The anticipated in-service date is late 2007, and the utility will not be required to begin repayment of this loan until early 2008. For this reason, we find that rates shall be implemented in two phases, with Phase I rates being in effect until the loan repayment begins, and Phase II rates to begin thereafter.

The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The test year established for final rates is the historical twelve-month period ended December 31, 2004.

The utility requested final rates designed to generate annual water revenues of \$745,067. This would have been a revenue increase of \$474,500 (175.37%).

This Order addresses Park Water's requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

II. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in every water and wastewater rate case, this Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are: the quality of the utility's product; the operating conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials, and consideration of customer comments and complaints. Below, we address each of these three components.

A. Quality of Utility's Product

Our staff reviewed the utility's and Polk County Health Department's (PCHD) records. In Polk County, the potable water program is under the regulatory jurisdiction of the PCHD. According to the PCHD, its inspector conducted a plant inspection on December 8, 2005, and the conclusion was the water treatment facility had several deficiencies, at the time. However, the deficiencies were not finished water product related. During June 2006, PCHD conducted a review of the water treatment plant, and the deficiencies had been corrected. Both the plant and the utility's finished water product comply with PCHD standards. Based on the above, we find the quality of the finished water product to be satisfactory.

B. Operating Condition of the Water Treatment Facilities

Based on the PCHD's inspection and our staff's field inspection, the operating condition of the water treatment facility complies with PCHD regulatory standards. Presently, the utility has no outstanding violations, citations, or corrective orders. Therefore, we find that the condition of the water treatment facilities is satisfactory.

The utility's distribution system is a network of water mains that has been an ongoing construction and repair project since 1958. The existing mains are approximately 48 years of age. Pursuant to Rule 25-30.140(2)(a)4., F.A.C., the average service life for transmission and distribution plant for class B utilities is 43 years. This distribution system has a very high unaccounted for water level, which is discussed later in this Order. Therefore, we find that this system has outlived its service life and should be retired. To replace all of its old mains (main replacement project), the utility requested approval of a low interest rate loan (approximate 2.5 million dollars) from the DEP's Revolving Fund, which will be discussed in detail below. The DEP's engineer reviewed the utility's construction plans and the loan was pre-approved. We agree with the DEP review and pre-approval of the loan. The loan will be granted pending our approving a sufficient rate increase. In addition, we find that replacing the antiquated distribution system will greatly reduce unaccounted for water (which should reduce the utility's purchased power and chemical expenses). Further, we find that this is a prudent investment that will benefit the customers and the utility, and aid in the conservation of water.

C. The Utility's Attempt to Address Customer Satisfaction

In its filing, the utility stated it had received no customer complaints during the test year. However, our records indicate the utility received one customer complaint during the test year. In addition, our records show five complaints were received (from April 2002 to April 2006). Three of the complaints concerned "improper bills" and the remaining two pertained to "delay in connection." Our records indicate the utility addressed all of the complaints in a prompt manner, and all of the cases are closed. Further, our staff reviewed the PCHD's records and found no customer complaints on file.

On May 18, 2006, our staff conducted a customer meeting in the utility's service territory in Lake Wales, Florida, at Warner Southern College. Approximately twenty-eight (28) persons attended the evening customer meeting, and twelve (12) people spoke. The customers' primary concerns are addressed below:

Low water pressure - Through a data request, our staff asked the utility about the customer's water pressure concerns. The utility responded that its water system maintains a constant pressure of 60 pounds per square inch (psi) and the customers who complained about pressure problems are on old undersized 2-inch water mains. The utility believes this problem will be resolved with the implementation of the new proposed water main replacement project.

Meter Reading - Our staff performed a physical inspection of the customers' meters to see whether the meters were being read. In addition, our staff reviewed

customers billing records and queried the utility. In its response to a data request, the utility stated all meters are read on a consistent monthly basis. Further, it was stated that usage was rarely estimated; and, in such occasions, bills are noted with a statement that the meter reading had been estimated.

Unmanned office - The utility, in its response to a staff data request, stated its business hours, and acknowledged that the office, on occasion, may be unmanned for short periods when all three employees are in the field or at lunch. In addition, the utility stated that it provides a 24-hour payment drop box service; further, it states that it has a 24-hour emergency pager number that is available to all customers. On several occasions, our staff state that it had gone to the utility's office and it was unmanned.

Project Monitoring - The water main replacement project will be monitored by DEP, who is funding the loan. DEP will provide oversight for the project, and the utility will be required by DEP to provide project updates. In addition, our staff is requesting that a copy of all updates be sent to the Commission.

Cost to each customer to connect to the new water main - The utility, in its response to a data request, stated customers will be responsible for connecting its service line to the newly relocated water mains because it is located on the customers' side of the meter. The utility believes customers will pay less to connect to the water system than it would cost the utility to connect them. The utility states that DEP is funding the cost of the line replacement, and will not allow Park Water to work on private property; therefore, the utility could not include the cost of connecting its customers to the new water distribution system.

Other concerns - The other concerns of the customers were addressed at the customer meeting or during the field investigation, with the customers.

D. Summary

Based on analysis of the water and distribution system, it appears that all systems are operating properly and in compliance with PCHD standards. In addition, it appears that the utility is actively attempting to respond promptly to customers' concerns.

After careful review of the cost for the water mains replacement project, we acknowledge the high cost involved in the project will greatly impact the utility's customers. However, during the plant investigation, our staff viewed a section of rusted 50-year old undersized water main, patched with a PVC joint and lying above ground, and this may be representative of the whole system. Also, our staff has reviewed the utility's records which indicate the existence of excessive unaccounted for water. The utility cannot reduce its level of unaccounted for water to zero, however, a reduction to 10% or less is obtainable. The reduction of water loss would aid the utility regarding lost revenues, and Florida's eco-system, which is beneficial to all Floridians.

Replacement of the system might also address customers' complaints of low pressure. The replacement of the existing undersized mains with the correct size mains will allow the utility, for the first time, to install fire hydrants and provide fire flow protection to the residential customers. In addition, this should address normal problems associated with low pressure. We believe the implementation of the water main replacement project will be beneficial to both the customers and the utility. Based on all the above, we find that the utility's overall quality of service shall be considered satisfactory.

III. Two-Phase Increase

DEP has indicated that the utility will not be required to begin repaying the low-cost loan until six months after the completion of construction. The utility has indicated that construction will not be completed until approximately August, 2007. Thus, loan repayments could begin as late as early 2008.

We find the utility has justified the need for an increase that recognizes increased plant and O&M cost increases since the utility's last rate case in 1999. However, we find that any increased rates shall not include the effects of pro forma plant or the associated loan repayment obligation until the pro forma plant is in service and repayment of the loan begins.

Therefore, we shall approve rate increases in two phases. Phase I rates would not include the rate base or NOI effects of pro forma plant or the loan repayment. Phase II rates would include any rate base and NOI effects of the plant and associated loan repayment. The effective dates of these phases are addressed below.

IV. Rate Base

A. Uncontested Audit Rate Base Adjustments

Our auditors recommended the following adjustments to average rate base:

<u>Audit Adjustments</u>	<u>Plant</u>	<u>Accumulated Depreciation</u>	<u>CIAC</u>	<u>Accumulated Amortization of CIAC</u>
Finding No. 1 Unrecorded additions to Plant –	\$261,495	\$27,527	261,495	\$27,527
Finding No. 2 Adjustments to Meters	(\$14,840)	(14,558)		
Finding No. 3 Adjustments to Transportation Equipment	\$3,514	\$10,047		

Finding No. 4 Adjustments to Misc. Plant in Service Accounts	(4,471)	(\$1,351)		
Finding No. 5 CIAC			\$70	\$13,181
Adjustment Totals	<u>\$245,698</u>	<u>\$21,665</u>	<u>\$261,565</u>	<u>\$40,708</u>

The utility agrees with all of the above audit adjustments. Therefore, plant shall be increased by \$245,698; accumulated depreciation shall be increased by \$21,665; CIAC shall be increased by \$261,565; and accumulated amortization of CIAC shall be increased by \$40,708.

B. Other Rate Base Adjustments for Phase I Rates

Because we have determined that the rate increase should be accomplished in two phases, Phase I rates shall reflect operations that do not include the rate base or operating income impacts of pro forma plant. Therefore, for Phase I rates, we have removed \$2,496,382 in requested pro forma plant additions. We have also removed \$75,586 of pro forma depreciation expense, and \$72,500 in pro forma property tax expense. The utility did not include accumulated depreciation on pro forma plant in its filing. We will address the appropriate treatment of the pro forma plant under the Phase II Rates section of this Order.

Also, our staff initially calculated CIAC based upon the utility-provided system map. During discussions with the utility, our staff discovered that the map contained errors causing staff's calculation of the total ERCs to be overstated. The utility apprised our staff that there was \$73,656 in CIAC and \$10,389 of accumulated amortization of CIAC that was not reflected in the utility's filing. However, our staff recalculated the accumulated amortization of CIAC and determined that the proper amount was \$11,332, with a related amortization expense of \$1,743.

C. Excessive Unaccounted for Water

It is our practice to allow 10% of total water treated as an acceptable level of unaccounted for water. In most instances, we have reduced the chemical and electrical costs associated with unaccounted for water in excess of 10% so that ratepayers do not bear those excessive costs.

Park Water's water treatment plant is equipped with a master meter that registers all treated water leaving the plant. The yearly totals of metered water sold to customers were compared to the total treated water leaving the plant and was found to exceed the 10% standard. A visual inspection of the plant showed no physical evidence of leaks and a repaired line break did not reveal any areas of concern for water loss. However, considering the age of the pipes and the utility's records, we find there is excessive unaccounted for water.

In its application, the utility stated the total gallons of water sold to its customers during the test year (January 1 – December 31, 2004) were 83,553,800 gallons. In addition, the total gallons of water pumped were 96,572,000 a difference of 13,018,200 gallons. After including

the amount of "Other Water Used" (783,000 gallons), the utility indicates that it had approximately 12.4% unaccounted for water.

Our staff reviewed the records filed by the utility and found several months during the test year where the gallons of water sold were greater than the finished water pumped. We believe the utility's data is flawed and therefore unreliable. In response to a request for additional information, the utility acknowledged that the data was inaccurate and stated the plant's meter had failed on February 1, 2004, and was running slow. In April 2006, the utility installed a new meter and, while the old meter was still in place, the utility determined that the old meter was under registering by 29%. In its initial recommendation filed on September 7, 2006, our staff increased all test year flow data by 29%, incorrectly increasing the flow data for the month of January. Subsequently, our staff corrected this error and increased all of the test year (except January) flow data listed in the Monthly Operator Reports (MORs) by 29%, and discovered the total gallons of water pumped were 102,632,690 (instead of 124,577,880 previously calculated) and the gallons of unaccounted for water were 18,323,690 (instead of 40,241,880 previously calculated). We calculate the used and useful (U&U) percentage by taking the total gallons pumped (102,632,690) minus total gallons sold (85,526,000), minus total gallons of "Other Water Used" (783,000); resulting in 18,323,690 gallons or 17.85% of unaccounted for water. Therefore, it appears the utility's percentage of unaccounted for water is 17.85% (50,202 gallons per day (gpd)), of which 7.85% (instead of the 22.30% previously calculated) is excessive. The percentage of unaccounted for water is determined by taking 10% of the average daily flow (26,337 gpd) minus the total unaccounted for water (50,202 gpd) (instead of 110,252 gpd previously calculated) resulting in 23,865 gpd (instead of 83,915 gpd previously calculated) excessive unaccounted for water.

We find that 7.85% (23,865 gpd) unaccounted for water is excessive and the utility's plan to replace all of its old lines is prudent. We have consistently encouraged utilities to aggressively seek a goal of 10% or less for unaccounted for water. Water conservation is becoming increasingly important and utilities should take extra effort to track water sales, record water losses, and be vigilant about reducing excessive amounts of unaccounted for water.²

Based on the above, for Phase I, 7.85% shall be considered excessive unaccounted for water, and, therefore, purchased power and chemical expenses shall be reduced by \$1,172. For Phase II, because of an anticipated unaccounted for water of less than 10%, no adjustment for unaccounted for water shall be made.

D. Used and Useful Percentages

1. Plant

The utility calculated the U&U percentage for the water treatment plant by taking the average of the highest five days from the maximum month demand, adding a fire flow and a

² See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

growth allowance, and dividing the sum by the firm reliable capacity of the plant. The utility's peak demand (364,000 gpd) is based on the average of the five highest days of the peak month of May during the test year (2004). The required fire flow allowance is 1,500 gallons per minute (gpm) to be maintained for two hours, or 180,000 gpd. The utility stated that its firm reliable capacity for the water plant is 1,381,146 gpd (1,500 gpm x 12 hours day plus 305,000 gallons in storage, less 3,854 gallons of dead storage). This is based on the assumption that if its larger 2,500 gpm well is taken off-line, its smaller 1,500 gpm well would be used for 12 hours per day. Additionally, the utility included a growth factor of 22,575 gpd in its calculation. The utility's calculation reflected 40.85% U&U.

A review of Park Water's calculation shows that it is not consistent with our practice of calculating U&U for a water treatment plant which has two wells and storage. The utility used the average of five highest days of the maximum month to determine the peak demand; this method should only be used in the event the maximum day is an anomaly. Therefore, we have recalculated the appropriate U&U percentages.

a. Growth

In its filings, the utility's records indicated the average customer growth rate (five-year average) is 18 Equivalent Residential Connections (ERCs) per year. As such, the utility applied this growth rate in its water U&U percentage calculations. During Park Water's last rate case, the utility anticipated a high rate of growth. The anticipated high growth was based on a feasibility study and report on improvements necessary to match growth, which was produced by Knepper and Willard, Inc. (an engineering & consulting company). The report, issued in February, 2000, advised the utility how to achieve "a system of handling flows for expansion and fire flow demand while maintaining a solid operation pressure around 60 pounds per square inch (psi)." As a result of this report, the utility anticipated an average growth of 40 ERCs per year. In the last rate case, our staff used this growth analysis in its U&U calculations. On September 18, 2006, the utility submitted documentation listing, by address and meter size, all new customers added to its system from January 1, 2000 through December 31, 2004. In addition, the utility submitted its new growth calculation of 16.4 ERCs.

Using growth data from the utility's annual reports, our staff initially calculated a growth allowance of 4.9 ERCs per year in its September 7, 2006 recommendation. However, the utility submitted additional data on September 18, 2006, and our staff recalculated growth (using regression analysis). Based on this additional data and the recalculation, the anticipated growth is now calculated to be 14 ERCs per year which equates to a projected additional usage of 41,685 gpd (14 ERCs x 5 years x (519,870 gpd/873 ERCs)) for the statutory five-year growth period defined in Section 367.081(2) (a) 2.b., F.S. Based on this additional data and staff's calculation, we find that the growth rate is 14 ERCs per year.

b. Adjusted Data

On June 19, 2006, the utility informed staff there would be two major changes to its customer base which would result in a loss of \$38,972 in revenue, loss of 6,502,000 gallons (17,814 gpd) in annual usage, and 16 less ERCs. These changes are the result of losing a

commercial customer and a commercial irrigation customer. Because of these losses and for rate setting purposes, we have adjusted the utility's 2004 flow data as follows: water pumped is the 102,633,690 gallons less the loss of 6,502,000 gallons = 96,130,690 gallons; gallons sold is the 83,526,000 gallons less the loss of 6,502,000 gallons = 77,024,000 gallons; maximum day is 519,870 gpd less the loss of 17,814 gpd = 502,056 gpd; average daily flow is 281,185 gpd less 17,814 gpd = 263,371 gpd. Based on these changes, growth changed from 41,685 to 40,256 gallons (14 ERCs x 5 years x (502,056 gpd/873 ERCs)). In addition, the number of ERCs are reduced to 873 ERCs (the 889 average ERCs less the loss of the two commercial customers which equated to a loss of 16 ERCs = 873 ERCs).

c. Phase I

We have calculated the U&U percentage for the plant using the above-noted adjustments, and applying the following formula: the adjusted max day demand, plus the adjusted growth allowance, plus fire flow, and subtracting excessive unaccounted for water, and dividing by the capacity of the system = U&U percentage. Given the problems with the utility's water flow data, we have adjusted the test year flow data, except for the month of January, by 29%. Also, we find that the maximum day demand of 502,056 gpd (in the maximum month of May 2004) is reasonable and shall be used. According to the utility's MFRs, the required fire flow allowance is 1,000 gpm, which is to be maintained for two hours, or 120,000 gpd. Since the utility's last rate case there have been no additions to plant; therefore, we shall use the same plant capacity of 1,381,146 gpd, as was used in the last rate case. To calculate the statutory five-year growth allowance pursuant to Section 367.081(2)(a)2.b., F.S., we multiply growth of 14 ERCs per year by five years to obtain 70 ERCs at 575.1 gpd per ERC, or 40,256 gpd. As discussed earlier, the utility's total unaccounted for water is 17.85%, of which 7.85% is excessive. Based on the above, we calculate the water treatment plant for Phase I to be 46.03% U&U (See Attachment A, page 1 of 3).

d. Phase II (Pro Forma Item)

As previously stated, the existing water distribution system was initially constructed in 1958 and basically consists of galvanized iron piping that has deteriorated significantly and is currently leaching. Also, the high level of corrosion in the piping has resulted in significantly reducing the inside diameter of the piping due to the deposition and accumulation of iron oxides on the inside surfaces of the pipes.

To correct this situation, Park Water has initiated a water main replacement project consisting of the installation of an entirely new distribution system (PVC pipes), with the added benefit of residential fire protection for the first time. The new main will only provide service to the utility's existing customers. The utility proposes to install the new mains, with the old system intact and functioning. When the new system is first put into operation, both the old and the newly constructed systems will be in use. The utility will then connect existing customers to the new system, which should greatly reduce the period of interruption.

As a means of financing the project, Park Water has acquired a loan commitment from the DEP revolving fund. However, the loan is contingent on this Commission approving the necessary rate increase to insure the utility's ability to pay back the loan.

The calculation of U&U percentage for Phase II is basically the same as for Phase I. The only difference in the U&U calculation for Phase I and II is that Phase II anticipates less than 10% or no excess unaccounted for water. Based on this calculation, we find that the water treatment plant is 47.75% U&U in Phase II. (See Attachment A, page 2 of 3)

e. Conclusion

Based on the above, we find that the U&U percentage for the water treatment plant is 46.03% and 47.75% for Phase I and Phase II, respectively.

2. Water Distribution System

a. Utility Calculation of U&U

In its initial filing, the utility calculated a 97.52% U&U percentage for its water distribution system. The utility calculated U&U by taking the average number of test year ERCs of 895 and a growth factor of 90 ERCs (18 ERCs x 5 years), for a sum of 985 ERCs. According to Park Water, the present number of lots that have service available is 1,010, resulting in a 97.50% U&U (985/1,010 connections). As previously stated, on September 18, 2006, the utility submitted its recalculated U&U percentage for the water distribution system. In this calculation, the utility determined the U&U percentage by adding the Commission's audit staff's amount of "average number of test year ERCs" and the average growth of 82 ERCs and then dividing the sum by the total number of ERCs of 960, which results in 100% U&U.

b. Initial Calculation of U&U by Staff

Originally, our staff reviewed the utility's calculation and agreed with its methodology; but initially disagreed with the calculated distribution capacity, the potential growth allowance and the resulting U&U percentage. Based on the original map provided by the utility in its MFRs, it initially appeared to our staff that the water distribution system had the potential of serving 1,417 ERCs without the construction of additional distribution mains. Also, taking into account the loss of the two general service customers, staff initially determined the average number of ERCs served during the 2004 (test year) was 886 ERC. Finally, our staff initially calculated a five-year growth rate of 24.5 ERCs. Substituting these adjustments in the formula, our staff initially calculated a U&U percentage of 64.26% $((886 + 24.5)/1,417 = 64.26\%)$.

However, on September 18, 2006, the utility submitted an aerial photo (map) that clearly showed areas in its service territory which would require two (2) lots to build a home. There were numerous examples of this. The maps submitted by the utility in its original filing did not have the graphic details of the aerial photo and upon initial review our staff could not determine that several sections on the map required two lots to build a home. However, after further review of the original map submitted, it was evident there was one water meter per every two lots in

many areas served by the utility. This information played a major roll in determining the total capacity of the distribution system. In addition, the utility submitted a map showing an eight inch PVC (8") distribution main which was located down four streets. The 8" main was donated and is considered CIAC, and all customers connected to this main are not included in the lot count. Further, the utility submitted a listing of all new customers that were connected (from January 1, 2000 to December 31, 2004). Based on this additional information, our staff revised its calculation of the U&U percentage.

c. Staff's Revised and Final U&U Calculation

Staff has reviewed the water distribution system and discovered that it has the potential of serving 959 ERCs without the construction of additional distribution mains. The average number of ERCs served during the 2004 (test year) was 889 ERCs; however, because of the utility's anticipated loss of 2 major customers, staff made the necessary adjustment to average the number of ERCs ($889 - 16 = 873$ ERCs). Also, our staff, using linear regression, determined an annual growth rate of 14 ERCs, not 16.4 ERCs as used by the utility. This equates to a total of 70 ERCs ($14 \text{ ERCs} \times 5 \text{ years}$) instead of the 82 ERCs used by the utility. By implementing these changes, our staff's revised calculation showed a 98.33% U&U ($(873+70)/959 = 98.33\%$). Consistent with our practice, any percentage above 95% shall be considered 100%. See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS.³ Based on the above, we find the U&U percentage for the water distribution system to be 100%. (See Attachment A, page 3 of 3).

3. Summary of U&U Percentage

Based on all the above, the water treatment plant shall be considered 46.03% U&U, and the water distribution system shall be considered 100% U&U for the Phase I period. As a result, rate base shall be increased by \$15,586. For Phase II, the water treatment plant shall be considered 47.75% U&U, and the distribution system shall be considered 100% U&U. As a result, Phase II rate base shall be increased by \$17,833. Corresponding adjustments shall also be made to increase Phase I depreciation expense by \$3,380 and decrease property tax expense by \$1,118. Phase II depreciation expense and property tax expense adjustments will be addressed below in the Phase II Rates section of this order.

E. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. Based on our adjustments to the utility's O&M expenses and using the formula method, we calculate working capital to be \$22,695. This reflects an increase of \$8,912 in the utility's requested working capital allowance.

³ 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, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties., p. 77.

F. Phase I Rate Base

Consistent with our above-noted adjustments, we calculate the average Phase I rate base for the test year ended December 31, 2004, to be \$403,630. Our calculations for Phase I rate base are shown on Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B.

V. Capital Structure

A. Adjustments to Capital Structure

In Audit Finding No. 8, the auditors stated that the utility's reported common equity balance of \$29,500 should be zero for rate setting purposes because it reflected a negative balance at the end of the test year when netted against the utility's retained earnings of a negative \$70,241. Because including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, we find that common equity shall be set at zero.

In Audit Finding No. 7, the auditors found that the utility had overstated its total interest expense by \$341 and understated its simple average amount of outstanding short-term debt by \$4,145. As a result of these errors, the utility's effective short-term interest rate was overstated by 65 basis points.

The utility agrees with Audit Finding Nos. 7 and 8. Therefore, the utility's common equity for rate setting purposes shall be set to zero, and short-term debt shall be increased by \$4,145.

Also, because we are approving a two-phase rate increase with any pro forma plant additions to be considered in the second phase, we have removed \$2,496,382 in long-term debt from the utility's capital structure. This debt will be acquired to finance the construction of its pro forma plant additions, and will be addressed below in the Phase II Rates section of this Order. Our calculation of Phase I capital structure is shown on Schedule No. 2.

B. Return on Common Equity and Weighted Average Cost of Capital (Phase I)

In its MFRs, the utility used a cost rate of 10.1% for its common equity. As discussed above, we have set common equity at zero. Using the current leverage formula in effect,⁴ the rate of return with a common equity ratio of 40% or less is 11.55%, with a range of 10.55%-12.55%. Therefore, the return on common equity shall be set at the midpoint of 11.55%.

Based upon the proper components, amounts, and cost rates associated with the Phase I capital structure for the test year ended December 31, 2004, including our adjustments, we calculate the weighted average cost of capital to be 5.99%.

⁴ The current rate was approved by Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In re: Water and wastewater industry annual reestablishment of authorized rate of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., and made final by Consummating Order No. PSC-06-0554-CO-WS, issued June 27, 2006.

VI. Test Year Revenue

Audit Finding No. 9 states that the utility performs billing and collection services for Crooked Lake Park Sewerage Company, Inc. (Crooked Lake), which provides wastewater services to approximately 50% of Park Water's water customers. The service is performed in conjunction with the utility's normal monthly routine for billing and collections of its water service customers. However, the utilities are not related parties. The utility was not able to substantiate the total cost of providing this service, but estimated that the costs incurred by the utility for providing this service equals the revenues received. Normally non-utility revenues and expenses would be removed for rate setting purposes. However, because the utility cannot substantiate the total costs in providing the billing service to Crooked Lake, the revenues shall be increased by \$6,909 to offset the costs associated with providing this service. The utility agrees with this adjustment.

During this case, the utility requested a pro forma revision to its 2004 test year revenues, as two of its customers were reducing or terminating service with the utility. Although Warner Southern College (Warner) is a high-volume commercial customer that will no longer use the utility's service for irrigation purposes, it will continue as a potable water customer. Park Water provided usage and billing documentation indicating that it would lose approximately \$29,143 in annual revenues from Warner.

In the second instance, the utility was providing temporary service to the City of Lake Wales (City), because a well used by the City to service a mobile home park had run dry. It was understood that the City would again provide service to the park as soon as city service could be restored. The City has notified Park Water that it would take over service by October 2006. Park Water indicates that it will lose approximately \$9,829 in annual revenues as a result of this change. The analysis provided by Park Water initially indicated that the gallons used for November 2004 was approximately 263,000 gallons. This was in error and was subsequently corrected to show the revised usage of 163,000 gallons. The revenues for the month were correct and were not revised.

Based on the above, annual revenues shall be increased by \$6,909 to cover the costs for billing services to Crooked Lake, and decreased by \$38,972 for lost revenues from the two large customers. Overall, this results in a net reduction of revenues of \$32,063.

VII. Net Operating Income

A. Audit Adjustments

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

<u>Audit Adjustments</u>	<u>O&M Expense</u>	<u>Depreciation Expense</u>	<u>Amortization Expense</u>	<u>Taxes Other Than Income</u>
Finding No. 2	\$1,211	(\$873)		

Adjustments to Meters				
Finding No. 3 Adjustments to Transportation Equipment		4,638		
Finding No. 4 Adjustments to Misc. Plant In Service Accounts		(\$153)		
Finding No. 5 Adjustments to CIAC			\$2,868	
<u>Audit Adjustments</u>	<u>O&M Expense</u>	<u>Depreciation Expense</u>	<u>Amortization Expense</u>	<u>Taxes Other Than Income</u>
Finding No. 10 O&M Expense: Contractual Service – Eng Contractual Service – Acct. Reg. Commission Exp	(\$2,465) \$6,023 (\$1,476)			
Finding No. 11 RAF Overstatement Property Taxes				(\$6,148) (\$559)
Adjustment Totals	<u>\$3,293</u>	<u>\$3,612</u>	<u>\$2,868</u>	<u>(\$6,707)</u>

The utility agrees with all of the above audit adjustments; therefore, O&M expense shall be increased by \$3,293, depreciation expense shall be increased by \$3,612, amortization expense shall be increased by \$2,868, and taxes other than income shall be reduced by \$6,707.

B. Employee Salaries and Pension Benefits

In its MFRs, the utility had \$120,066 in salary expense and \$16,325 in pensions and benefits expense, totaling \$136,391. This represents 66.16% of total 2004 test year O&M expense. In its 1999 case, salaries totaled \$78,220 with no benefits expense. We find that an increase of 74.37% in salaries and benefits in five years is excessive. Additionally, the utility has shown only slight growth over this period, from 766 customers to 783 customers, an increase of 2.22%.

Therefore, we shall adjust the utility’s expense based on inflation of 3% and customer growth of 2.22%. Compounding the inflation factor at 3% yearly since 1999, totals 19.41%. The compounded factor for the period, including the customer growth factor, results in a factor of 21.63%.

Based on these factors being applied to the salaries expense allowed in the last case, we calculate a salary expense of \$95,142. Because the test year expense was \$120,066, the salary expense shall be reduced by \$24,924, or 20.76%. Additionally, the pension and benefits expense shall be reduced by the same percentage, or \$3,389. Based on the above, salaries and pension benefits shall be reduced by \$28,313.

C. Rate Case Expense

The utility included a \$12,000 estimate in the MFRs for current rate case expense. Pursuant to our staff’s request, the utility submitted a revised estimated rate case expense of \$21,225 reflecting the expense through completion of the PAA process. The components of the utility’s estimated rate case expenses are as follows:

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Total</u>
Filing Fee	\$0	\$3,500	\$0	\$3,500
Legal Fees	0	\$3,400	0	3,400
Professional Fees	\$12,000	\$13,600	0	13,600
Notices/Misc.	<u>0</u>	<u>725</u>	<u>0</u>	<u>725</u>
Total R/C Expense	<u>\$12,000</u>	<u>\$21,225</u>	<u>\$0</u>	<u>\$21,225</u>

Pursuant to Section 367.081(7), F.S., this Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Upon review and examination, we find that the revised estimate is reasonable with the exception discussed below.

In its rate case expense, the utility listed accounting expenses of \$2,850 for 19 hours billed to correct MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.⁵ Accordingly, \$2,850 shall be removed as duplicative and unreasonable rate case expense. Our calculation of the rate case expense is as follows:

MFR	Utility Revised	Commission	<u>Total</u>
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⁵ See Order No. PSC-01-0326-FOF-SU, issued February 21, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc., at pp.73-75.

	<u>Estimated</u>	<u>and Actual</u>	<u>Adjustments</u>	
Filing Fee	\$0	\$3,500	\$0	\$3,500
Legal Fees	\$0	\$3,400	\$0	\$3,400
Professional Fees	\$12,000	\$13,600	(\$2,850)	\$10,750
Notices/Misc	<u>\$0</u>	<u>\$725</u>	<u>\$0</u>	<u>\$725</u>
Total R/C Expense	<u>\$12,000</u>	<u>\$21,225</u>	<u>(\$2,850)</u>	<u>\$18,375</u>
Total Annual Expense	<u>\$3,000</u>			<u>\$4,594</u>

Pursuant to Section 367.0816, F.S., rate case expense shall be amortized over four years. Therefore, the annual rate case expense is calculated to be \$4,594.

VIII. Pre-Repression Water Operating Income

As shown on attached Schedule No. 3-A, after applying our adjustments, the test year net operating loss before any revenue increase is \$11,800. Our adjustments to operating income and expenses are shown on Schedule No. 3-B.

IX. Pre-Repression Revenue Requirement (Phase I)

Park Water requested final rates designed to generate annual revenues of \$745,067. This exceeds test year revenues by \$474,500 (175.37%). The originally requested rates also included its requested pro forma plant, which has been removed in this calculation of Park Water's initial revenue requirement. The requested inclusion of pro forma plant and related adjustments, and its effect on Park Water's revenue requirement will be addressed in the Phase II Rates section of this Order.

Based upon our decisions on rate base, cost of capital, and operating income, and exclusion of pro forma-related adjustments, we find that rates shall be approved designed to generate a Phase I revenue requirement of \$276,157. Based on adjusted test year revenues of \$238,504, the revenue increase is \$37,653, or 15.79%, for Phase I. This increase will allow the utility the opportunity to recover its expenses and earn a 5.99% return on its investment in water rate base for Phase I.

X. Phase II Rates

A. Background

Based on a large amount of unaccounted for water and the system being approximately 48 years old, the utility has planned to replace a major portion of its distribution system since 1999, but has been unable to do so. In July 1999, Park Water submitted a loan application to DEP for funding under the State's Drinking Water Revolving Fund program. This program provides low cost loans to water and wastewater utilities for expansion or upgrades to existing facilities. After satisfying numerous DEP requirements, the utility was pre-approved for funding, with funding

contingent on the utility having sufficient rates in effect to cover the payback of the loan. The utility, however, did not begin planning the construction until late 2005.

The utility has stated it expects construction will start as soon as it receives the first draw on the DEP loan proceeds, or approximately 60 days after the Commission's decision on its requested rates. Park Water expects construction to be complete in approximately 270 days, or August 2007. During construction, DEP will require that Park Water retain a consulting engineer to oversee the project and file a number of progress reports with DEP. DEP has indicated to our staff that pursuant to its Rule 62-552.200, F.A.C., interest will continue to accrue "at the interest set for the loan and compounding annually from the time when disbursements are made until six (6) months before the first semiannual loan repayment is due." Thus, loan repayments could begin as late as early 2008; however, interest on the loan will continue to accrue.

Park Water has indicated that all existing customers will be connected to the newly constructed water lines, and all customers will be notified about the proposed construction and timelines for the start and completion dates of the project. The new water mains will provide service to existing customers with the exception of those vacant lots which are located between existing customers. During this period of time, Park Water will be utilizing both distribution systems simultaneously. As proposed by the utility, once the project is completed, individual customers will have 60 days to connect to the new distribution system. The utility estimates that service will be interrupted for approximately 30 minutes for a customer's changeover.

The utility also has stated that it will be the responsibility of the customers to run the service line from their homes to the new meter, because terms of the loan agreement with DEP prohibit the utility from working on private property. DEP will not lend funds to a utility to connect existing customers to the relocated meters.

In many cases the existing lines run behind customers' homes. The utility plans to install the new lines in the right of way along the streets in front of customers' homes, and approximately 300 customers that presently have lines in the rear of their property will be required to pay for the installation of a service line from the new meter to their home. Customers will be given the option of installing the new service line themselves or hiring a plumber to make the connection. The utility estimates that connecting the new service line will cost about \$150, or \$50 should customers wish to make the connection themselves.

Rule 25-30.231, F.A.C., which addresses the extent of the systems a utility is required to maintain, states that each utility:

shall operate and maintain in safe, efficient and proper condition all of the facilities and equipment used in connection with the . . . distribution, regulation, measurement and delivery of water service to the customer up to and including the point of delivery into the pipng owned by the customer. (emphasis added)

We are concerned about the utility's requirement that customers must arrange and pay for the service connection to the utility's meter, or do the work themselves; however, we have repeatedly determined that the utility's responsibility for maintenance of lines ends at the outlet

side of the meter.⁶ Based on this past practice, we find that we should not require the utility to conduct any construction or pay for any construction on the outlet side of the meter. By delaying the implementation of Phase II rates until after completion of the project, we believe the financial burden may be reduced by allowing additional time for customers to plan for this expense. During this time, the customers will be paying lower Phase I rates.

B. Pro Forma Plant

In its MFRs, the utility requested \$2,496,382 in pro forma plant. Upon review, we find that the pro forma plant additions are prudent.

Section 367.081(2)(a)2., F.S., in pertinent part states:

. . . the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission, to be used and useful in the public service, if:

- a. Such property is needed to serve current customers....

(emphasis supplied)

As discussed above, Park Water originally filed for rate relief in November 2005. Due to deficiencies in the MFRs, the official filing date was not established until March 8, 2006. Subsequent to that date, the five-month period to process the utility's rate request was extended on two occasions. As a result, the pro forma plant additions will now go in service in approximately late 2007, or 2 ½ years after the end of the 2004 test year.

As discussed under the Quality of Service section of this Order, there are many benefits warranting the inclusion of the pro forma plant, particularly to reduce unaccounted for water (and consequently conserve water), improve the reliability of the system, maintain higher water pressure levels, and provide for the installation of fire hydrants in the service area. Further, as stated earlier, all the pro forma projects requested in the utility's filing are prudent and needed to serve its current customers. Thus, we find that the utility shall be granted a longer period of time beyond the normal 24 months after the end of the 2004 test year to place the pro forma plant additions in service, and that pro forma plant of \$2,512,337, including a net increase of \$15,955 in Allowance for Funds Used During Construction (AFUDC) as discussed below, shall be approved.

In the following section of this Order, we are approving an AFUDC rate. The terms of the DEP loan discussed above require Park Water to repay not only monies used for actual

⁶ See Order Nos. PSC-98-0524-FOF-WU, issued April 16, 1998, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc., p. 20; PSC-93-0022-FOF-WU, issued January 5, 1993, in Docket No. 920735-WU, In re: Complaint by Sue Warner against Floralino Properties, Inc. in Pasco County regarding removal of trees from utility easement, p. 2; PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS, In re: Investigation of utility rates of Aloha Utilities, Inc. in Pasco County, p.22.

construction, but also interest accrued on the loan disbursements prior to the commencement of the repayment of the DEP loan. Currently, the pro forma plant addition includes \$40,000 of capitalized interest, and we find that the utility shall be allowed to recover its interest costs incurred during construction of the project. However, without an approved AFUDC rate, the utility will be required to pay DEP for the interest costs accrued on the loan, but will not be able to recover this expense from its customers in Phase II rates, which would result in a reduction of \$40,000 to allowed pro forma plant.

Rule 25-30.116(2)(a), F.A.C., states that, "The most recent 12-month average embedded cost of capital . . . shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company's last rate case." Using financial information contained in Park Water's 2005 Annual Report, our staff calculated the utility's December 31, 2005 capital structure, including adjustments discussed previously. Using this capital structure, and the resulting AFUDC rate, our staff calculated that AFUDC would total \$55,955. We find that the utility shall recover an AFUDC amount of \$55,955, which amounts in total pro forma plant additions of \$2,512,337 ($\$2,496,382 - \$40,000 + \$55,955$).

C. Accumulated Depreciation

In MFR Schedule No. A-9, the utility did not make an adjustment for accumulated depreciation on its pro forma plant. Based on our determination that a full-year's depreciation expense is warranted, we have determined that accumulated depreciation shall be increased by \$62,402. This increase is in addition to the rate base audit adjustments made earlier in this Order to which the utility agreed.

D. Depreciation Expense

In MFR Schedule No. B-13, the utility indicated that increased depreciation expense on its proposed pro forma plant totals \$75,586. However, the utility used the wrong depreciation rates for Accounts 331, 334, and 335, and we find that the proper expense using the full-year convention is \$62,402. Thus, we have reduced depreciation expense by \$13,184.

Usually, only a half-year depreciation expense is taken in the year that plant goes into service. However, rates are being set prospectively, and applying the half-year convention would impair Park Water's ability to repay the DEP loan. The allowance of only a half-year's depreciation will not allow Park Water to recover its full depreciation expense on the pro forma plant until its next rate proceeding. Normally, this would not present a hardship for a utility; however, the pro forma plant addition represents an approximate 350% increase in rate base from Phase I to Phase II.

Park Water has very low growth, thus, a large non-used and useful adjustment has been made. The adjustment further hampers its ability to pay the debt service on the DEP loan. For the above reasons, a full-year depreciation expense shall be allowed for the utility, or \$62,402 in depreciation expense.

The utility's response to a staff data request did not address depreciation expense charged during the test year on plant which is being retired. However, because the plant adjustments

discussed above affect the test year, we have removed \$3,430 in related depreciation expense. Additionally, depreciation expense shall be increased by \$3,537 due to Park Water's revised U&U calculation.

E. Retirement of Replaced Plant

In its MFRs, the utility did not reflect any retirements of plant replaced by pro forma plant additions. In response to a staff data request, the utility stated that it had identified \$147,229 in Account 331, Transmission and Distribution Mains, that should be retired. The utility further stated that it had not identified any associated CIAC that should be retired. After a review of the data response and supporting documentation, we find that \$147,229 in Plant and accumulated depreciation shall be removed.

F. Loss on Retirement of Replaced Plant

As discussed earlier, Park Water will be replacing existing transmission lines, and as such, the replaced lines must be retired. Rule 25-30.433(9), F.A.C., specifies that:

The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Using the above formula results in a loss of \$21,552, amortized over eight years. We do not believe there are any special circumstances surrounding the retirement that would warrant a different amortization period. Thus, this amount shall be amortized over eight years, or \$2,694 per year.

G. Property Taxes

In MFR Schedule No. B-15, the utility indicated that it would incur \$72,500 in additional property taxes on the pro forma plant additions. A review of the utility's responses to data requests, as well as Polk County property records, shows that the utility's taxes will increase by \$40,613. Therefore, we have reduced property tax expense by \$31,887. Property tax expense shall also be reduced an additional \$1,168 due to our approved U&U percentage.

H. Common Equity and Weighted Average Cost of Capital

The utility's proposed pro forma plant of \$2,512,337, including the AFUDC accrual, is included in capital structure for the calculation of Phase II rates. It carries an interest rate of 2.71% based on the DEP-approved loan rate. Based upon the proper components, amounts and cost rates associated with the Phase II capital structure for the test year ended December 31, 2004, including the two audit adjustments, we find that the weighted average cost of capital is 3.36%. Our calculation of the appropriate capital structure for Phase II is shown on Schedule No. 6.

I. Revenue Requirement

Based upon our decisions concerning the underlying rate base, cost of capital, and operating income issues, including pro forma related adjustments, we find that rates shall be designed so as to generate a Phase II pre-repression revenue requirement of \$458,443. These revenues exceed the adjusted test year revenue requirement by \$218,877, or 91.77%. This increase will allow the utility the opportunity to recover its expenses and earn a 3.36% return on its investment in Phase II water rate base.

J. Reporting Requirements

As discussed above, Park Water will be required to submit periodic construction progress reports to DEP. DEP will perform two on-site inspections at approximately the mid-point and the completion of construction. The utility shall submit to this Commission all construction reports or other documents it submits, or receives from, DEP. Further, the utility shall provide our staff with the final approval documentation no later than 15 days after the utility receives final approval from DEP. The appropriate Phase I and II rates are discussed below.

K. Summary

Based on the above, pro forma plant shall be increased by \$15,955, resulting in total pro forma plant additions of \$2,512,337. In addition, accumulated depreciation shall be increased by \$62,402, and depreciation expense shall be decreased by \$13,184. Also, plant and accumulated depreciation shall be reduced by \$147,229, and loss on retired plant of \$21,552 shall be amortized over eight years at \$2,694 yearly.

Additionally, depreciation expense shall be increased by \$3,537 due to our U&U calculation, and property taxes related to the pro forma plant shall be reduced by \$1,168.

The appropriate rate of return on equity for Phase II shall be 11.55%, with a range of plus or minus 100 basis points. The appropriate weighted average cost of capital shall be 3.36%.

The Phase II pre-repression revenue requirement is \$458,443. After the application of repression adjustments, the post-repression revenue requirement is calculated to be \$457,381, or an increase of 91.77%. The post-repression adjustments, and the resulting post-repression revenue requirement, are discussed below.

Additionally, Park Water shall file with our staff all progress reports it files with, or receives from, DEP concerning its construction project.

Our calculation of Phase II rate base is shown on Schedule No. 5-A and rate base adjustments are shown on Schedule No. 5-B. Our calculation of the Phase II capital structure is shown on Schedule No. 6, and our calculations of NOI and adjustments to NOI are shown on Schedule Nos. 7-A and 7-B, respectively.

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

AFUDC is an accounting entry designed to permit a utility to recover the cost associated with financing eligible construction activities. Rule 25-30.116(2)(a), F.A.C., provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. In the instant case, the most recent 12-month period is the year ending December 31, 2005.

Thus, an annual AFUDC rate of 6.00%, with a monthly rate of 0.499863% shall be approved. The effective date shall be January 1, 2006.

XII. Rates and Rate Structure

The utility's current water system rate structure consists of a four-tier inclining block rate structure applicable to all customer classes. The BFC for its 5/8" x 3/4" meter customers is \$7.06 per month, with corresponding usage blocks for monthly consumption of: a) 0-6 kgals; b) 6.001-12 kgals; c) 12.001-22 kgals; and d) usage in excess of 22 kgals. The BFC for its general service 2" meter customers is \$56.51, with corresponding usage blocks for monthly consumption of: a) 0 - 48 kgal; b) 48.001 - 96 kgal; c) 96.001 - 176 kgal; and d) usage in excess of 176 kgal. The usage block rate factors are 1.0, 1.5, 2 and 3, respectively.

Our staff performed a detailed analysis of the utility's billing data in order to select the appropriate usage blocks and usage block rate factors for the residential rate structure. Based on consumption distribution analysis, our staff recommends that the usage blocks be changed to monthly consumption of: a) 0 - 5 kgals; b) 5.001 - 10 kgals; c) 10.001 - 15 kgals; and d) in excess of 15 kgals. Our staff believes that the new usage blocks better capture consumption levels that are subject to greater consumption charges. Our staff also recommends that the usage block rate factors be changed to 1.0, 1.25, 1.5 and 1.75, respectively.

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

The in-depth analysis of the appropriate rate structure is discussed in detail on Attachment B. Based on the foregoing and the analysis contained on Attachment B, we find the appropriate rate structure in Phase I for the residential class is a continuation of the current four-tier inclining-block rate structure. The usage blocks shall be changed to monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The current usage block rate factors shall be changed to 1.0, 1.25, 1.5 and 1.75, respectively. The four-tier inclining-block rate structure currently applicable to both general service and multi-residential customers shall be eliminated and replaced with the traditional BFC/uniform gallonage charge rate structure. The multi-residential BFC charges shall be equal to those BFC charges assigned to general service customers of equivalent meter size. The Phase I and Phase II post-repression BFC cost recovery percentage shall be set at 30%. There shall be no rate structure changes between Phase I and Phase II.

XIII. Repression Adjustments

Consistent with our prior decisions, we utilized the proportional equation approach to calculate the appropriate repression adjustment.⁷ We excluded 18,078.5 kgals from the repression calculation, which equates to monthly usage per customer of approximately 2.5 kgal. Our calculation for the anticipated consumption reductions is found on Attachment C.

For Phase I, residential consumption shall be reduced by 3.6%, resulting in a consumption reduction of approximately 1,851.0 kgals. The resulting total water consumption for Phase I rate setting is 75,302.0 kgals, which represents a 2.4% reduction in overall consumption. The appropriate corresponding adjustments to expenses are a reduction to purchased power of \$237, a reduction to chemicals of \$41, and a reduction to regulatory assessment fees of \$13, resulting in a final Phase I revenue requirement, excluding miscellaneous service charges, of \$265,399.

For Phase II, residential consumption shall be reduced an additional 9.7% compared to Phase I final consumption, resulting in a Phase II consumption reduction of approximately 4,787.3 kgals. The resulting total water consumption for Phase II rate setting is 70,514.7 kgals, which represents a 6.4% reduction compared to Phase I rate setting consumption. The appropriate corresponding additional adjustments to expenses are a reduction to purchased power of \$628, a reduction to chemicals of \$110, and a reduction to regulatory assessment fees of \$33. The sum of the Phase I and Phase II expense adjustments are reductions to purchased power of \$865, chemicals of \$151, and regulatory assessment fees of \$46, resulting in a final Phase II revenue requirement, excluding miscellaneous service charges, of \$446,915.

In order to monitor the effects of both the changes in revenue and rate structure, the utility shall file monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. In addition, the reports shall be prepared by customer class, usage block, and

⁷ See 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., p. 22; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc., p. 40; 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., pp. 33-36.)

meter size. The reports shall be filed with our staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates for each phase go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision.

The summary of repression-related adjustments and final approved revenue requirements for each Phase is shown in the table below:

REPRESSION AND REVENUE REQUIREMENT SUMMARY			
		<u>Phase I</u>	<u>Phase II</u>
<i>Kgals Reduced</i>		<i>(1,851.0)</i>	<i>(4,787.3)</i>
Pct Consump Reduction --	Residential	(3.6%)	(9.7%)
	Overall	(2.4%)	(6.4%)
Rate setting Kgals		75,302.0	70,514.7
Recom Revenue Requirement – Pre Repression		\$276,157	\$458,443
Expense Reductions --	Purch. Power	(\$237)	(\$628)
	Chemicals	(\$41)	(\$110)
	RAFs	(\$13)	(\$33)
Total Expense Reduction --	Each Phase	(\$291)	(\$771)
	Combined Phases		(\$1,062)
<i>Revenue Requirement – Post Repression</i>		<i>\$275,866</i>	<i>\$457,381</i>
<i>Increase:</i>	<i>Amount</i>	<i>\$37,362</i>	<i>\$218,877</i>
	<i>Percent</i>	<i>15.67%</i>	<i>91.77%</i>
Less Miscellaneous Service Charges		(\$10,467)	(\$10,467)
<i>Revenues From Monthly Service Rates</i>		<i>\$265,399</i>	<i>\$446,915</i>

XIV. Monthly Water Rates for Phase I and Phase II

Based on the above, the appropriate revenue requirements, excluding miscellaneous service charges, are \$265,399 for Phase I and \$446,915 for Phase II. Based on the rate structure approved above, with a four-tiered inclining block rate structure for residential customers and a traditional BFC/uniform gallonage charge rate structure for rate classes other than the residential class, the appropriate monthly water rates for Phase I and Phase II are shown on Schedule No. 4 and Schedule No. 8, respectively. This rate structure will allow approximately 30% of the monthly service revenues (or \$80,271 in Phase I and \$136,219 in Phase II) to be recovered through the base facility charges, while approximately 70% (\$185,128 in Phase I and \$311,757 in Phase II) will be recovered through the consumption charges.

XV. Effective Dates for Phase I and Phase II Rates

Phase I rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be

implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

The utility shall not be allowed to implement Phase II rates until the construction has been completed and approved by DEP, and the completed pro forma additions have been verified by our staff. The utility shall provide our staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility shall also file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

XVI. Main Extension Charge

Because the current charge of \$423 is too low for developers or customers to provide a fair share to offset the cost of the new water lines, we find that main extension charges shall be increased. Also, because of the U&U adjustment, we are concerned that the Phase II rates will not generate the necessary funds for repayment of the DEP loan. Therefore, we find that it is prudent and necessary to increase the main extension charge to help pay back the loan. Increasing this charge will insure that a larger portion of the balance in transmission and distribution (T&D) will be offset by contributions from future developers and customers.

Park Water's balance in its T&D accounts, after adjustments, will increase to \$3,358,177. If only new customers paid for the increased main extension charge, based on the balance in Park's T&D accounts, it would increase the charge to approximately \$6,324. Not only would this be a burden for future customers, it would be unfair in that existing customers will also use the new lines. Therefore, in calculating the new main extension charge, recognizing that existing customers will benefit, we have divided the entire main balance after the inclusion of the pro forma additions of \$3,358,177 by the total projected ERCs at build-out. This results in a new main extension charge of \$2,370. This new main extension charge shall not be paid by existing customers, but shall become effective for all new connections after the implementation of Phase II rates.

The proposed main extension charge shall become effective for service rendered on or after our staff's approval of the stamped tariff sheet pursuant to Rule 25-30.475(2), F.A.C., provided the customers have received notice, and after our staff has verified that the proposed customer notice is adequate. The utility shall provide proof that the customers have received notice within ten days after the date of the notice. The revised tariff sheet shall be submitted with sufficient time for our staff to verify that the tariff is consistent with our decision. Our staff shall administratively approve the tariff sheet upon verification of the above.

XVII. Statutory Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization

of rate case expense and the gross-up for regulatory assessment fees which is \$4,758. The decreased revenues will result in the rate reduction shown on Schedule No. 4.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved reduced rates. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

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

XVIII. Adjustment of Books for All of the Applicable NARUC USOA Primary Accounts

To ensure that the utility adjusts its books in accordance with our decisions, Park Water shall provide proof, within 90 days of the Consummating Order, that the Phase I adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that that the application of Park Water Company for an increase in its water rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be implemented in two phases, with Phase I rates being in effect until the loan repayment begins, and Phase II rates to begin thereafter. It is further

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

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Park Water Company is authorized to charge the new rates and charges as set forth in the body of this Order and the attachments and schedules attached hereto. It is further

ORDERED that the approved rates for Phase I shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that Park Water Company shall provide proof of the date notice was given within ten days after the date of the notice. It is further

ORDERED that Park Water Company shall be granted a longer period of time beyond the normal 24 months after the end of the 2004 test year to place the pro forma plant additions in service. It is further

ORDERED that Park Water Company shall not be allowed to implement Phase II rates until the construction has been completed and approved by the Department of Environmental Protection, and the completed pro forma additions have been verified by our staff. It is further

ORDERED that Park Water Company shall provide our staff with the final approval documentation no later than 15 days after the utility receives the final approval from the Department of Environmental Protection. At that time, the utility shall also file revised tariff sheets and a proposed customer notice to reflect the approved Phase II rates. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. It is further

ORDERED that the Phase II rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Park Water Company shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Park Water Company shall be allowed an annual Allowance for Funds Used During Construction rate of 6.00%, with a monthly rate of 0.499863%, with an effective date of January 1, 2006. It is further

ORDERED that a new main extension charge of \$2,370 is approved as set forth in the body of this Order. It is further

ORDERED that this new main extension charge shall not be paid by existing customers, but shall become effective for all new connections after the implementation of Phase II rates. It is further

ORDERED that the main extension charge shall become effective for service rendered on or after our staff's approval of the stamped tariff sheet pursuant to Rule 25-30.475(2), F.A.C., provided the customers have received notice, and after our staff has verified that the proposed customer notice is adequate. It is further

ORDERED that Park Water Company shall provide proof that the customers have received notice within ten days after the date of the notice. The revised tariff sheet shall be submitted with sufficient time for our staff to verify that the tariff is consistent with our decision, and shall be administratively approved upon verification of the above. It is further

ORDERED that the water rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. It is further

ORDERED that Park Water Company shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Park Water Company shall file monthly reports for the water system, detailing the number of bills rendered, the consumption billed, and the revenue billed. These reports shall be provided, by customer class, usage block, and meter size, and filed with our staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates for each phase go into effect. It is further

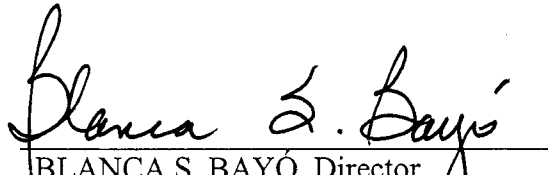
ORDERED that to the extent Park Water Company makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision on a quarterly basis for a period of two years. It is further

ORDERED that, except for the requirement to make the appropriate adjustments to its books for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction which are issued as final agency action, the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Park Water Company shall file with the Commission all progress, construction reports, or other documents it files with, or receives from, the Department of Environmental Protection concerning its construction project. It is further

ORDERED that if no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order shall be issued. However, the docket shall remain open to allow our staff to monitor completion of the pro forma items and the appropriate implementation of Phase II rates.

By ORDER of the Florida Public Service Commission this 11th day of December, 2006.


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

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the requirement to make the appropriate adjustments to its books for all of the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction which are issued as final agency action, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 1, 2007. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter may request:

- (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Park Water Company Schedule of Water Rate Base Test Year Ended December 31, 2004				Schedule No. 1-A Docket No. 050563-WU Phase I	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,066,462	\$2,496,382	\$3,562,844	(\$2,250,684)	\$1,312,160
2 Land and Land Rights	100	0	100	0	100
3 Non-used and Useful Components	(86,080)	0	(86,080)	15,586	(70,494)
4 Accumulated Depreciation	(386,546)	0	(386,546)	(21,665)	(408,211)
5 CIAC	(226,576)	0	(226,576)	(335,221)	(561,797)
6 Amortization of CIAC	57,137	0	57,137	52,040	109,177
7 Working Capital Allowance	13,783	0	13,783	8,912	22,695
8 Rate Base	<u>\$438,280</u>	<u>\$2,496,382</u>	<u>\$2,934,662</u>	<u>(\$2,531,032)</u>	<u>\$403,630</u>

Park Water Company
Adjustments to Rate Base
Test Year Ended 12/31/04

Schedule No. 1-B
Docket No. 050563-WU
Phase I

Explanation	Water
<u>Plant In Service</u>	
1 To remove pro forma plant	(\$2,496,382)
2 To reflect donated plant. (AF1)	\$261,495
3 To reflect correct meter balance. (AF2)	(\$14,840)
4 To correct transportation balance. (AF3)	3,514
5 To correct misc. plant in service accounts. (AF4)	(4,471)
Total	<u>(\$2,250,684)</u>
<u>Non-used and Useful</u>	
To adjust for non-used and useful plant.	<u>\$15,586</u>
<u>Accumulated Depreciation</u>	
1 To reflect adjustments to donated plant. (AF1)	(\$27,527)
2 To reflect correct meter balance. (AF2)	14,558
3 To reflect correct transportation balance. AF3)	(10,047)
4 To correct plant in service accounts. (AF4)	1,351
Total	<u>(\$21,665)</u>
<u>CIAC</u>	
1 To reflect donated plant. AF1)	(\$261,495)
2 To reflect add'l donated plant.	(\$73,656)
3 To correct CIAC balance. (AF5)	(\$70)
Total	<u>(\$335,221)</u>
<u>Accumulated Amortization of CIAC</u>	
1 To reflect adjustments to donated plant. (AF1)	\$27,527
2 To reflect add'l adjustments to donated plant.	\$11,332
3 To correct understated balance. (AF5)	\$13,181
Total	<u>\$52,040</u>
<u>Working Capital</u>	
To reflect 1/8 O&M balance.	<u>\$8,912</u>

**Park Water Company
Capital Structure-Simple Average
Test Year Ended 12/31/04**

**Schedule No. 2
Docket No. 050563-WU
Phase I**

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$518,858	\$0	\$518,858	(\$35,153)	\$483,705	16.48%	6.00%	0.99%
2 Long term Debt (DEP Loan)	0	\$2,496,382	\$2,496,382	(\$169,131)	\$2,327,251	79.30%	2.71%	2.15%
3 Short-term Debt	86,872	0	\$86,872	0	\$86,872	2.96%	6.55%	0.19%
4 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
5 Common Equity	29,500	0	\$29,500	0	\$29,500	1.01%	10.10%	0.10%
6 Customer Deposits	7,334	0	\$7,334	0	\$7,334	0.25%	6.00%	0.01%
7 Deferred Income Taxes	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
8 Total Capital	<u>\$642,564</u>	<u>\$2,496,382</u>	<u>\$3,138,946</u>	<u>(\$204,284)</u>	<u>\$2,934,662</u>	<u>100.00%</u>		<u>3.45%</u>
Per Commission								
9 Long-term Debt	\$518,858	0	\$518,858	(\$181,705)	\$337,153	83.53%	6.00%	5.01%
10 Long term Debt (DEP Loan)	\$0	0	\$0	\$0	\$0	0.00%	2.71%	0.00%
10 Short-term Debt	86,872	\$4,145	\$91,017	(\$31,874)	\$59,143	14.65%	5.90%	0.86%
11 Preferred Stock	0	0	\$0	\$0	\$0	0.00%	0.00%	0.00%
12 Common Equity	29,500	(\$29,500)	\$0	\$0	\$0	0.00%	11.55%	0.00%
13 Customer Deposits	7,334	0	\$7,334	0	\$7,334	1.82%	6.00%	0.11%
14 Deferred Income Taxes	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
15 Total Capital	<u>\$642,564</u>	<u>(\$25,355)</u>	<u>\$617,209</u>	<u>(\$213,579)</u>	<u>\$403,630</u>	<u>100.00%</u>		<u>5.99%</u>

	LOW	HIGH
RETURN ON EQUITY	<u>10.55%</u>	<u>12.55%</u>
OVERALL RATE OF RETURN	<u>5.99%</u>	<u>5.99%</u>

Park Water Company Statement of Water Operations Test Year Ended 12/31/04						Schedule No. 3-A Docket No. 050563-WU Phase I-Pre-Repression	
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>\$270,567</u>	<u>\$474,500</u>	<u>\$745,067</u>	<u>(\$506,563)</u>	<u>\$238,504</u>	<u>\$37,653</u> 15.79%	<u>\$276,157</u>
Operating Expenses							
2 Operation & Maintenance	\$206,159	\$0	206,159	(24,599)	181,560	0	181,560
3 Depreciation	33,226	75,586	108,812	(73,205)	35,607	0	35,607
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	42,404	93,853	136,257	(103,120)	33,137	1,694	34,831
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>281,789</u>	<u>169,439</u>	<u>451,228</u>	<u>(200,924)</u>	<u>250,304</u>	<u>1,694</u>	<u>251,998</u>
8 Operating Income	<u>(\$11,222)</u>	<u>\$305,061</u>	<u>\$293,839</u>	<u>(\$305,639)</u>	<u>(\$11,800)</u>	<u>\$35,959</u>	<u>\$24,159</u>
9 Rate Base	<u>\$438,280</u>		<u>\$2,934,662</u>		<u>\$403,630</u>		<u>\$403,630</u>
10 Rate of Return	<u>-2.56%</u>		<u>10.01%</u>		<u>-2.92%</u>		<u>5.99%</u>

**Park Water Company
Adjustment to Operating Income
Test Year Ended 12/31/04**

**Schedule 3-B
Docket No. 050563-WU
Phase I**

Explanation	Water
<u>Operating Revenues</u>	
1 Remove requested final revenue increase.	(\$474,500)
2 To correct understated revenues. (AF9)	\$6,909
3 To reduce revenues due to loss of commercial customers.	<u>(\$38,972)</u>
Total	<u>(\$506,563)</u>
<u>Operation and Maintenance Expense</u>	
1 To reflect proper M&S balance. AF2)	\$1,211
2 Excessive unaccounted for water adjustments.	(\$1,172)
3 To correct misallocation. (AF10)	(\$2,465)
4 To correct misallocation. (AF10)	6,023
5 To remove prior rate case expense. (AF10)	(1,476)
6 To adjust salaries and pension expense.	(28,313)
7 To reflect annual rate case amortization.	1,594
Total	<u>(\$24,599)</u>
<u>Depreciation Expense - Net</u>	
1 To reflect correct meter balance. (AF2)	(\$873)
2 To correct transportation balance. (AF3)	4,638
3 To correct Plant in Service accounts. (AF4)	(153)
4 To correct understated expense. (AF5)	(\$2,868)
5 To remove pro forma plant depreciation expense.	(75,586)
7 To reflect depreciation adjustment on non-U&U adjustment above.	3,380
8 To reflect net amortization on donated plant.	(1,743)
Total	<u>(\$73,205)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above.	(\$22,795)
2 To correct RAF overstatement. (AF11)	(6,148)
3 To correct overstatement of prop. taxes for disc. not taken. (AF11)	(559)
4 To remove pro forma plant property taxes.	(72,500)
5 To reflect non used and useful property tax adjustment.	(1,118)
Total	<u>(\$103,120)</u>

Park Water Company Water Monthly Service Rates Test Year Ended 12/31/04		Schedule No. 4 Docket No. 050563-WU Final- Phase I		
	Rates Prior to Filing	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
Residential				
<u>Base Facility Charge:</u>				
Individually Metered	\$7.06	\$17.71	\$7.55	\$0.15
<u>Gallonge Charge:</u>				
(per 1,000 gallons)				
0-6,000 Gallons	\$1.43	\$3.59	-	-
6,001-12,000 Gallons	\$2.16	\$5.42	-	-
12,001-22,000 Gallons	\$2.88	\$7.22	-	-
Over 22,000 Gallons	\$4.41	\$10.81	-	-
0-5,000 gallons	-	-	\$2.12	\$0.03
5,001-10,000 gallons	-	-	\$2.65	\$0.04
10,001-15,000 gallons	-	-	\$3.18	\$0.05
Over 15,000 gallons	-	-	\$3.71	\$0.07
General Service & Multi-Family				
<u>Base Facility Charge:</u>				
5/8" x 3/4"	\$7.06	\$17.71	\$7.55	\$0.15
1"	\$17.65	\$44.26	\$18.88	\$0.38
1-1/2"	\$35.31	\$88.55	\$37.75	\$0.76
2"	\$56.51	\$141.72	\$60.40	\$1.21
3"	\$113.02	\$283.44	\$120.80	\$2.54
4"	\$176.59	\$442.87	\$188.75	\$3.81
6"	\$353.19	\$885.76	\$377.50	\$7.60
<u>Gallonge Charge:</u>				
(per 1,000 gallons)				
<u>5/8"X 3/4" Meter</u>				
0-6,000 Gallons	\$1.43	\$3.59	-	-
6,001-12,000 Gallons	\$2.16	\$5.42	-	-
12,001-22,000 Gallons	\$2.88	\$7.22	-	-
Over 22,000 Gallons	\$4.31	\$10.81	-	-
<u>1" Meter</u>				
0-15,000 Gallons	\$1.43	\$3.59	-	-
15,001-30,000 Gallons	\$2.16	\$5.42	-	-
30,001-55,000 Gallons	\$2.88	\$7.22	-	-
Over 55,000 Gallons	\$4.31	\$10.81	-	-
<u>1 1/2" Meter</u>				
0-30,000 Gallons	\$1.43	\$3.59	-	-
30,001-60,000 Gallons	\$2.16	\$5.42	-	-
60,001-110,000 Gallons	\$2.88	\$7.22	-	-
Over 110,000 Gallons	\$4.31	\$10.81	-	-
<u>2" Meter</u>				
0-48,000 Gallons	\$1.43	\$3.59	-	-
48,001-96,000 Gallons	\$2.16	\$5.42	-	-
96,001-176,000 Gallons	\$2.88	\$7.22	-	-
Over 176,000 Gallons	\$4.31	\$10.81	-	-
<u>Gallonge Charge:</u>				
(per 1,000 gallons)				
	-	-	\$2.46	\$0.04
<u>Typical Residential Bill 5/8" x 3/4" Meter</u>				
3,000 Gallons	\$11.35	\$28.48	\$13.91	
5,000 Gallons	\$14.21	\$35.66	\$18.15	
10,000 Gallons	\$24.28	\$60.93	\$31.40	

Park Water Company Schedule of Water Rate Base Test Year Ended December 31, 2004				Schedule No. 5-A Docket No. 050563-WU Phase II		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	
1 Plant in Service	\$1,066,462	\$2,496,382	\$3,562,844	\$114,424	\$3,677,268	
2 Land and Land Rights	100	0	100	0	100	
3 Non-used and Useful Components	(86,080)	0	(86,080)	17,833	(68,247)	
4 Accumulated Depreciation	(386,546)	0	(386,546)	63,162	(323,384)	
5 CIAC	(226,576)	0	(226,576)	(335,221)	(561,797)	
6 Amortization of CIAC	57,137	0	57,137	52,040	109,177	
7 Working Capital Allowance	13,783	0	13,783	8,912	22,695	
8 Rate Base	<u>\$438,280</u>	<u>\$2,496,382</u>	<u>\$2,934,662</u>	<u>(\$78,851)</u>	<u>\$2,855,811</u>	

Park Water Company
Adjustments to Rate Base
Test Year Ended 12/31/04

Schedule No. 5-B
Docket No. 050563-WU
Phase II

Explanation	Water
<u>Plant In Service</u>	
1 To reflect donated plant. (AF1)	\$261,495
2 To reflect correct meter balance. (AF2)	(\$14,840)
3 To reflect AFUDC on proforma plant.	15,955
4 To remove retired plant.	(147,229)
5 To correct transportation balance. (AF3)	3,514
6 To correct misc. plant in service accounts. (AF4)	<u>(4,471)</u>
Total	<u>\$114,424</u>
<u>Non-used and Useful</u>	
To adjust for non-used and useful plant.	<u>\$17,833</u>
<u>Accumulated Depreciation</u>	
1 To reflect adjustments to donated plant. (AF1)	(\$27,527)
2 To reflect correct meter balance. (AF2)	14,558
3 To reflect accumulated depreciation on pro forma plant.	(62,402)
4 To remove retired plant.	147,229
5 To reflect correct transportation balance. AF3)	(10,047)
6 To correct plant in service accounts. (AF4)	<u>1,351</u>
Total	<u>\$63,162</u>
<u>CIAC</u>	
1 To reflect donated plant. (AF1)	(\$261,495)
2 To reflect add'l adjustments to donated plant.	(\$73,656)
3 To correct CIAC balance. (AF5)	<u>(\$70)</u>
Total	<u>(\$335,221)</u>
<u>Accumulated Amortization of CIAC</u>	
1 To reflect adjustments to donated plant. (AF1)	\$27,527
2 To reflect add'l adjustments to donated plant.	\$11,332
3 To correct understated balance. (AF5)	<u>\$13,181</u>
Total	<u>\$52,040</u>
<u>Working Capital</u>	
To reflect 1/8 O&M balance.	<u>\$8,912</u>

Park Water Company Capital Structure-Simple Average Test Year Ended 12/31/04						Schedule No. 6 Docket No. 050563-WU Phase II		
Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$518,858	\$0	\$518,858	(\$35,153)	\$483,705	16.48%	6.00%	0.99%
2 Long term Debt (DEP Loan)	0	\$2,496,382	\$2,496,382	(\$169,131)	\$2,327,251	79.30%	2.71%	2.15%
3 Short-term Debt	86,872	0	\$86,872	0	\$86,872	2.96%	6.55%	0.19%
4 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
5 Common Equity	29,500	0	\$29,500	0	\$29,500	1.01%	10.10%	0.10%
6 Customer Deposits	7,334	0	\$7,334	0	\$7,334	0.25%	6.00%	0.01%
7 Deferred Income Taxes	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
8 Total Capital	<u>\$642,564</u>	<u>\$2,496,382</u>	<u>\$3,138,946</u>	<u>(\$204,284)</u>	<u>\$2,934,662</u>	<u>100.00%</u>		<u>3.45%</u>
Per Commission								
9 Long-term Debt	\$518,858	0	\$518,858	(\$45,490)	\$473,368	16.58%	6.00%	0.99%
10 Long term Debt (DEP Loan)	\$2,496,382	15,955	\$2,512,337	(\$220,265)	\$2,292,072	80.26%	2.71%	2.18%
10 Short-term Debt	86,872	4,145	\$91,017	(\$7,980)	83,037	2.91%	5.90%	0.17%
11 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
12 Common Equity	29,500	(29,500)	\$0	\$0	0	0.00%	11.55%	0.00%
13 Customer Deposits	7,334	0	\$7,334	0	7,334	0.26%	6.00%	0.02%
14 Deferred Income Taxes	0	0	\$0	0	0	0.00%	0.00%	0.00%
15 Total Capital	<u>\$3,138,946</u>	<u>(9,400)</u>	<u>\$3,129,546</u>	<u>(\$273,735)</u>	<u>\$2,855,811</u>	<u>100.00%</u>		<u>3.36%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>10.55%</u>	<u>12.55%</u>	
OVERALL RATE OF RETURN						<u>3.36%</u>	<u>3.36%</u>	

**Park Water Company
Statement of Water Operations
Test Year Ended 12/31/04**

**Schedule No. 7-A
Docket No. 050563-WU
Phase II Pre-
Repression**

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>\$270,567</u>	<u>\$474,500</u>	<u>\$745,067</u>	<u>(\$506,563)</u>	<u>\$238,504</u>	<u>\$219,939</u> 92.22%	<u>\$458,443</u>
Operating Expenses							
2 Operation & Maintenance	\$206,159	\$0	206,159	(24,599)	181,560	0	181,560
3 Depreciation	33,226	75,586	108,812	(14,077)	94,735	0	94,735
4 Amortization	0	0	0	2,694	2,694	0	2,694
5 Taxes Other Than Income	42,404	93,853	136,257	(62,557)	73,700	9,897	83,597
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>281,789</u>	<u>169,439</u>	<u>451,228</u>	<u>(98,539)</u>	<u>352,689</u>	<u>9,897</u>	<u>362,586</u>
8 Operating Income	<u>(\$11,222)</u>	<u>\$305,061</u>	<u>\$293,839</u>	<u>(\$408,024)</u>	<u>(\$114,185)</u>	<u>\$210,042</u>	<u>\$95,857</u>
9 Rate Base	<u>\$438,280</u>		<u>\$2,934,662</u>		<u>\$2,855,811</u>		<u>\$2,855,811</u>
10 Rate of Return	<u>-2.56%</u>		<u>10.01%</u>		<u>-4.00%</u>		<u>3.36%</u>

Park Water Company Adjustment to Operating Income Test Year Ended 12/31/04		Schedule 7-B Docket No. 050563-WU Phase II
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase.	(\$474,500)
2	To correct understated revenues. (AF9)	\$6,909
3	To reduce revenues due to loss of commercial customers.	<u>(\$38,972)</u>
	Total	<u>(\$506,563)</u>
<u>Operation and Maintenance Expense</u>		
1	To reflect proper M&S balance. AF2)	\$1,211
2	Excessive unaccounted for water adjustments	(\$1,172)
3	To correct misallocation. (AF10)	(\$2,465)
4	To correct misallocation. (AF10)	6,023
5	To remove prior rate case expense. (AF10)	(1,476)
6	To adjust salaries and pension expense.	(28,313)
7	To reflect annual rate case amortization.	<u>1,594</u>
	Total	<u>(\$24,599)</u>
<u>Depreciation Expense - Net</u>		
1	To reflect correct meter balance. (AF2)	(\$873)
2	To correct transportation balance. (AF3)	4,638
3	To correct Plant in Service accounts. (AF4)	(153)
4	To correct understated expense. (AF5)	(\$2,868)
5	To correct pro forma depreciation expense.	(13,184)
6	To correct for retired plant.	(3,430)
7	To reflect net amortization on donated plant.	(1,743)
8	To increase net depreciation on non-U&U adjustment above.	<u>3,537</u>
	Total	<u>(\$14,077)</u>
<u>Amortization-Other Expense</u>		
	Amortization of Loss on retired Plant.	<u>\$2,694</u>
<u>Taxes Other Than Income</u>		
1	RAFTs on revenue adjustments above.	(\$22,795)
2	To correct RAF overstatement. (AF11)	(6,148)
3	To correct overstatement of prop. taxes for disc. not taken. (AF11)	(559)
4	To reflect the correct amount of property taxes.	(31,887)
5	To reflect non used and useful property tax on pro forma plant.	<u>(1,168)</u>
	Total	<u>(\$62,557)</u>

Park Water Company Water Monthly Service Rates Test Year Ended 12/31/04		Schedule No. 8 Docket No. 050563-WU Final-Phase II	
	Rates Prior to Filing	Utility Requested Final	Commission Approved Final
Residential			
<u>Base Facility Charge:</u>			
Individually Metered	\$7.06	\$17.71	\$12.80
<u>Gallonge Charge:</u>			
(per 1,000 gallons)			
0-6,000 Gallons	\$1.43	\$3.59	-
6,001-12,000 Gallons	\$2.16	\$5.42	-
12,001-22,000 Gallons	\$2.88	\$7.22	-
Over 22,000 Gallons	\$4.41	\$10.81	-
0-5,000 gallons	-	-	\$3.82
5,001-10,000 gallons	-	-	\$4.78
10,001-15,000 gallons	-	-	\$5.73
Over 15,000 gallons	-	-	\$6.69
<u>General Service & Multi-Family</u>			
<u>Base Facility Charge:</u>			
5/8" x 3/4"	\$7.06	\$17.71	\$12.80
1"	\$17.65	\$44.26	\$32.00
1-1/2"	\$35.31	\$88.55	\$64.00
2"	\$56.51	\$141.72	\$102.40
3"	\$113.02	\$283.44	\$204.80
4"	\$176.59	\$442.87	\$320.00
6"	\$353.19	\$885.76	\$640.00
<u>Gallonge Charge:</u>			
(per 1,000 gallons)			
<u>5/8"X 3/4" Meter</u>			
0-6,000 Gallons	\$1.43	\$3.59	-
6,001-12,000 Gallons	\$2.16	\$5.42	-
12,001-22,000 Gallons	\$2.88	\$7.22	-
Over 22,000 Gallons	\$4.31	\$10.81	-
<u>1" Meter</u>			
0-15,000 Gallons	\$1.43	\$3.59	-
15,001-30,000 Gallons	\$2.16	\$5.42	-
30,001-55,000 Gallons	\$2.88	\$7.22	-
Over 55,000 Gallons	\$4.31	\$10.81	-
<u>1 1/2" Meter</u>			
0-30,000 Gallons	\$1.43	\$3.59	-
30,001-60,000 Gallons	\$2.16	\$5.42	-
60,001-110,000 Gallons	\$2.88	\$7.22	-
Over 110,000 Gallons	\$4.31	\$10.81	-
<u>2" Meter</u>			
0-48,000 Gallons	\$1.43	\$3.59	-
48,001-96,000 Gallons	\$2.16	\$5.42	-
96,001-176,000 Gallons	\$2.88	\$7.22	-
Over 176,000 Gallons	\$4.31	\$10.81	-
<u>Gallonge Charge:</u>			
(per 1,000 gallons)			
	-	-	\$4.41
<u>Typical Residential Bill 5/8" x 3/4" Meter</u>			
3,000 Gallons	\$11.35	\$28.48	\$24.26
5,000 Gallons	\$14.21	\$35.66	\$31.90
10,000 Gallons	\$24.28	\$60.93	\$55.80

Phase I

Name of Utility: Park Water Company Docket No: 050563-WU			Attachment A, Page 1 of 3 Historical Test Year (2004)	
1)		Capacity of Plant	1,387,146	gallons per day
2)		Maximum Day	502,056	gallons per day
	a)	Maximum day @ peak		gallons per day
3)		Average Daily Flow	263,371	gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: 1,000 gallons per minute for 2 hours	120,000	gallons per day
5)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: (2004)	873	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	14	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\5a]	40,256	gallons per day
6)		Excessive Unaccounted for Water (EUW)	23,865	gallons per day
	a)	Percentage of Excessive amount		
	b)	Total Unaccounted for Water	50,202	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	26,337	gallons per day
	d)	Excessive Amount	23,865	gallons per day

USED AND USEFUL FORMULA

$$[(2) + (4) + (5) - (6)] / (1) = 46.03\% \text{ Used \& Useful}$$

Phase II

Name of Utility: Park Water Company		Attachment A, Page 2 of 3	
Docket No: 050563-WU		Historical Test Year (2004)	
1)	Capacity of Plant	1,387,146	gallons per day
2)	Maximum Day	502,056	gallons per day
	a) Maximum day @ peak		gallons per day
3)	Average Daily Flow	263,371	gallons per day
4)	Fire flow Capacity (FF) Required Fire Flow: 1,000 gallons per minute for 2 hours	120,000	gallons per day
5)	Growth		
	a) Average Test Year Customers in ERCs: Historical Test Year: (2004)	873	ERCs
	b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	14	ERCs
	c) Statutory Growth Period	5	Years
	d) Growth = (5b)x(5c)X[2a\{5a}]	40,256	gallons per day
6)	Excessive Unaccounted for Water (EUW)	0	gallons per day
	a) Percentage of Excessive amount		
	b) Total Unaccounted for Water	0	gallons per day
	c) Reasonable Amount (10% of average Daily Flow)	0	gallons per day
	d) Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

$$[(2) + (4) + (5) - (6)] / (1) = 47.75\% \text{ Used \& Useful}$$

Name of Utility Park Water Company Docket No: 050563-WU	Attachment A, Page 3 of 3 Historical Test Year (2004)
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WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA

1)		Capacity of System (ERCs)	959	ERCs
2)		Test Year Connections Average Test Year	873	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	14	ERCs/yr
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	70	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 100\% \text{ Used and Useful}$$

DETERMINATION OF APPROPRIATE RATE STRUCTURES

**HISTORY OF
CURRENT RATE
STRUCTURE AND
CURRENT RATES:**

- (1) The Board of County Commissioners of Polk County adopted a resolution on May 14, 1996, which made the utilities in the county subject to the provisions of Chapter 367, Florida Statutes.
- (2) The utility was required by the Southwest Florida Water Management District (SWFWMD) to implement an inclining-block rate structure in the utility's 1995 rate case processed when the utility was under the jurisdiction of Polk County. As a result of that proceeding, a four-tier inclining-block rate structure was approved for all classes of service. (See Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, In re: Application for rate increase in Polk County by Park Water Company Inc., pp. 18, 20)
- (3) As a result of the utility's most recent rate case, this Commission approved a continuation of the utility's rate structure. (See Order No. PSC-00-1774-PAA-WU, p. 20)
- (4) A Commission-granted price index increase in 2002 brought the rates up to their current levels. The BFC for a 5/8" x 3/4" meter is \$7.06 per month, with corresponding usage blocks for monthly consumption of: a) 0-6 kgals; b) 6.001-12 kgals; c) 12.001-22 kgals; and d) usage in excess of 22 kgals. The BFC for a 2" meter is \$56.51, with corresponding usage blocks for monthly consumption of: a) 0 - 48 kgal; b) 48.001 - 96 kgal; c) 96.001 - 176 kgal; and d) usage in excess of 176 kgal. The usage block rate factors are 1.0, 1.5, 2 and 3, respectively.

**PRIOR ORDERS
AND PRACTICES
WITH THE WATER
MANAGEMENT
DISTRICTS:**

- (5) This Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service. (See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 143-144.) We comply with this guideline whenever possible. (See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pp. 23, 28; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc., p. 27; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82.)

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)		
PRIOR ORDERS AND PRACTICES WITH THE WATER MANAGEMENT DISTRICTS (cont.):	(6)	The BFC/uniform gallonage charge rate structure had been the Commission's rate structure of choice because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. However, over the past several years, based in large part on requests made by the WMDs, this Commission has been implementing the inclining-block rate structure as its rate structure of choice. (See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, <u>In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.</u> , pp. 31-32; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, <u>In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System)</u> , p. 37; Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, <u>In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.</u> , p. 25; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, <u>In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.</u> , pp. 81-82; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, <u>In re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida</u> , pp. 143-144.)
	(7)	The utility is located in Lake Wales, in both the Highlands Ridge and Southern Water Use Caution Areas. A Water Use Caution Area (WUCA) is defined as an area whose resources will be critically short within the next 20 years. A stated goal of the District's Southern WUCA Recovery Strategy is to restore minimum levels to priority lakes in the Lake Wales Ridge.
THEORY BEHIND INCLINING-BLOCK RATE STRUCTURES:	(8)	The goal of the inclining block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block.
CURRENT GENERAL AND MULTI-RESIDENTIAL SERVICE RATE STRUCTURES:	(9)	As stated previously, the inclining-block rate structure currently applies not only to the utility's residential class, but to the general service and multi-residential classes as well.
	(10)	The application of an inclining-block rate structure to general service and multi-residential service classes raises equity concerns because a greater proportion of the usage for some customers will be more nondiscretionary in nature when compared to other customers. Without an evaluation of discretionary versus nondiscretionary usage, rates from the higher usage blocks may increase costs for some nondiscretionary usage due to the total level of water consumption. Second, unlike residential customers, general service customers tend to be more heterogeneous in nature. The application of an inclining-block rate structure without considering the difference in customers' usage patterns is inappropriate.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)		
CURRENT GENERAL AND MULTI-RESIDENTIAL SERVICE RATE STRUCTURES (cont):	(11)	General service customers are typically businesses, and an increase in water charges represents an increase in the cost of doing business. If general service consumption is such that those customers cannot respond to price increases, the higher costs will simply be passed on to their customers. To the extent the customers of the affected businesses represent residential customers within the service area, this means that those residential customers will pay the inclining-block rates twice: once explicitly through the customer's own water rates, and again implicitly because of the increased cost of business that has been passed on to them.
	(12)	In the instant case, the usage blocks for the general service 2" meter do not appear to have been developed based on a composite evaluation of the usage distributions for those customers. Instead, the usage blocks appear to have been set based on merely factoring up of the number of gallons captured in the residential usage blocks by a factor of eight (which is the meter equivalency factor of a 2" meter compared to a 5/8" x 3/4" meter). Specifically, the upper limit of each residential usage block of 6 kgal, 12 kgal and 22 kgal was multiplied by eight to arrive at the usage blocks for the general service and multi-residential 2" meters of: a) 0 – 48 kgal; b) 48.001 – 96 kgal; c) 96.001 – 176 kgal; and d) usage in excess of 176 kgal.
	(13)	The 5/8" x 3/4" meters associated with the utility's multi-residential service are charged 80% of the normal tariffed rate for a 5/8" x 3/4" meter. Charging each unit only 80% of the normal BFC (or charging the equivalent of 0.8 ERC) is typically found when <u>each</u> unit of a multi-unit building being served is individually metered. However, based on the staff engineer's site visit, each of the three 5/8" x 3/4" meters associated with multi-residential service serves as a small master meter to multi-unit housing. Therefore, we believe it is inappropriate to continue the discounted rate for 5/8" x 3/4" multi-residential meters.
	(14)	Based on the foregoing, the current inclining-block rate structures for the general and multi-residential service classes shall be replaced with the traditional BFC/uniform gallonage charge rate structure. The 5/8" x 3/4" meters associated with the utility's multi-residential class shall be charged based on the rate of one full ERC.
RESIDENTIAL CLASS RATE STRUCTURE – DESIGN OF INCLINING BLOCKS	(15)	There are several factors to consider when designing inclining block rates for residential service, including, but not limited to, selection of the appropriate: a) BFC cost recovery percentage and the required conservation adjustment; b) usage blocks; and c) usage block rate factors.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)		
RESIDENTIAL CLASS RATE STRUCTURE -- BFC COST RECOVERY, USAGE BLOCKS AND RATE FACTORS:	(16)	Before application of the Phase I revenue increase, approximately 61% of the utility's residential bills and corresponding kgal are captured at 5 kgal or less. The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. Therefore, an important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less. (See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, <u>In Re: Application for rate increase in Martin County by Hobe Sound Water Company</u> , p. 12; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, <u>In Re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.</u> , p. 83; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, <u>In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida</u> , pp. 143-144.)
	(17)	An analysis of the utility's residential billing data was performed in order to select the usage blocks for the appropriate rate structure. A summary of this analysis is shown in the table below:

TABLE 1

ANALYSIS OF CURRENT vs. APPROVED USAGE BLOCKS: RESIDENTIAL CLASS					
CURRENT RATE STRUCTURE			APPROVED RATE STRUCTURE		
Usage Block	Cumulative Percentages Captured		Usage Block	Cumulative Percentages Captured	
	Bills	Consolidated Factor		Bills	Consolidated Factor
0 – 6 kgal	70%	67%	0 – 5 kgal	61%	61%
6.001 – 12 kgal	92%	87%	5.001 – 10 kgal	88%	83%
12.001 – 22 kgal	98%	95%	10.001 – 15 kgal	95%	91%
22+ kgal	Remaining 2%	Remaining 5%	15+ kgal	Remaining 5%	Remaining 9%

Source: Park Water Company, MFR Schedules E-2 and E-14.

	(18)	We believe the utility's current residential rate structure is flawed because a greater percentage of bills and consumption should be available to be targeted by increasingly higher rates. For example, the first usage block currently captures 70% of residential bills and 67% of the corresponding consumption. This does not allow for sufficient bills and consumption to be targeted with more aggressive rates. Therefore, the first usage block shall be set for monthly consumption of 0 – 5 kgal.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

**RESIDENTIAL
CLASS RATE
STRUCTURE –
BFC COST
RECOVERY,
USAGE BLOCKS
AND RATE
FACTORS (cont.):**

(19) Currently, the last block of the utility's rate structure targets the highest 2% of bills and 5% of consumption. We believe a more conservation-oriented, yet reasonable, goal in this case is to use the last block to capture the highest 10% of consumption. By setting the last usage block for monthly consumption in excess of 15 kgal and the remaining two usage blocks at a) 5.001 kgal to 10 kgal and b) 10.001 to 15 kgal, we believe those blocks target reasonable percentages of bills and consumption with rates greater than those in the first usage block.

(20) An analyses regarding the appropriate BFC cost recovery percentage and usage block rate factors was also performed. Based on an analysis of BFC cost recovery percentages of 40%, 35% and 30%, we find that the BFC cost recovery percentage of 30% is appropriate.

The current factors for the four usage blocks are 1.0, 1.5, 2.0 and 3.0, respectively. After analyzing numerous sets of factors, we find that the appropriate rate factors for the four usage blocks in this case are 1.0, 1.25, 1.5 and 1.75.

No change in rate structure shall be made from Phase I to Phase II.

(21) The Phase II increase is associated with the replacement of the utility's water lines. Because this increase benefits all customers regardless of consumption, the Phase II rate structure shall be such that all classes of service and consumption levels receive relatively equivalent percentage price increases. This is the case when the Phase I residential rate structure is also implemented in Phase II.

**COMMISSION
APPROVED RATE
STRUCTURE:**

Based on the foregoing, the traditional BFC/uniform gallonage charge rate structure is appropriate for both the general service and multi-residential service classes. The 5/8" x 3/4" meters associated with the utility's multi-residential class shall be charged based on the rate of one full ERC.

The appropriate usage blocks for the residential class are for monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The corresponding usage block rate factors are 1.0, 1.25, 1.5 and 1.75.

The post-repression BFC cost recovery percentage shall be 30%.

PARK WATER COMPANY
 HISTORICAL TEST YEAR ENDED 12/30/04

ATTACHMENT C

REPRESSION ADJUSTMENTS

PHASE I:

Usage Block	Kgals Avg	Average Price			Anticipated Repression	
		Pre- Filing	Prelim Recom	Price Incr %	Percent	Kgals
2.5 - 5	4.176	\$13.03	\$16.19	24.3%	(5.5%)	(696.98)
5 - 6	6.000	\$15.64	\$20.49	31.0%	(7.0%)	(242.86)
6 - 10	8.269	\$20.54	\$26.36	28.3%	(6.4%)	(514.07)
10 - 12	11.403	\$27.31	\$35.19	28.9%	(6.5%)	(129.48)
12 - 15	13.898	\$34.07	\$42.94	26.1%	(5.9%)	(113.87)
15 - 22	18.411	\$47.06	\$58.72	24.8%	(5.6%)	(128.12)
22 +	34.935	\$113.15	\$118.58	4.8%	(1.1%)	(25.67)

Phase I Anticipated Repression: (1,851.04)

PHASE II:

Usage Block	Kgals Avg	Average Price			Anticipated Repression	
		Pre- Filing	Prelim Recom	Price Incr %	Percent	Kgals
2.5 - 5	3.870	\$15.75	\$26.58	68.7%	(15.4%)	(1,865.31)
5 - 6	5.685	\$19.96	\$33.65	68.5%	(15.4%)	(499.59)
6 - 10	7.950	\$25.97	\$43.73	68.4%	(15.4%)	(1,162.37)
10 - 12	11.043	\$34.72	\$58.42	68.3%	(15.4%)	(286.37)
12 - 15	13.466	\$42.42	\$71.36	68.2%	(15.3%)	(280.68)
15 - 22	17.979	\$58.35	\$98.11	68.1%	(15.3%)	(332.86)
22 +	34.795	\$120.74	\$202.87	68.0%	(15.3%)	(360.09)

Phase II Anticipated Repression: (4,787.27)