BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.	DOCKET NO. 060256-SU ORDER NO. PSC-07-0130-SC-SU ISSUED: February 15, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. MCMURRIAN

ORDER INITIATING SHOW CAUSE PROCEEDINGS
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the initiation of show cause proceedings and the statutory four-year rate reduction, the action discussed herein 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.

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I. BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently, UI has ten separate rate case dockets pending before this Commission. These dockets are as follows:

Docket No.	UI Subsidiary
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

This Order addresses Docket No. 060256-SU.

Alafaya Utilities, Inc. (Alafaya or utility) is a Class A utility providing wastewater service to approximately 7,100 wastewater customers and 1,200 reuse customers in Seminole County. Water service is provided in the area by the City of Oviedo. Wastewater rates were last established for this utility in its 2002 rate proceeding.[1]

On May 15, 2006, Alafaya filed the Application for Rate Increase at issue in the instant docket. The utility had deficiencies in the Minimum Filing Requirements (MFRs), which were corrected on August 22, 2006, and, pursuant to Section 367.083, Florida Statutes (F.S.), that date was set as the official date of filing. The utility requested that the application be processed using our Proposed Agency Action (PAA) procedure and also requested interim rates. The test year established for interim and final rates is the 13-month average period ending December 31, 2005. Alafaya requested an annual interim wastewater revenue increase of $617,794 (21.62%) for total annual revenues of $3,475,879. For final rates, the utility requested a revenue increase of $1,284,377 (44.93%) for annual revenues of $4,142,462.

By Order No. PSC-06-0548-PCO-WS, issued June 27, 2006, in this docket, we acknowledged the intervention of the Office of Public Counsel. By Order No. PSC-06-0664-FOF-SU, issued August 7, 2006, we approved an interim revenue requirement of $3,397,156, which represents an increase of $539,070 or 18.86%.

[1] See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

This Order addresses the utility's final requested revenue increase, and the apparent violations of an Order and rules and statute administered by this Commission. We have jurisdiction pursuant to Sections 367.081 and 367.161, F.S.

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (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: 1) the quality of the utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) 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 3-year period shall be considered, along with input from the DEP and health department officials, and consideration of customer comments and complaints.

Our analysis of the overall quality of service provided by the utility is derived from the quality of the utility's wastewater effluent, the operational condition of the utility's plant and facilities, and customer satisfaction. Comments and complaints received by this Commission from customers were reviewed, and the utility's current compliance with DEP's regulations was considered.

A. Quality of the Product

In Seminole County, the wastewater operations and facilities are regulated by the Orlando District office of the DEP. According to the DEP, the utility is up-to-date with all chemical analyses and has met all chemical standards. Therefore, we find that the wastewater effluent quality is satisfactory.

B. Condition of Plant

On December 27, 2002, the utility was sent a warning letter by the DEP due to an unauthorized spill from a broken force main. Alafaya hired a consultant and 700 feet of the PVC pipe were replaced with ductile iron pipe. On January 25, 2006, the utility was sent a notice by the Occupational Safety and Health Administration because there was an alleged hazard from rusty steps, lack of mid-rail on the hand rails, and a rusty cat walk on the digester. The utility is retiring this digester and building two new digesters. The new digesters were scheduled to go on line by December 31, 2006, but the utility now projects that they will go on-line at the end of January 2007. A field investigation for Alafaya was conducted September 25-27, 2006. The wastewater treatment plants were in good working order. The main percolation or evaporation ponds were in good working order and were almost dry. Ten lift stations were checked on September 26, 2006, during the system inspection, and all were working satisfactorily. Mr. Don Taylor, Field Supervisor, explained that the lift stations are checked on Monday, Wednesday and Friday, and the alarms are tested on Wednesday. The wastewater system did not appear to have any deficiencies during the inspections. The utility has a current wastewater operating permit.

In the spring of 2006, DEP notified our staff of the lack of reuse water. The utility has implemented several steps to address this issue. Permitting is complete and the bidding should be completed by the middle of January 2007 for a 1.5 million gallon (MG) ground storage tank with high service pumping. The utility estimates the construction of the storage system will be complete before June 1, 2007. The ground storage tank and high service pumping will help store additional reuse and provide additional pressure. On October 9, 2006, a 20-inch reuse main from the wastewater treatment plant to the Lockwood Boulevard-site went into service. The additional reuse main should improve the pressure. The utility met with the St. Johns River Water Management District (SJRWMD) on November 11, 2006, to clarify permitting issues related to a Consumptive Use Permit. The utility may now apply for a permit to drill wells that can withdraw 500,000 gallon per day (gpd) on an annual average basis, adding to the amount of reuse available. We believe these actions will improve reuse service for the customers, except under extreme dry conditions. Alafaya shall provide quarterly reports on the progress of the construction of the ground storage system and augmentation wells beginning March 31, 2007, and ending December 31, 2007.

While the effluent disposal issue is being addressed by the utility, our staff noted that the curb near some homes appeared to have standing water which could mean that customers in the Live Oak community may be overwatering. The grass growing season is year round in central Florida, and irrigation is needed more in the spring and early fall. Although the reuse usage of the golf course was estimated to be .448 million gallon per day (mgd) on an annual average daily flow (AADF) basis, it is only using .079 mgd AADF, which is significantly less than expected, and yet our staff noted that the golf course's greens, fairways, and rough were green.

While there is no requirement for the utility to provide unlimited reuse, the utility is addressing the lack of reuse water. We believe that the 20-inch reuse main will help with the pressure issue. Also, the new 1.5 MG storage tank will allow the utility to store additional reuse water and the augmentation wells will add capacity. However, all reuse improvements will not be in service during the next spring dry period. Based on the above, we find that the quality of service for the condition of the plant is satisfactory.

C. Customer Satisfaction

The utility provided a copy of its customer complaints during the test year. Not all the customer concerns relate to wastewater service. Many customer concerns were related to billing. Since customers are billed for wastewater based on their water usage, for those complaints, the water meter was reread. The utility had a few electrical and mechanical problems at the lift stations. Some wastewater complaints were due to blocked sewer lines. If the blocked lines were determined to be the utility's responsibility, the utility used one or more methods to fix the blockage including using a video camera to view the sewer line to find the problem and cleaning or replacing the line. The utility also advised the customer that a plumber should be contacted if the problem was determined to be the customer's responsibility.

Our staff also reviewed the Public Service Commission Complaint Tracking System, and noted that the customer complaints on file were related to the lack of reuse. Our staff also received numerous letters from customers in the Live Oak subdivision regarding the utility's lack of reuse service.

A customer meeting was held on November 15, 2006, at 6:00 p.m. at the City Hall in Oviedo, Florida. At the customer meeting, our staff provided an informational sheet that detailed the utility's proposed improvements to the reuse system. A pre-meeting was held with three customers from the Live Oak subdivision. One customer explained the main concern was the lack of professionalism by the utility. He explained the utility had promised to extend the reuse main along County Road 419 to loop the Live Oak reuse system, but the project was not started. The customers further explained that they were having reuse pressure problems, the letter from the utility requesting rotational watering was not helpful, and the utility was not providing information to the customers on reuse improvements. Another customer restated that at times there is no reuse water pressure. The third customer stated that Alafaya should stop adding reuse customers, but did not object to a rate increase if they get good service. He also stated that he wants the utility to extend the reuse line along County Road 419 and wants Alafaya to purchase reuse water from the City of Oviedo (City). The City will be receiving reuse from the City of Orlando's Iron Bridge Wastewater Plant, and it is estimated that the reuse will become available in May, 2007.

Approximately ten customers attended the customer meeting. The Honorable Mayor of the City of Oviedo presented our staff with Resolution No. 1463-06 dated November 13, 2006, opposing the 45% rate increase. The resolution also indicates that the City Council had received numerous complaints regarding the poor quality of reclaimed water service provided to customers. The resolution further indicates that the City of Oviedo is also a customer of Alafaya at many of its municipal facilities. Two of the three customers staff had met at the pre-meeting restated their concerns, and one customer pointed out that the proposed rotational watering plan would work if the customers received water on their appointed watering days. It was stated that most customers now leave the reuse water system on "24/7" in hopes of receiving some reuse water. The Waverly Woods Homeowners President explained they also have problems with the reuse system. Two others customers who live in Live Oak Phase III explained that the reuse problem is more severe there than in Phase II.

<u>Utility Response</u>

According to the utility, the extension of the loop along County Road 419 was delayed due to the delay of the construction of Phases 4 and 5 for Live Oak. The utility now anticipates starting the construction of the County Road 419 extension by February 1, 2007, and the construction is estimated to be completed by June 30, 2007.

With respect to the customer request to the utility to stop adding customers to its reuse system, the utility did not agree to discontinue connection, and does not want to suspend connections to the reuse system. Adding reuse customers will result in the maximum beneficial use of reuse as well as provide adequate disposal capacity as the utility grows. Customers who elect to use potable water for irrigation often do not convert to reuse at a later date resulting in a permanent demand placed on the City's water system.

With respect to reuse service from the City, the utility explained that the City does not have the ability to provide reuse service now and construction will not be completed until the end of the second quarter of 2007. The City agreed to consider providing reuse to the utility if there was capacity available. The City has not developed a wholesale rate, at this time.

Analysis

On the day after the customer meeting, our staff again visited the wastewater plant. Even though it rained heavily the night before, the reuse system had to be turned off at 7 a.m. because the reuse tank was dry. because the customers were watering even though it rained, it appears they have either removed their rain sensors or their rain sensors were not working. The rain sensor is a requirement of the Florida Uniform Building Code. Seminole County is responsible for code violations, according to the SJRWMD. Most of the irrigation systems are less than three years old and should have been installed with rain sensors. It appears that the customers are compounding the problem by watering when it rains.

Insufficient reuse pressure is the result of a lack of reuse and/or a deficiency in the distribution system. During the 2005 test year, it is estimated that each residential customer used about 21,000 gallons of reuse water per month. This amount of reuse should be sufficient for the customers' watering needs. Typically, it takes four wastewater customers to supply one reuse customer. The ratio for Alafaya is six wastewater customers to one reuse customer. In September and November, 2006, during the service area tours through Live Oak, our staff noted many landscapes were green and lush and concluded that they were receiving adequate reuse. Some customers may be receiving more reuse than others.

Metering of Reuse Service

Currently, the residential reuse customers are billed a flat rate. In the original reuse application, a flat rate was approved by Order No. PSC-98-0391-FOF-SU, issued March 16, 1998,[2] to encourage reuse due to limited disposal, but the supply is now overstressed. At the time of its application, Alafaya's method of disposal consisted of two separate disposal sites. The first site consisted of nine percolation ponds, and the second site consisted of spray irrigation on an 18-hole golf course. DEP had limited the capacity of the treatment plant due to inadequate disposal capacity. DEP encourages wastewater utilities to, when possible, discontinue the use of percolation ponds as the primary means of effluent disposal in favor of reuse. The primary objective at the time of the initial request to approve the reuse plan was to encourage future use of reuse by potential customers and assure adequate effluent disposal. The Order noted these objectives, but stated that in the future, should it become necessary to meter reuse to lessen the per customer usage, the Commission believed the utility should reserve the right to meter reuse service with the customer bearing the cost, as would be the case if meters were initially installed. Our staff estimated usage by future reuse customers as 500 gpd at the time of the reuse project approval. This Commission acknowledged that in the future, the utility may not be able to

[2] See Order No. PSC-98-0391-FOF-SU, issued March 16, 1998, In re: Application for approval of reuse project plan in Seminole County by Alafaya Utilities, Inc.

provide sufficient reuse to all customers desiring irrigation service if the participation rate or usage was understated.

In Alafaya's last rate case, the utility was experiencing effluent disposal problems. At that time, there were not enough reuse customers using the reuse service. Our staff, the utility, DEP, and SJRWMD had several discussions concerning possible solutions to the utility's disposal problems. In Order No. PSC-04-0363-PAA-SU,[3] the Commission addressed the effluent disposal problems. Specifically, on page 38, the Order states:

> As previously discussed, the utility has had difficulty in disposing of its treated effluent. One of the options available to the utility is to increase its disposal through increased reuse consumption. This method of disposal is encouraged by both the Water Management District and the DEP. Currently, only 23% of customers who have reuse available to their home have elected to connect to the reuse system.

Further, on the issue of consumption-based reuse rates, on page 39, the Order states the following:

> In Order No. PSC-98-0391-FOF-SU, issued March 16, 1998, in Docket No. 960288-SU, we contemplated eventually moving Alafaya's reuse rate to a consumption-based rate for residential service. It was anticipated that this would be the next step in a maturing reuse system to curb excessive use. At this time, excessive use is not a problem; in fact, the opposite is true. We believe that continuing a flat rate is appropriate in this case to encourage consumption.
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> Order No. PSC-98-0391-FOF-SU also required that the utility specify in its customer application for reuse that if, in the future, service is provided under a metered rate structure, the customer will be responsible for the cost of the meter. We believe that adding a potential meter installation fee to the cost barriers already existing may discourage future connections. As such, we find that this language shall no longer be required on the application for reuse. Currently, the rationale for implementing a consumption-based rate is to encourage conservation. We believe that at the time a consumption-based rate is implemented, the concern will have shifted from barriers to entry to conserving a resource. At that time, we can take up the issue of a meter installation charge for future customers. The cost of meters for existing customers can be considered as a utility investment and recovered through reuse and wastewater rates pursuant to Section 367.0817(3), Florida Statutes.

As previously indicated, the opposite is now occurring. The utility does not have enough reuse product to meet the demand. The utility now has 1,200 existing residential reuse

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[3] See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004,in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

customers. Those customers are now using an estimated 21,000 gallons per month. This is significantly higher than our staff's estimated demand in 1996. To effectively coordinate the state's reuse program, the DEP, the Commission, and the five water management districts formed the Reuse Coordinating Committee in 1992. Today, the Department of Health (DOH), the Department of Community Affairs (DCA), and the Florida Department of Agriculture & Consumer Services (DACS) also sit on the committee. The committee meets regularly to coordinate reuse related activities and to promote communication between the member agencies. In June, 2003, the Reuse Coordinating Committee issued its report entitled "Water Reuse for Florida: Strategies for Effective Use of Reclaimed Water." This report identifies strategies for increasing the efficiency and effectiveness of the use of reclaimed water in Florida, and details 16 major, interrelated strategies. The report states: "Metering of reclaimed water use and implementation of volume-based rates for reclaimed water service are critical to ensuring efficient use of reclaimed water." In fact, the first of the sixteen strategies is to, "Encourage metering and volume-based rate structures." Further, on August 27, 2001, the Chairman of the Commission signed a "Statement of Support for Water Reuse." This statement was further signed by the heads of the agencies participating in the Reuse Coordinating Committee.

Therefore, to correct the allocation inequities, we find that all existing and new reuse customers shall be metered by December 31, 2007. A metered rate will better allocate the reuse water supply. The cost for metering existing customers, approximately $180,000, shall be funded by the utility and the amount shall be capitalized. New customers shall pay for the cost of the meters for new reuse connections.

As mentioned earlier, the utility plans to install augmentation wells, and Alafaya may be able to purchase reuse water from the City beginning in May, 2007. The City will receive 3.0 mgd of reuse, through Seminole County, which is a member of the Iron Bridge system. Seminole County will also receive 3.0 mgd. The cost of the reuse from Iron Bridge to Seminole County is $.44/1,000 gallons, and the cost the City must pay to Seminole County is still not determined. When the City's system is activated, 1,300 metered customers will begin requiring reuse service to be provided to them. During the dry season these customers are expected to use 1.4-1.8 mgd. Initially, it appears that there would be reuse available; however, the City would serve its customers first, then Seminole County's needs would be met, and Alafaya could have the remaining reuse, if there is any available. The City has a 16-inch force main that is approximately 100 to 200 feet away from Alafaya's Waverly Woods system. Alafaya would have to pay for the extension to receive reuse service. However, due to the limited capacity of Alafaya's reuse main in that area, the City of Oviedo did not believe the City's reuse would be that helpful. The City is interested in working with Alafaya because the customers are all residents of the City. Alafaya shall provide quarterly updates beginning March 31, 2007 and ending December 31, 2007 on the progress of the augmentation wells and any discussion on obtaining additional reuse from the City.

The Live Oak subdivision's distribution system consists of 2, 4 and 6-inch distribution lines and currently only has one 6-inch main supplying all the reuse. As mentioned earlier, the utility plans to extend the main on County Road 419 to loop the Live Oak distribution system, and the developer has increased the main in the last two phases from 6-inch to 8-inch mains. According to DEP, Alafaya analyzed its distribution system to evaluate deficiencies in the system. Rule 62-610.469, F.A.C., requires that the distribution system be designed to supply 1.5 times the annual average daily capacity. DEP believes the addition of the storage tank will be more effective, and the Alafaya system analysis indicated that it does not have any distribution problems at this time.

There are no unresolved complaints which were made directly to the utility. After reviewing the complaint files, it appears the utility is providing prompt responses to customers' wastewater concerns. However, based on the customers response, the reuse issue needs more attention by Alafaya. We find that the quality of customers' wastewater service is satisfactory, but the quality of customers' reuse service is marginal. The utility has cooperated with our staff in providing information and has plans for improvements to the reuse system.

Based on all of the above, we find that the utility's overall quality of wastewater service is satisfactory. The reuse service is marginal; although, significant improvements are underway. The utility shall meter all existing and new reuse customers by December 31, 2007, and provide quarterly reports beginning March 31, 2007, and ending December 31, 2007, on the reuse improvements, including the progress on metering, the ground storage system, the augmentation wells, and any steps taken to obtain additional reuse from the City of Oviedo.

III. RATE BASE

A. Audit Adjustments for Rate Base, Net Operating Income (NOI), and Capital Structure

In its response to our staff's audit report, Alafaya agreed to the audit findings and audit adjustment amounts listed below. Therefore, the following adjustments to rate base, net operating income, and capital structure shall be made.

Audit Adjustments to Which Alafaya Agrees

Audit Finding	Plant	Accumulated Depreciation	Depreciation Expense *	Accumulated Amortization CIAC	CIAC Amortization Expense *
Finding No. 1 -- Reflect Prior Order Balance	($6,909)		$6,909		
Finding No. 2 Plant Retirements	($13,219)	$14,221	($683)		
Finding No. 3 -- Transportation Equip. Allocation	($52,098)	$13,027	($8,695)		
Finding No.4 - Correct Depr. & Amort. Expense		($31,396)	$31,396	$29,621	($29,621)
Finding No. 5 -- Correct 13-Month Avg. Balances	($4,523)	($3,347)			
Total Adjustments	($76,749)	($7,495)	$28,927	$29,621	($29,621)

*Net Depreciation Expense is the sum of Depreciation Expense and CIAC Amortization Expense Adjustments: $28,927 + ($29,621) = ($694)

Audit Adjustments to Which Alafaya Agrees

Audit Finding	Working Capital	O & M Expense	Regulatory Assessment Fees	Capital Structure
Finding No. 6				
Rate Case Expense	$66,130			
Uncollectibles	($1,414)			
Accrued Taxes	$75,165			
Finding No. 9				
Remove Litigation Costs		($27,252)		
Finding No. 10				
Attorney Fees:				
Deferred Charges	($218,545)			
Amortization	$163,892			
Adj. Misc. Exp.		($21,852)		
Finding No. 12				
Adj. Taxes Other Than Income			$10,778	
Finding No. 15				
Decrease ST Debt				($119,308)
Increase Equity				$3,093,004
LT Debt Rate Decr.				(.07%)
ST Debt Rate Decr.				(1.48%)
Total Adjustments	$85,228	($49,104)	$10,778	As Noted Above

Based on the above audit adjustments, plant is decreased by $76,749; accumulated depreciation is increased by $7,495; net depreciation expense is decreased by $694; accumulated amortization of contributions in aid of construction (CIAC) is increased by $29,621; working capital is increased by $85,228; operation and maintenance (O&M) expenses are decreased by $49,104; taxes other than income taxes (TOTI) are increased by $10,778; short-term debt is decreased by $119,308; common equity is increased by $3,093,004; the long-term debt cost rate is decreased by 0.07%; and the short-term debt cost rate is decreased by 1.48%.

B. Allocation of Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) Rate Base

Alafaya did not reflect a WSC rate base allocation in its MFRs but did reflect $19,602 of its UIF rate base allocation. Our staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Alafaya and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. As discussed below, we find several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

1. Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS.[4] First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, we find that the appropriate simple average WSC rate base before any allocation is $2,122,628. Further, there was no audit finding in the AT audit regarding UIF's rate base. Thus, we shall use the appropriate simple average UIF rate base before any allocation of $1,113,433, as reflected in UIF's general ledger.

2. ERC Methodology

WSC utilizes eleven different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, this Commission found that that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, we found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) If the customer is an availability customer only, the customer is counted as one-half; (3) If the water company is a distribution company only, the customer is counted as one-half; and (4) If the wastewater company is a collection company only, the customer is counted as one-half." We find that these additional four factors unnecessarily complicate the allocation process, versus the use of an ERC-only methodology. With this additional methodology, WSC's ERC count will not conform to the ERC count in each Florida subsidiaries' annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by this Commission to set rates for water and wastewater utilities. Accordingly, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five.

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[4] 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.

3. Conclusion

Based on the above, the appropriate WSC net rate base allocation for Alafaya is $56,853, which represents an increase of $56,853. WSC depreciation expense shall also be increased by $9,213. Further, the appropriate UIF rate base allocation for Alafaya is $70,910. This represents plant and accumulated depreciation increases of $81,966 and $25,629, respectively. In addition, depreciation expense shall be decreased by $5,430.

C. Pro Forma Plant Additions

According to its MFRs, Alafaya reflected pro forma additions of $2,267,717. The utility reflected two types of pro forma plant additions which are Work Orders and General Ledger Additions. According to data request responses, the 1.5 MG Reuse Ground Storage Tank and the Digester for Wastewater Treatment Plant (WWTP) were scheduled to be completed on June 1, 2007, and December 31, 2006, respectively. However, the utility now projects the digester will go on-line at the end of January 2007. All the other pro forma plant additions have been completed and placed in service in 2006. Based upon review of the supporting documentation and the prudence of these pro forma plant additions, we find several adjustments are necessary as discussed below. Further, we will discuss the inclusion of reuse meter installation costs in rate base.

1. Work Orders Additions

The Work Orders plant additions include: (1) 1.5 MG Reuse Ground Storage Tank; (2) Force Main Improvements; (3) 20" Reuse Main from the WWTP to Lockwood; (4) Digester for the WWTP; and (5) Retirement of Digester for the WWTP. In its response to our staff's First Data Request, the utility asserted that the reuse storage tank would provide additional reuse supply to meet customer demand during peak flow periods and for customer growth. Alafaya also stated that the Force Main Improvements addition was necessary to prevent pipe failures within the existing force main between the Pine Brook lift station and the connection point to a force main manifold at Lockwood Boulevard. Further, the utility asserted that the 20" Reuse Main from the WWTP to the Lockwood addition would allow the transmission of reuse water to the residential and commercial customers to be received more efficiently. Last, Alafaya stated that the Digester for the WWTP addition would replace the old digester constructed of steel with a new fiberglass coated steel which would be sized to treat residuals to class B standards and reduce residual hauling costs.

Section 367.081(2)(a)2., F.S., states that " . . . 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 . . . ." All of the Work Orders plant additions have been or will be completed within the 24-month timeframe mentioned above. However, as discussed below, we have several adjustments to the Work Orders Additions.

First, the MFR amount for the 1.5 MG Reuse Ground Storage Tank relates to only the design, engineering, and permitting for the proposed reuse tank. Initially, in support of this project, Alafaya provided an unsigned cost proposal dated August 1, 2005, in the amount of $65,750 for engineering and permitting, and in the amount of $1,250,000 for probable construction costs. The utility later provided two invoices totaling $66,250 for the engineering and permitting costs. Subsequently, our staff requested an executed contract or other support documentation for the reuse storage tank construction costs, but the utility did not provide any such support documentation.

Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities are required to follow the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA). The NARUC USOA requires that any expenditures which are identified exclusively with plant not yet in service shall be included in the Account No. 105, Construction Work in Progress (CWIP). As such, the MFR amount for the 1.5 MG Reuse Ground Storage Tank represents CWIP and is accruing AFUDC. By Order No. PSC-04-0262-PAA-WS,[5] Alafaya was granted a 9.03% Allowance for Funds Used During Construction (AFUDC) rate. It is our practice to disallow the inclusion of CWIP in rate base if the plant project is accruing AFUDC.[6] Therefore, this project shall be recorded as CWIP until the reuse ground storage tank is placed into service. Thus, the 1.5 MG Reuse Ground Storage Tank addition shall be removed from rate base for this rate proceeding. However, in determining the appropriate service availability charges for Alafaya as discussed in later in this Order, we have utilized the $66,250 actual costs plus accrued AFUDC for engineering and permitting of the reuse tank, and the estimated $1,250,000 for the reuse tank construction costs.

Second, based on support documentation provided by the utility, our staff calculated a total cost of $85,760 for the Force Main Improvements addition. As such, plant shall be reduced by $71,260 ($157,020 MFR amount less $85,760). Correspondingly, accumulated depreciation and depreciation expense both shall be decreased by $2,370.

Third, Section 367.0817(3), F.S., states: "All prudent costs of a reuse project shall be recovered in rates." Based on documentation by Alafaya, the utility has supported a total cost of $642,913 for the 20" Reuse Main from the WWTP to the Lockwood addition. Thus, plant shall be reduced by $181,966 ($824,878 MFR amount less $642,913). Correspondingly, accumulated depreciation and depreciation expense both shall be decreased by $4,269. Further, according to project notes on the utility's approved "Capital Project Request" for the project, Alafaya stated the following: "4/20/06 – We are in receipt of an agreement from SJRWMD stating that the District will fund 20% of the overall project cost in 2006. This equals $140,000." Based on the SJRWMD's website and a discussion with the SJRWMD project manager for this 20" Reuse

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[5] Issued March 8, 2004, in Docket No. 031006-WS, In re: Petition by Utilities, Inc. for approval of allowance for funds used during construction (AFUDC) rate for its Florida subsidiaries including Water Service Corp.

[6] See Order No. PSC-06-0670-FOF-WS, p. 3, issued August 7, 2006, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. Pennbrooke.; and Order No. PSC-97-1505-FOF-EI, p. 2, issued November 25, 1997, in Docket No. 971227-EI, In re: Investigation into 1996 earnings of Florida Public Utilities Company – Fernandina Beach Division.

Main project, the utility will receive between $100,000 to $140,000. Using Alafaya's 20% match funding statement, SJRWMD should fund approximately $128,582 for this project. The utility's MFRs do not include any pro forma CIAC adjustment for this project. Thus, CIAC shall be increased by $128,582. Correspondingly, accumulated amortization of CIAC and CIAC amortization expense both shall be increased by $2,990.

Fourth, in its MFRs, Alafaya reflected $1,827,123 for the Digester for the WWTP project and $663,243 for the Retirement of the Digester for the WWTP. Netting the retirement, the utility is requesting a pro forma plant increase of $1,163,880. Alafaya provided an executed contract in the amount of $1,495,612. The utility's retirement policy is to utilize the Handy-Whitman Index Factor when only the original date in-service is known. With a 1980 in-service date and a Handy-Whitman Index Factor of 36.75%, Alafaya originally estimated the retirement cost to be $663,243. We approved this retirement policy in the utility's last rate case. See Order No. 04-0363-PAA-SU, p. 11. Using the 36.75% retirement factor and the executed contract amount of $1,495,612 for the new digester, we find the appropriate retirement is $549,637. Netting the retirement, we calculate a pro forma plant of $945,975 ($1,495,612 less $549,637). Therefore, plant shall be decreased by $217,905 ($1,163,880 less $945,975). Correspondingly, accumulated depreciation shall be increased by $95,107 and depreciation expense shall be decreased by $12,158.

2. General Ledger Additions

The General Ledger Additions totaled $56,939 and include the following accounts:

General Ledger Additions	Amount
Organization	$1,944
Franchises	1,081
Lift Station	8,172
Sewage Service Lines	1,582
Force or Vacuum Mains	1,083
Sewer Mains	4,522
Reuse Services	4,330
Sewage Treatment Plant	24,683
Tools, Shop, & Misc Equipment	2,690
Communication Equipment	162
Sewer Plant	6,690
Total	$56,939

Based on the MFR dollar amounts and the documentation provided by the utility, it appears that these additions are normal recurring plant additions. If normal recurring plant additions were allowed, CIAC and accumulated amortization of CIAC should also be projected forward another year due to the expected growth, as well as billing determinants and expenses. This would have the effect of changing the approved 2005 historical test year to a projected test year. Because of the utility's assertion in its test year request letter that the 2005 historical test period is representative of a full year of operation and the expected growth for the utility, these normal recurring plant additions shall be removed from plant.

3. Reuse Meters

As discussed in the Quality of Service and Service Availability Charges sections of this Order, we have determined that all existing and new reuse customers shall be metered to correct usage inequities among the customers. Based on information provided by the utility, there currently is approximately 1,200 customers that would need to be retrofitted with meters at a cost of $150 per meter installation. Section 367.0817(3), F.S., states: "All prudent costs of a reuse project shall be recovered in rates." Because we are approving a meter installation charge of $150 for future reuse connections, plant shall be increased by $180,000 (1,200 meter installations multiplied by $150). Corresponding adjustments shall be made to increase both accumulated depreciation and depreciation expense by $9,000.

4. Summary of Pro Forma Additions

The following tables illustrate our pro forma adjustments.

Pro Forma Plant	Per MFR	Per Commission	Difference
Reuse Ground Storage Tank	$65,000	$0	($65,000)
Force Main Improvements	157,020	85,760	(71,260)
20" Reuse Main	824,878	642,912	(181,966)
Replacement Digester (Net of Retirement)	1,163,880	945,975	(217,905)
Organization	1,944	0	(1,944)
Franchises	1,081	0	(1,081)
Lift Station	8,172	0	(8,172)
Sewage Service Lines	1,582	0	(1,582)
Force or Vacuum Mains	1,083	0	(1,083)
Sewer Mains	4,522	0	(4,522)
Reuse Services	4,330	0	(4,330)
Sewage Treatment Plant	24,683	0	(24,683)
Tools, Shop, & Misc Equipment	2,690	0	(2,690)
Communication Equipment	162	0	(162)
Sewer Plant	6,690	0	(6,690)
Reuse Meters	0	180,000	180,000
Total	$2,267,717	$1,854,647	$413,070
Accumulated Depreciation	$533,163	$439,738	$93,425
Depreciation Expense	$93,204	$79,364	($13,840)

Pro Forma Plant	Per MFR	Per Commission	Difference
CIAC Funds From SJRWMD	$0	$128,582	$128,582
Accumulated Amortization of CIAC	$0	$2,990	$2,990
CIAC Amortization Expense	$0	$2,990	$2,990

Based on the above, plant shall be decreased by $413,070, and accumulated depreciation shall be increased by $93,425. In addition, CIAC and accumulated amortization of CIAC shall be increased by $128,582 and $2,990, respectively. Further, net depreciation expense shall be decreased by $16,830 ($13,840 plus $2,990).

D. Used and Useful Percentages

In its MFRs, the utility reflected a non-used and useful rate base component of $75,568, non-U&U depreciation expense of $16,169, and no adjustments for property taxes. Rule 25-30.432, F.A.C., provides the criteria to be used in calculating used and useful for a wastewater treatment plant. In addition, Section 367.0817(3), F.S., provides that all prudent costs of a reuse project shall be recovered in rates.

On September 19, 2005, Alafaya's wastewater operating permit was revised by DEP to increase the capacity of the facility to 1.535 million gallons per day (mgd) average annual daily flow (AADF). The permitted public access reclaimed water permit was increased to .75 mgd AADF. The wastewater treatment plant consists of two 1.2 mgd AADF extended aeration treatment plants (total design capacity 2.4 mgd) operating in parallel with three common influent surge tanks with manual screening and grit removal, aeration, secondary clarification, chemical feed facilities, filtration and chlorination. The effluent either goes to the 1.0 mgd cloth filter and chlorination system for public reuse or the effluent is chlorinated and sent to the percolation/evaporation ponds. Facilities also include turbidity/chlorine residual sensors and electronic diversion valves, chemical feed facilities, a 1.5 million gallon ground storage tank with high service pumping, pump back capability to the head of the plant for retreatment, and aerobic digestion of residuals.

In its application, the utility asserts the wastewater treatment plant (accounts 371.0 Pumping Equipment, 355.0 Power Generation Equipment, 380.4 Treatment and Disposal, and 382.4 Outfall Sewer Lines) is 94% used and useful. The utility based its used and useful determination on its DEP permitted capacity of 1.535 mgd. The utility asserts that the wastewater collection system in each development is constructed and contributed by the developer; therefore, a used and useful analysis is not necessary and the collection system shall be considered 100% U&U. All reuse, intangible, and general plant is considered 100% U&U.

Rule 25-30.432, F.A.C., provides that the used and useful determination for a wastewater treatment plant shall be based on, among other things, the DEP permitted capacity, the wastewater flows (using the same basis as the permitted capacity), an allowance for growth, infiltration and inflow, and whether the permitted capacity differs from the design capacity.

Although the design capacity of the utility's wastewater treatment plant is 2.4 mgd AADF, the DEP permitted capacity is 1.535 mgd AADF due to concerns of disposal, and as a result of DEP's redundancy requirement, pursuant to DEP Rule 62-610, F.A.C., and the Environmental Protection Agency (EPA) Reliability Class I requirements for a utility that disposes of its effluent through public access irrigation. In addition, there is limited space at the plant site and adding capacity in smaller steps would have required modifications to the existing system, such as modifying piping and relocating the surge tanks and digesters. Therefore, because of the DEP redundancy requirement and the limited disposal capacity, the permitted capacity of 1.535 mgd shall be the basis for determining the portion of the wastewater treatment plant that is used and useful, which is consistent with the utility's last rate case.[7]

According to the utility, approximately 58% of the water sold to its residential and general service customers was returned to the wastewater system. This information is based on the billing analysis and assumes 56% of the water purchased by the residential customers (406,111,700 gallons) was returned as wastewater and 96% of the water purchased by the commercial customers (31,680,000 gallons) was returned as wastewater. The total estimated water returned as wastewater (437,791,700 gallons) was then compared to the treated wastewater (443,941,000 gallons). Based on this analysis, infiltration/inflow does not appear to be a problem in the Alafaya wastewater collection system, and, therefore, an infiltration/inflow adjustment is not appropriate.

Based on the AADF of 1,216,277 gpd, plus a growth allowance of 232,602 gpd, compared to the capacity of the system of 1,535,000 gpd, we calculate the used and useful percentage for the wastewater treatment plant to be 94%. (See Attachment A) Consistent with the utility's last proceeding, the U&U adjustment shall be made to Accounts Nos. 371.3 Pumping Equipment, 355.0 Power Generation Equipment, 380.4 Treatment and Disposal, and 382.4 Outfall Sewer Lines. Further, as explained below, we find that a U&U adjustment shall be made to Account No. 354.7, Structures and Improvements under General Plant.

Pursuant to Order No. PSC-04-0363-PAA-SU, p. 51, the utility had $4,899,161 in Account No. 380, Treatment and Disposal Equipment, excluding any pro forma plant adjustments. According to Order No. PSC-04-0363-PAA-SU, p. 24, Alafaya had $1,526,628 of reuse plant investment recorded in Account No. 380 which was considered 100% used and useful. However, the remaining amount of $3,372,533 ($4,899,161 less $1,526,628) was considered 75.60% used and useful. In Alafaya's 2005 Annual Report, the utility made numerous plant reclassifications which included a $4,916,358 reduction to Account No. 380, which left a balance of $815,896. According to the Annual Report Schedules S-4 (a) & (b), it appears most of the $4,916,358 amount was reclassified to Account No. 354.2, Structures and Improvements under Collection Plant. However, on MFR Schedule A-6, it appears that all of the $4,916,358 amount was reclassified to Account No. 354.7, Structures and Improvements under General Plant.

[7] See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

This transfer has the effect of decreasing the 13-month average balance in Account No. 380, while increasing the 13-month average balance in Account No. 354.7. In some situations, a transfer of this type would have no effect on rate base. However, because no U&U adjustment was made to Account No. 354.7, the transfer from Account 380 to Account 354 in December 2005 had the effect of increasing rate base and the revenue requirement.

In a data request, our staff asked Alafaya to provide a breakdown, by primary account, of all plant reclassifications in 2005 that were associated with the $4,916,358 reduction to Account No. 380, and provide a detailed explanation for why each reclassification was needed. In its response, the utility stated that the reclassification was made in December 2005, based on a good faith estimate of UI's Regional Director of its Florida Operations interpretation of what these accounts should include. Based on the information provided by the utility, we find that Alafaya has not justified this transfer. Therefore, the same 6% non-U&U percentage shall be applied to Account No. 354.7, excluding all reuse plant and allocated UIF plant. Moreover, because this entry was made in December 2005, there should be no material impacts on accumulated depreciation and depreciation expense.

The reuse system shall be considered 100% U&U pursuant to Section 367.0817(3), F.S. Because the collection system is virtually all donated property, a used and useful analysis is not necessary for the collection system, and shall be considered 100% U&U.

Based on the analysis above, Alafaya's wastewater treatment plant is 94% U&U, the collection system is 100% U&U, and the reuse system is 100% U&U. Accordingly, the appropriate non-U&U rate base component, depreciation expense, and property taxes shall be $214,812, $9,300, and $4,738, respectively. Accordingly, rate base and property taxes shall be decreased by $139,244 and $4,738, respectively, and depreciation expense shall be increased by $6,869.

E. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. According to its filing, Alafaya utilized the balance sheet approach and calculated a working capital allowance of $309,962. However, as discussed below, we find that several adjustments to the utility's working capital balance are necessary.

As discussed earlier in this Order, working capital was increased by $139,881 to reflect the correct 13-month average balances for the accumulated provision – uncollectible, deferred rate case expense, and accrued taxes and decreased by $54,653 to remove past costs for litigation with the City of Oviedo. Later in this Order, we have determined that the appropriate annual amortization for tank and equipment painting is $5,500 ($27,500 divided by 5 years), with a 13-month average unamortized balance of $24,750. Because the utility did not include any unamortized balance for this project, working capital shall be increased by $24,750.

Also, later in this Order, we are approving a total rate case expense of $111,961. It is our practice to include the average unamortized balance of the total allowed rate case expense.[8] In its MFRs, Alafaya did not reflect any unamortized rate case expense balance for this docket. Therefore, working capital shall be increased by the 13-month unamortized balance of $97,966.

Based on the above, we calculate the appropriate working capital allowance to be $517,906 ($309,962 plus $139,881 less $54,653 plus $24,750 plus $97,966). As such, working capital shall be increased by $207,944 ($517,906 less $309,962).

F. Rate Base

Consistent with our previous adjustments, and the accumulated deferred income taxes adjustment to include $116,251 in rate base as discussed below, the appropriate 13-month average rate base for the test year ending December 31, 2005, is $8,739,878. Our calculation of rate base is shown on Schedule 1-A, with the adjustments shown on Schedule 1-B.

IV. COST OF CAPITAL

A. Return on Common Equity

The return on equity (ROE) included in the utility's filing is 11.78%. This return is based on the application of the leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 39.95%.[9]

Pursuant to Audit Finding No. 15, we adjusted Utilities, Inc.'s average common equity balance of $91,510,699 upward by $3,093,004 to $94,603,703. Per its response to the Audit Report, the utility is in agreement with the audit finding. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 39.95% to 40.77%. Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.77%, the appropriate ROE is 11.46%,[10] with an allowed range of plus or minus 100 basis points.

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[8] See Order No. PSC-01-0326-FOF-SU, p. 40, issued February 6, 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. and Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System).

[9] See Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

[10] See 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 Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

B. Deferred Taxes

In Audit Finding No. 16, staff auditors noted that the utility did not record its deferred income taxes on a monthly basis, as required by Instruction No. 4, NARUC Uniform System of Accounts. The auditors further noted that the average balance for deferred tax presented on Schedule D-1 of the MFRs was a credit of $20,833, while the year-end balance was a debit of $143,632. The latter balance is reflected as a debit balance in MFR Schedule A-19, and in the utility's 2005 Annual Report. The auditors recalculated the utility's average deferred tax balance before other adjustments as a debit of $77,016, requiring a debit adjustment of $97,949. The auditors also believe that the utility overstated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by $12,524. Finally, the auditors believe that deferred taxes for intangible plant were overstated by $1,926 for state tax purposes and understated by $53,585 for federal tax purposes. The net of these adjustments would result in a debit deferred tax balance of $116,251.

In its response to the audit report, Alafaya agrees with these findings with the exception of the recalculation of average deferred tax before other adjustments. The utility states that it was not able to follow the calculations (debits and credits) performed by the auditors, and presented its own proposed adjustment, resulting in a credit balance of $116,251. The utility did not provide any rationale for its proposed adjustment. We find that the auditors' analysis, which is based on amounts that can be tied to Alafaya's annual report and general ledger, is reasonable. Accordingly, deferred taxes shall be adjusted by a debit of $137,084, the net of the auditors' recommended adjustments. The resulting debit balance of $116,251 shall be removed from the utility's capital structure calculation and be included as a line item in the calculation of rate base, pursuant to Rule 25-30.433(3), F.A.C.

C. Weighted Average Cost of Capital

We have taken the test year per book amounts directly from Alafaya's MFR filing Schedule D-2, and made specific adjustments to three components in the utility's proposed capital structure. As noted in Audit Finding No. 15, we increased Utilities, Inc.'s average common equity balance by $3,093,004. In addition, based on our staff auditors recommendation, we have decreased the balance of short-term debt by $119,308. Finally, we have made an adjustment of $20,833 to remove deferred taxes from the capital structure.

Further, we have revised the respective cost rates proposed by the utility. As stated above, the appropriate cost rate for common equity is 11.46%. Also, pursuant to its response to the Audit Report, the utility is in agreement with Audit Finding No. 15 regarding reductions to the cost rates for long-term and short-term debt. We agree with our auditors and the utility, and find that the long-term debt cost rate shall be reduced from the utility proposed rate of 6.65% to 6.58%, and the short-term cost rate shall be reduced from the utility proposed rate of 6.62% to 5.14%.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we calculate the weighted average cost of capital to be 8.51%, as opposed to the utility's filing of 8.64%. Our calculation of the weighted average cost of capital is shown on Schedule No. 2.

V. NET OPERATING INCOME

A. Pro Forma Miscellaneous Service Charges Revenues

In its filing, Alafaya reflected miscellaneous service revenue charges of $8,963. As discussed below, we are approving $21 for initial connections, normal reconnections, and premises visits during normal hours, which represents an increase of $6 for the initial connections and normal reconnections and an increase of $11 for the premises visits. In its response to our staff's Fourth Data Request, the utility stated that, during normal hours throughout the 2005 test year, it had 261 initial connections, 59 normal reconnections, and 18 premise visits. Using the incremental increase from the approved charges and the historical connections, reconnections, and premise visits, additional miscellaneous service revenues of $2,118 shall be imputed. Accordingly, RAFs shall also be increased by $95.

B. Pro Forma Reuse Revenues

On MFR Schedule E-2, Alafaya reflected annualized revenues of $67,664 from its reuse flat fee, $52,812 from its reuse availability fee, and $7,766 from its general service reuse gallonage charge. There were approximately 814 reuse customers in the 2005 historical test year. As stated earlier, there are currently 1,200 reuse customers that need to be retrofitted with meters. As discussed later in this Order, the flat fee is to be replaced with a base facility charge (BFC) and gallonage charge rate structure, and the General Service gallonage charge is to be increased from $0.29 to $0.60 per 1,000 gallons. Using the historical annual usage of 210,904,000 (does not include General Service use), the current 1,200 reuse customers, and the newly approved BFC and gallonage charge, reuse revenues shall be increased by $67,148. Using the 26,782,000 historical general service reuse usage, and the new charge of $0.60 per 1,000 gallons, reuse revenues shall be increased by an additional $8,302. However, because we are removing the utility's current reuse availability fee, test year reuse availability fee revenues of $52,812 shall be removed. Based on the above, test year reuse revenues shall be increased by $22,638 ($67,148 plus $8,302 less $52,812). Accordingly, RAFs shall be increased by $1,019.

C. Allocation of WSC and UIF Expenses

In its MFRs, the utility reflected total WSC allocated O&M expenses of $190,894 and taxes other than income of $9,758. Alafaya also recorded total UIF allocated O&M expenses of $16,835. As discussed below, adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include the approved audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS.[11] The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors, officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, we find that the appropriate WSC expenses, before any allocation, are $7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, the appropriate UIF O&M expenses before any allocation are $266,650.

As approved earlier in this Order, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Alafaya are $153,841 and $7,297, respectively. As such, O&M expenses and taxes other than income shall be decreased by $37,053 and $2,461, respectively. Further, the appropriate UIF O&M expenses for Alafaya is $12,885, which results in an O&M expense reduction of $3,950.

D. Pro Forma Salaries and Wages, Pensions and Benefits, and Payroll Taxes

On MFR Schedule B-6, Alafaya reflected historical salaries and wages and pensions and benefits of $422,610 and $97,117, respectively. On MFR Schedule B-15, Alafaya reflected historical payroll taxes of $35,657. On MFR Schedule B-3, the utility requested pro forma increases in salaries and wages, pensions and benefits, and payroll taxes of $31,400, $10,711, and $5,997, respectively. The pro forma salaries and wages represent an increase of 7.43%, and the pro forma pensions and benefits represent an increase of 11.03%.

In our staff's First Data Request, the utility was asked to explain why its pro forma salaries & wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In our staff's Fifth Data Request in this docket, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to 2006, while the total average salaries from 2005 to 2006 increased

[11] Issued December 22, 2003, p. 82-84, In Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

$74,616. However, the total requested pro forma salary increases in UI's current docketed rate cases in Florida is $332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be $105,776.

From the information provided by UI there was a net decrease of employees, and the respective pro forma salary increases in the UI docketed cases cannot be attributed to the 2006 employee changes. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). We find that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 affect the respective rate cases.

With the exception of Sandalhaven (a negative pro forma salary adjustment of $573),[12] we find the requested pro forma salary increases in UI's other respective rate cases are excessive. We note the historical 5-year average salary increase of 4.51% is 177 basis points above the Commission's 2006 Price Index of 2.74%. With the exception of Sandalhaven, the pro forma salary increases in all of UI's respective cases shall be limited to the 4.51% above the 2005 historical salary amounts. We have previously limited pro forma salaries adjustments to a utility's historical average salary increases.[13] Thus, Alafaya's salaries and wages shall be decreased by $12,344. Based on this reduction, pensions and benefits shall be reduced by $6,332, and payroll taxes shall be reduced by $4,389.

E. Sludge Removal Expense

On MFR Schedule B-6, Alafaya reflects an historical sludge removal expense amount of $535,834. In response to our staff's Fifth Data Request, the utility stated that the sludge removal expense should decrease by $300,000 because of the unit disposal cost decreasing from $0.12 to $0.065 and the installation of the new digester will result in a higher concentration sludge which in turn reduces the annual sludge hauling volume. Based on the above, sludge removal expense shall be decreased by $300,000.

F. Other O&M Expense Adjustments

On MFR Schedule B-6, Alafaya reflects $127,284 for Rental of Building/Real Property. The utility also reflects $50,744 for Insurance – Other. As discussed below, these expenses shall be decreased.

First, in the audit workpapers, the staff auditors provided a copy of the land lease related to the $127,284 amount for Rental of Building/Real Property. The lease, dated May 1, 1985, is

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[12] Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

[13] By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

for the rental of 65 acres. Initially, the utility was required to pay $16,250 per quarter, which totaled $65,000 on an annual basis. Beginning November 1, 1988 and for every successive five-year period, the lease called for an inflation adjustment to annual payment amount. Specifically, the inflation provision calls for the utilization of the Consumer Price Index – All Urban Consumers for U.S. city average, all items, and the base period 1967 = 100. The inflation factor equals the Consumers Price Index (CPI) in the month prior to the expiration of each five-year period divided by the CPI on the month of the lease's commencement date. The following table illustrates our calculation of the annual successive five-year period amounts since November 1, 1988.

Calculations of CPI Increases for Rental of Building/Real Property Expense

Date	(1) CPI Month Prior to Expiration of Each 5-Year Period	(2) CPI Month of Commencement Date of Leave	(3) Original Lease Annual Amount	(4) Annual Successive 5-year Amount [{(1)/(2)}*(3)]
11/1/1988	360.1	321.3	$65,000	$72,849
11/1/1993	436.4	321.3	$65,000	$88,285
11/1/1998	491.3	321.3	$65,000	$99,392
11/1//2003	554.3	321.3	$65,000	$112,137
11/1/2008	Not Yet Determined	321.3	$65,000	Not Yet Determined

Since the annual lease payment will not be adjusted until November 1, 2008, we find the appropriate 2005 test year Rental of Building/Real Property expense is $112,137, as calculated above. Thus, based on the lease escalation provisions, Rental of Building/Real Property expense shall be decreased by $15,147 ($127,284 less $112,137).

Second, in Audit Finding No. 8, the staff auditors stated that the utility's filing includes $5,249 in Account No. 759, Insurance – Other, which represents a settlement with a customer because raw sewage had backed up into the customer's residence. The utility had closed the elder valve at the residence because of non-payment by the prior resident. When the current resident moved in, the water service was turned on by the City of Oviedo. However, Alafaya failed to issue a customer service order to open the elder valve when the current customer requested service. The staff auditors believe the settlement should be considered non-recurring and amortized over a five-year period pursuant to Rule 25-30.433(8), F.A.C. In its response to the audit, the utility agreed with the auditors' recommendation.

However, we find that ratepayers shall not have to bear the cost of the utility's failure to issue a customer service order to open the elder valve when the current customer requested service. Therefore, the Insurance – Other expense shall be decreased by the full amount of $5,249.

Based on the above, O&M expenses shall be decreased by $20,396 ($15,147 plus $5,249) to reflect the appropriate Rental of Building/Real Property expense based on the lease escalation provisions and to remove settlement damage costs from Insurance – Other expense resulting from the utility's failure to timely open an elder valve.

G. Other Pro Forma Expense Adjustments

In its filing, Alafaya reflected several pro forma expense adjustments for inflation totaling $27,836, and included a $10,000 annual amortization for a deferred maintenance project relating to tank and equipment painting. As discussed below, we find the inflation adjustments shall be removed and the annual amortization for the tank and equipment painting shall be reduced.

First, in the utility's test year approval letter dated March 20, 2006, Alafaya stated that its historic test year ending December 31, 2005, is representative of a normal full year operation. However, on Schedule B-3, the utility made adjustments to increase its Purchased Sewage Treatment, Sludge Removal Expense, Chemicals, Materials & Supplies, Contractual Services – Engineering, Contractual Services – Accounting, Contractual Services – Legal, Contractual Services – Other, Transportation Expenses, Insurance – Other, and Miscellaneous Expense by applying the Commission's current index of 2.74%. In a data request, our staff asked the utility to provide an explanation as to why it made a pro forma adjustment to the O&M expenses except for bad debt expense. The utility responded that bad debt expense should have been included as well. The utility failed to address why any of the O&M expenses should be increased by the index. We do not believe the utility has adequately supported its CPI adjustments to the O&M expenses. Also, the increase in purchase sewage treatment is a pass-through item pursuant to Section 367.081(4)(b), F.S., and is not subject to this Commission's current index. Thus, Alafaya's O&M expenses shall be decreased by $27,836 to reflect the removal of the utility's CPI adjustments.

Second, in its response to our staff's Third Data Request, the utility stated that its tank and equipment surfaces exhibit signs of corrosion. As such, Alafaya asserted there was a need to clean and paint the tank and equipment to prevent further deterioration and to protect the steel components of these facilities. The utility also stated that the project was 55% complete and would be completed by early November 2006. With a $10,000 annual amortization, the utility's estimated total cost is $50,000. However, in a data request response, Alafaya only provided one invoice totaling $27,500. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period. Thus, the invoice provided by Alafaya supports an annual amortization of $5,500 ($27,500 divided by five years). Although this project appears to be reasonable and prudent, the annual amortization shall be decreased due to lack of support documentation. Thus, O&M expenses shall be reduced by $4,500 ($10,000 less $5,500).

In summary, O&M expenses shall be decreased by $32,336 ($27,836 plus $4,500) to reflect the removal of the utility's CPI adjustments and the appropriate amortization amount for tank and equipment painting.

H. Rate Case Expense

As discussed below, we find that adjustments are necessary to reflect the appropriate amount of test year amortization for the utility's prior rate case and the appropriate amount of rate case expense for this current case.

1. Rate Case Expense for Prior Rate Proceeding

On MFR Schedule B-6, the utility reflected $57,264 for Account No. 766 Regulatory Commission Expense – Rate Case Amortization. According to Audit Finding No. 9, the staff auditors stated that the $57,264 amount includes $30,012 for Alafaya's last rate proceeding. By Order No. PSC-04-0363-PAA-SU, p. 35, this Commission approved total rate case expense of $93,360, which represents an annual amortization of $23,340 pursuant to Section 367.0816, F.S. Consistent with the previously approved amount of $23,340, the staff auditors recommended that the test year Regulatory Commission Expense – Rate Case Amortization be decreased by $6,672 ($30,012 less $23,340).

In its response to the audit, Alafaya disagreed with the removal of $6,672 for the prior rate case. The utility stated that, although the annual amount was only $23,340, Alafaya would incur costs shortly before hearing, during the hearing, and post hearing. The utility asserted that, while these costs could not have been known and measurable at the time the rate case expense from the prior case was approved, those costs are known and measurable now and should remain in test year O&M expenses.

First, we note that the utility confused our regular agenda with a formal hearing because the last rate case did not go to hearing. Second, Alafaya did not protest Order No. PSC-04-0363-PAA-SU regarding the Commission's decision of the prior rate case expense, and that order was consummated by Order No. PSC-04-0435-CO-SU, issued April 28, 2004. Third, the approved $23,340 annual amortization included Alafaya's estimated costs to complete the prior case. Fourth, the incremental increase of $6,672 would translate into a total amount of $26,688 above the total $93,360 amount approved in the prior case. Fifth, in response to the audit, the utility did not provide any invoices or other documentation in support of the additional $26,688. Based on the above, we find that the test year Regulatory Commission Expense – Rate Case Amortization shall be decreased by $6,672, to reflect the previously approved amortization amount of $23,340 in test year O&M expenses.

On MFR Schedule B-10, the utility combined $85,221 for prior unamortized rate case expense with its estimated rate case expense of $184,974 for this current docket. This represents a total requested amount of $270,195 with a requested annual amortization amount of $67,549 ($270,195 divided by four). Of the $67,549 proposed amortization expense, $21,305 relates to Alafaya's prior rate case expense. However, Alafaya's reported O&M expense already contains $23,340 in amortization expense related to Alafaya's prior rate case. As Alafaya failed to remove $23,340 from its O&M expenses, the utility has actually requested a total amortization expense of $44,645 for its prior rate case. As stated above, the appropriate amount to include for

Alafaya's prior rate case is $23,320 as reflected in Order No. PSC-04-0363-PAA-SU. It is our practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.[14] As a result, O&M expense shall be reduced by $21,305 to remove duplicative prior rate case expense amortization.

Section 367.0816, F.S., requires water and wastewater utilities to automatically reduce their rates when rate case expense has been fully amortized. As such, Alafaya is required to reduce its rates by $23,320 effective April 4, 2008, which is the time when its prior rate case expense would be fully amortized.

2. Rate Case Expense for Current Case

Alafaya included in its MFRs an estimate of $184,974 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On December 1, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of $236,776. The components of the estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Revised Total
Legal and Filing Fees	$54,500	$29,943	$47,250	$77,193
Accounting Consultant Fees	56,000	23,950	32,037	55,987
Engineering Consultant Fees	5,000	2,451	3,025	5,476
Fees for Service Area Maps	0	10,923	0	10,923
WSC In-house Fees	49,500	23,726	21,216	44,942
Office Temp Fees	0	2,215	17,785	20,000
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	1,213	10,787	12,000
Notices	4,774	2,848	4,207	7,055
Total Rate Case Expense	$184,974	$97,269	$139,507	$236,776

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. Also, it is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award

[14] See Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied 529 So. 2d 694 (Fla. 1988). As such, our staff examined the requested actual expenses, supporting documentation, and estimated expenses listed above for the current rate case. Based on this review, our staff recommended several adjustments be made to the utility's revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Rose, Sundstrom & Bentley, LLP (RS&B), the law firm representing Alafaya, reduced its invoice amounts by $1,678 which were attributable to MFR deficiencies. However, based on our staff's review of invoices, RS&B's actual costs related to MFR deficiencies were $2,378, which represents an additional $701. Milian, Swain & Associates, Inc. (MSAI), the utility's accounting consulting firm, and Management & Regulatory Consultants, Inc. (MRCI), Alafaya's engineering consultant, had actual costs of $818 and $125, respectively, for MFR deficiencies. Based on the descriptions for hours reflected on the timesheets provided by the utility, Ms. Weeks, a WSC employee spent 3 hours or $126 on MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.[15] Accordingly, $1,770 ($701 + $818 + $125 + 126) shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees and expenses to complete the rate case. The utility's counsel estimated 150 hours or $41,250 in fees plus $6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item. It provided only a total number of hours and the total cost. While the descriptions of the activities or tasks appeared reasonable, there is no basis to determine whether the individual hours estimated were reasonable. Our staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As noted in the case background, UI currently has ten pending rate cases with the Commission. In eight out of the ten rate cases, the same 150 hour amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases.

Although the estimate to complete did not indicate the period of time it included, our staff made the assumption it included November, 2006 through February, 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. Using an estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, our staff is aware of numerous other pending dockets, including the other two remaining UI rate cases, and

[15] See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 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.

undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours everyday exclusively for these eight rate cases. We do not believe this is a reasonable assumption.

As discussed above, it is the utility's burden to justify its requested costs. We find that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review our staff's recommendation, travel to agenda and attend to miscellaneous post-PAA matters. This is consistent with hours allowed for completion by this Commission in the 2004 Labrador Utilities, Inc. (Labrador) rate case.[16] This amounts to $11,000 of rate case expense, a reduction of $30,250.

Further, there was no breakdown provided for the $6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, we believe a travel allowance is warranted, and note that in the 2004 Labrador rate case, supra, we found that a reasonable cost for one attorney traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging was $414. In this case, our staff calculated travel expenses of $389, using the current state mileage rate (215 miles x 2 trips x $.455 = $215), hotel rates from a website ($109) and a meal allowance ($65), but recommended that we approve $414 consistent with the 2004 Labrador case. Further, because legal counsel also represented Mid-County Services, Inc. (Docket No. 060254-SU) and Labrador Utilities, Inc., (Docket No. 060262-WS) at this same agenda, travel expenses shall be allocated equally among these three cases. Therefore, we find $138 is the appropriate travel expense, and would be included in the $6,000 amount for disbursements.

In addition to the travel expense of $138, our staff calculated an amount for miscellaneous disbursements by adding the actual and unbilled legal disbursements less the filing fee, dividing by eight, the number of months represented by the data, then multiplying by two, the time remaining until the agenda, for a remaining disbursement amount of $1,494. We find that $1,494 is a reasonable amount for miscellaneous disbursements.

Therefore, we find disbursements shall be decreased by $4,368 ($6,000 - $138 - $1,494). Based on the above, rate case expense shall be decreased by $34,618 ($30,250 plus $4,368).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or $3,000 plus $25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. We find that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours allowed for completion by this Commission in the Indiantown Company, Inc. and

[16] See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

the Mid-County Services, Inc. rate cases.[17] However, our staff is only aware of one subsequent data request from OPC regarding used and useful percentage, and believes that no more than two hours at $125 per hour is reasonable for this data request. We agree with our staff, and rate case expense shall be decreased by $2,250 (18 hours x $125).

The fourth adjustment addresses the utility's estimated $32,037 of consultant fees for MSAI to complete the rate case. MSAI estimated 17.50 hours or $2,800 for Ms. Swain, 29.70 hours or $3,861 for Ms. Yapp, and 195.20 hours or $25,376 for Ms. Bravo. The utility asserted that these estimated hours were to assist with data requests and audit facilitation. First, on December 1, 2006, Alafaya provided an update on MSAI's actual and estimated costs to complete this case, and MSAI apparently had no actual costs from August 30, 2006 to December 1, 2006. Based on the types of questions in our staff's data requests subsequent to December 1, 2006, we believe the utility, with some assistance of its legal counsel, would be responsible for addressing them, not MSAI. Second, the staff audit report was issued on October 1, 2006, and the utility's response to this audit, in which most audit findings were agreed to, was filed with the Commission on October 30, 2006. As such, there should be no estimated hours related to the audit in this case. Third, according to MFR Schedule B-10, the type of services to be rendered by MSAI were only to assist with the MFRs, data requests and audit facilitation. Based on the above, we find the utility has not met its burden to justify any of the $32,037 estimated fees for MSAI to complete the rate case, and rate case expense shall be decreased by $32,037.

The fifth adjustment relates to WSC In-house and Office Temps fees. In its rate case expense update, the utility provided time sheets for WSC employees and invoices for the Office Temps who were assisting WSC. The WSC timesheet reflected 616.23 total actual hours for twelve employees, which totaled $23,726. We have already disallowed three hours related to Ms. Weeks working on MFR deficiencies. Further, in January 2005 which represents approximately 14 months prior to the utility's test year request letter for this case, Ms. Weeks spent one hour or $42 related to "Alafaya Hurricane Expenses." In addition, Mr. Thomas spent 23 hours or $897 for indexing training, and Mr. Dihel reflected 13 hours or $403 for Alafaya's last index and pass-through application. We find that the utility has not met its burden of proof that these hours relate to the utility's current rate case. As such, the additional 37 hours or $1,342 ($42 + $897 + $403) shall be disallowed.

In the utility's last rate proceeding, this Commission approved 382 hours or $13,181 for WSC employees. Based on our staff's analysis, the total adjusted actual hours for WSC employees should be 576.23. According to our staff's review of invoices provided, the Office Temps have total actual hours of 91.91 hours, which equals actual costs of $2,215. In its rate case expense update, Alafaya reflected estimated hours for WSC employees of 439.94 hours or $21,216 and an additional 1,046.18 hours or $17,785, for Office Temps. Total requested actual plus estimated hours to complete are 2,154.25 hours. This represents an increase of 1,772 hours

[17] See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

or 563.94% above the 382 hours allowed in the last case. We realize that UI has experienced employee turnover since the last case and currently has ten active rate cases in Florida which are possible reasons for an increase in hours to process the current case. However, we do not believe these possible reasons explain the significant increase in hours above the last rate case.

Moreover, the utility's last rate case involved an original cost study from the inception of the utility to 1994, and an audit of Alafaya's books and records from 1995 to 2001 (six years). The audit report for the last case contained twenty-eight (28) audit findings, and Alafaya disagreed to eight (8). For the current case, an audit of the utility's books and records from 2001 to 2005 (four years) was performed. This audit report contained sixteen (16) audit findings for which the utility disagreed with only two. In the last case, this Commission approved five pro forma projects totaling $2,86,414. As discussed earlier, we are approving five pro forma projects totaling $1,355,733 which includes a pro forma plant retirement of $259,080. Based on the above, we do not believe there are any foreseeable reasons why the utility would require the total requested actual and estimated hours of 2,154.25 to complete the current case.

Furthermore, in its rate case expense update, the utility simply stated that the estimated hours for WSC employees and the Office Temps related to assistance with data requests and audit facilitation. As stated earlier, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, this Commission's practice has been to disallow some portion or remove all unsupported amounts.[18] Third, based on the types of questions in our staff's data requests subsequent to December 1, 2006, it appears that the utility, with some assistance of its legal counsel, would be responsible for addressing them, not the Office Temps.

For all of the reasons discussed above, we find that a reasonable and conservative level of hours for WSC employees is a 20% increase above the 382 hours approved in the last case which equals 458.40 hours. This represents a reduction of actual hours of 117.83 hours or $4,551 for WSC employees. We also find that the 91.91 actual hours for the Office Temps is reasonable. Based on the foregoing, we find that the total hours for WSC employees and the Office Temps shall be 550.31, which represents an increase of 168.31 hours or 44.06% over the hours approved in the last case. Accordingly, rate case expense shall be reduced by $44,894 ($1,342 + $21,216 + $17,785 + $4,551).

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated $3,200 for travel. On December 20, 2006, our staff calculated travel expenses of $606, using the airfare for January 22, 2007 ($333), current rental car rates ($107), hotel rate from a website

[18] See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

($86), and a meal allowance ($80). However, our staff notes that this Commission allowed $750 as a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging in the 2004 Labrador rate case. Based on this past allowance our staff recommends total travel expenses of $750 for the January 23, 2007, Agenda Conference. We agree. However, because WSC was also present on behalf of Mid-County Services, Inc. and Labrador Utilities, Inc. at this same agenda, travel expenses shall be allocated equally among these three utilities. Therefore, we find $250 is the appropriate travel expense. Accordingly, rate case expense shall be decreased by $2,950.

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated $12,000 for these items. In support of this expense, the utility provided only $1,118 in costs from FedEx invoices for services through October 20, 2006. There was no breakdown or support for the remaining $10,882, and we are concerned with the amount of requested costs for FedEx expense. UI has requested, and received authorization from this Commission, to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., this Commission found the following: "The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988." We find that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc., to its law firm located in central Florida. Then, these are submitted to the Commission. Ratepayers shall not bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and it shall bear the related costs. Therefore, rate case expense shall be decreased by $12,000.

The eighth adjustment relates to customer notices and postage thereof. The utility is requesting costs of $2,848 for notices and $4,207 for postage. Alafaya provided invoices totaling $2,848 for copying costs of its initial, customer meeting, and interim notices On one invoice, Alafaya spent $605 for copies of a two-page double-sided notice. However, on another invoice, the utility spent $1,108 for 7,100 copies of a four-page single-sided notice. Thus, because the utility chose to make single sided copies for $503 more than the cost of double sided copies, Alafaya shall bear this additional cost for singled sided copies. Further, as the utility must also notice its customers of the final rate increase, rate case expense shall be increased by $605 for the final notice. In its update of rate case expense, the utility did not provide any support for its postage. However, Alafaya has already sent out an initial notice, customer meeting notice, and an interim notice. Also, the utility will be sending a final notice. Based on a discussion with the utility, WSC's presort service postage rate is $0.341. Using the utility's approximate 7,100 total customers count and a unit cost of $0.341 for the above-mentioned notices, we calculate the total postage for notices to be $9,684. This represents an increase of $5,477. Based on the above, rate case expense shall be increased by $5,579 ($605 less $503 plus $5,477).

In summary, the utility's revised rate case expense shall be decreased by $124,940 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is $111,961. A breakdown of our calculation of rate case expense is as follows:

	MFR Estimated	Utility Revised Actual & Estimated	Commission Adjustments	Allowed Total
Legal and Filing Fees	$54,500	$77,193	($35,319)	$41,874
Accounting Consultant Fees	56,000	55,987	(32,855)	23,132
Engineering Consultant Fees	5,000	5,601	(2,375)	3,226
Fees for Service Area Maps	0	10,923	0	10,923
WSC In-house Fees	49,500	44,942	(27,235)	17,707
Office Temp Fees	0	20,000	(17,785)	2,215
Travel – WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	4,774	7,055	5,579	12,634
Total Rate Case Expense	$184,974	$236,901	($124,940)	111,961

Pursuant to Section 367.016, F.S., rate case expense is amortized over four years. In its MFRs, the utility requested total rate case expense of $184,974, which would be $46,244 when amortized over four years. Amortizing our calculated rate case expense of $111,961 over four years results in an annual amortization amount of $27,990 ($111,961 divided by four). Thus, rate case expense shall be decreased by $18,254 ($46,244 less $27,990).

I. Property Taxes

On MFR Schedule B-15, the utility reflected per book property taxes of $287,293. Alafaya adjusted its property taxes to include $34,341 for pro forma plant additions and to remove $3,722 related to its 2004 real estate taxes. Earlier in this Order, we reduced pro forma plant. To reflect the adjustments to pro forma plant, property taxes shall be decreased by $13,936.

J. Operating Income Before Any Increase

As shown on attached Schedule No. 3-A, after applying our adjustments, the test year net operating income before any revenue increase is $350,926. Our adjustments to operating income and expenses are shown on Schedule No. 3-B.

VI. REVENUE REQUIREMENT

Alafaya requested final rates designed to generate annual revenues of $4,142,462. This revenue request would have exceeded historical test year revenues by $1,284,377. Consistent with our adjustments concerning the underlying rate base, cost of capital, and operating income issues, we find that rates shall be designed to generate a pre-repression wastewater revenue requirement of $3,541,981. The approved wastewater revenue requirement exceeds our adjusted test year revenues by $659,139 or 22.86%. The pre-repression revenue requirement will allow the utility the opportunity to recover its expenses and earn an 8.51% return on its investment in wastewater rate base.

VII. RATES AND CHARGES

A. Wastewater Rates

The appropriate wastewater revenue requirement, excluding miscellaneous service charges and reuse revenues, is $3,374,844. We find the appropriate rate structure for the residential class is a continuation of the utility's base facility charge and gallonage charge rate structure with a 10,000 gallon cap. Also, the appropriate rate structure for the general service class is a continuation of Alafaya's base facility charge and gallonage charge rate structure with a 20% differential above the residential gallonage charge. The differential is designed to recognize that approximately 80% of the residential customer's water usage will return to the wastewater system, while almost 100% of the general service water use will return to the wastewater system. This wastewater gallonage rate differential is employed by this Commission in wastewater rate settings and is widely recognized as an industry standard.

The utility shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule No. 4. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The approved wastewater 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.

A comparison of the utility's prior rates, its requested rates, and our approved rates is shown on Schedule No. 4.

B. Reuse Rates

Reuse rates for this utility were originally approved by Order No. PSC-98-0391-FOF-SU, issued March 16, 1998, in Docket No. 960288-SU. In that docket, this Commission approved a general service rate of $0.60 per thousand gallons, a $5.00 monthly reuse availability fee for residential customers for which reuse was available, and a $9.00 monthly flat rate for residential customers who connected to the reuse system. The $5.00 monthly reuse availability fee is assessed on all residential customers that have access to reuse regardless of whether they actually use the service.

In the utility's last rate proceeding, this Commission approved a general service rate of $0.25 per thousand gallons, a $5.00 monthly reuse availability fee for residential customers for which reuse was available, and a $6.00 monthly flat rate for residential customers who connected to the reuse system. These rates have increased nominally by index adjustments and the interim increase approved in this docket.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates are set by this Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. In setting reuse rates, we must consider the type of customer being served and balance the disposal needs of the utility with the consumption needs of the customer.

In cases where a utility has excess reuse capacity, rates typically should be set lower to encourage customers to use reuse at a level sufficient to meet the utility's disposal needs. In cases where a utility's reuse capacity is unable to meet demand, rates should be set higher or the rate structure should be changed to promote conservation. In this case, the utility is able to meet its disposal needs. In fact, the utility's reuse capacity is unable to meet demand.

In Order No. PSC-98-0391-FOF-SU, this Commission contemplated eventually moving Alafaya's reuse rate to a consumption-based rate for residential service. It was anticipated that this would be the next step in a maturing reuse system to curb excessive use. However, at the time of the utility's last rate proceeding, excessive use was not a problem; and, in fact, the opposite was true. As a result, this Commission kept a flat rate to encourage consumption. However, as discussed earlier in the quality of service issue, excessive use is now a problem, and during the dry season, all the reuse quantity available is being utilized. As discussed in the pro forma plant issue, we approved the cost of metering existing reuse customers as a utility investment and recovered through reuse and wastewater rates pursuant to Section 367,0817(3), F.S. Based on the above, we find that a BFC and gallonage charge reuse rate structure is appropriate. Therefore, Alafaya's flat fee shall be discontinued once the utility has completed the meter installations of all its 1,200 current reuse customers, and the utility's reuse availability fee shall be eliminated.

The utility's residential reuse rates prior to filing the instant case were a \$6.93 monthly flat rate for reuse customers and a \$5.78 monthly availability fee for residences where reuse was available. For comparative purposes, the following table illustrates the City of Oviedo's proposed residential reuse rates and its current irrigation rates.

Type of Rate	City of Oviedo Proposed Reuse Rates	Type of Rate	City of Oviedo Current Irrigation Rates
Minimum Charge with 10kgal	\$8.62	Minimum Charge	\$8.67
10,001 to 20Kgal (per kgal)	\$0.66	1 to 10,000 gallons	\$2.53
20,001 plus gallons (per kgal)	\$2.15	10,001 to 15 kgals	\$3.61
		Over 15,000 gallons	\$4.31

Further, the City charges Alafaya's reuse customers for backflow preventor maintenance. Specifically, the City collects a monthly charge of \$5.00 for residents who have potable irrigation systems and \$8.00 per month for those residents who have irrigation systems other than potable. These charges imposed by the City are in addition to the monthly reuse charges paid to Alafaya.

In determining the appropriate amount for the BFC and gallonage charges, our staff also considered the average reuse charge of utilities in Seminole County with the same proposed residential reuse rate structure. According to DEP's 2005 Reuse Inventory report issued June 2006, the average BFC was \$6.10 with a range from \$3.65 to \$8.55, and the average gallonage charge was \$0.39 per thousand gallons with a range from \$0.25 to \$0.54. Based on the above, we find a BFC of \$3.65 and a gallonage charge of \$0.39 per thousand gallons is reasonable. Using the utility's historical average monthly residential reuse usage and the above-noted charges, a reuse customer would pay \$12.07 per month which represents a \$5.14 increase above the \$6.93 flat fee prior to filing. If the monthly backflow preventor maintenance is added, the total monthly cost under the proposed charges, the City's proposed charges, and the City's existing irrigation rates would be \$20.07, \$26.66, and \$85.47, respectively. Therefore, we find that the appropriate residential reuse rate structure is a BFC of \$3.65 and gallonage charge of \$0.39 per thousand gallons. Alafaya's current flat rate shall be assessed to all unmetered reuse customers pending the completion of their meter installation. Once the utility has completed all meter installations on or before December 31, 2007, the flat rate shall be discontinued. Further, Alafaya's reuse availability fee shall be eliminated.

As stated above, Alafaya's general service reuse rate was initially \$0.60 per thousand gallons. The major general service user of reuse was the golf course in the utility's service area. However, from the point when the \$0.60 per thousand gallon rate was initially set to the time of the utility's last rate case, the consumption at the golf course had dropped to half of its prior use. As a result, in the last rate proceeding, this Commission decreased the general service reuse rate to \$0.25 per thousand gallons to double the golf course's reuse consumption and help the utility meet its disposal needs. Due to index adjustments, the general service reuse rate increased nominally to \$0.29 per thousand gallons prior to filing the current case.

In the last rate case, the utility stated that the golf course normally utilized approximately 100,000 gallons on an average daily basis, which equated to 36 million gallons on a yearly basis. See Order No. PSC-04-0363-PAA-SU, p. 30. According to its filing in this current case, the total general service reuse for the test year was 26,782,000 gallons, which represents a significant decrease in consumption by the golf course. Because the utility's reuse system has matured with 1,200 existing residential customers and due to the decrease in general service reuse consumption in spite of the rate reduction approved in the prior case, the utility's general service reuse rate shall be $0.60 per thousand gallons.

C. Miscellaneous Service Charges

This Commission granted the utility's original certificate and set its rates and charges pursuant to the provisions of what was then Section 367.041, F.S.[19] In 1986, Alafaya (formerly named Oviedo Utilities, Inc.) began serving customers. In 1995, this Commission approved the transfer of majority organizational control from the utility's previous parent corporation to Utilities, Inc.[20]

On MFR Schedule E-4, Alafaya reflected the following as its present and proposed miscellaneous service revenue charges.

	Present Charges		Alafaya's Proposed Charges	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	$15	$15	$22.50
Normal Reconnection	$15	$15	$15	$22.50
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Premises Visit	$10	$10	$10	$15

According to our staff's review of Alafaya's current tariff and the canceled tariff of the utility's previous owner, this Commission has not approved any miscellaneous service charges for Alafaya. However, according to its past annual reports and MFRs in its last rate case and this current case, the utility has utilized the standard charges that this Commission has allowed since at least 1990. The charges assessed by the utility were not excessive. We routinely authorize these charges to place the burden of payment on the person who causes the cost to be incurred, rather than on the entire ratepaying body as a whole. Thus, we find that there shall be no refund for the utility's collection of miscellaneous service charges without a tariff. However, as discussed below, Alafaya shall be required to show cause why it should not be fined $1,200 for assessing miscellaneous service charges without an approved tariff.

[19] See Order No. 14841, issued September 3, 1985, in Docket No. 850209-SU, In Re: Application of Oviedo Utilities, Inc. for a certificate to provide sewer service in Seminole County.

[20] See Order No. PSC-95-0489-FOF-SU, issued April 18, 1995, in Docket No. 941106-SU, In Re: Application for transfer of majority organizational control of Certificate No. 379-S issued to ALAFAYA UTILITIES, INC., in Seminole County to UTILITIES, INC.

Most of the utility's sister companies that are currently in for rate cases do have authorization to assess the standard miscellaneous service charges.

The four types of miscellaneous service charges are defined as follows:

1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), F.A.C., including a delinquency in bill payment.

4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

The standard industry-wide miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 60% in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996,[21] involving Southern States Utilities, Inc., this Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed our staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed.

Applying the approved price indices from 1990 through 2005 to the standard $15 for initial connections and normal reconnections would result in a charge of $21.00. By Order No.

[21] Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

PSC-06-0684-PAA-WS, issued August 8, 2006,[22] and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,[23] this Commission approved a $20 charge for connection and reconnections during normal hours and a $40 after hours charge. Therefore, we find that a $21 charge for connection and reconnections during normal hours, and a $42 after hours charge for Alafaya is appropriate because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities.

Based on the above, we approve charges as shown below:

	Normal Hrs	After Hrs
Initial Connection	$21	N/A
Normal Reconnection	$21	$42
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit	$21	$42

The utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. Within ten days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within ten days after the date the notice was sent.

D. Interim Refund

By Order No. PSC-06-0664-FOF-SU, issued August 7, 2006, we authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was $3,397,156, which represents an increase of $539,070 or 18.86%. The interim collection period is September 2006 through January 2007.

According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2005. Alafaya's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

[22] Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.
[23] Docket No. 050369-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

To establish the proper refund amount, our staff calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Pursuant to those calculations, the revenue requirement for the interim collection period was $3,528,150. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, because the $3,397,156 revenue requirement granted in Order No. PSC-06-0664-FOF-SU for the interim test year is less than the revenue requirement for the interim collection period of $3,528,150, no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released.

E. 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 $29,309. The decreased revenue will result in the rate reduction as shown on Schedule No. 4.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(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.

F. Service Availability Charges

By Order No. PSC-98-0391-FOF-SU, p. 19, this Commission increased Alafaya's plant capacity charge from $410 to $640. According to Rule 25-30.580, F.A.C., the guidelines for designing a utility's service availability policy are as follows:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
> (2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

Based on the approved rate base components in this rate case, the utility's test year CIAC ratio is 55.89%.

As mentioned earlier in this Order, the utility's pro forma investments total $1,854,647 which includes a pro forma plant retirement of 549,637 in this current case, and the approved pro forma investments totaling $2,865,414 in the utility's last rate proceeding. Further, in 2007, the utility has plans for three additional reuse pro forma projects which include the construction of a 1.5 million gallon ground storage tank, the looping of the reuse distribution system in the Live Oak subdivision, and the installation of four augmentation wells for the reuse system. The total cost of these projects is approximately $2 million.

In determining where the utility's plant capacity charge should be revised, we took the total cost of the wastewater treatment plant, including pumping equipment, and Alafaya's reuse investment, and divided the sum by the estimated 8,816 equivalent residential connections at buildout. Using this methodology, we calculate a plant capacity charge of $1,762. This represents an increase of $1,122 ($1,762 less $640). Further, as discussed earlier, we are allowing the utility to recover the cost to install reuse meters for its 1,200 existing reuse customers. Thus, we have found that a meter installation charge of $150 is reasonable for future reuse connections. Utilizing the above charges, the CIAC ratio at the buildout date of 2012 is 68.03%. Therefore, consistent with the guidelines of the above-mentioned rule, we approve a plant capacity charge of $1,762, and a meter installation charge of $150 for this utility.

If there is no timely protest to this PAA Order by a substantially affected person, the utility shall file the appropriate revised tariff sheets within ten days of the issuance of the Consummating Order for the approved tariff changes. Our staff shall administratively approve the revised tariff sheets upon staff's verification that the tariff is consistent with our decision. If the revised tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. Within ten days of the issuance of the Consummating Order for the Commission approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the approved plant capacity charges and the authorization to collect donated property. The notice shall be approved by our staff prior to distribution. The utility shall provide proof that the appropriate customers or developers have received noticed within ten days of the date of the notice.

VIII. OTHER ISSUES

A. Show Cause for Apparent Violation of an Order

Pursuant to Order No. PSC-04-0363-PAA-SU (PAA Order),[24] this Commission required Alafaya to adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order, and provide proof of such adjustments within 90 days of the issuance

[24] Issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

date of a final order. That PAA Order was finalized by a Consummating Order, Order No. PSC-04-0435-CO-SU, issued April 28, 2004. Therefore, the appropriate adjustments to all the applicable primary accounts should have been accomplished and proof of such adjustments should have been provided by no later than July 27, 2004.

A review of Docket No. 020408-SU, the docket in which the PAA Order was issued, shows that the utility never provided any proof that such adjustments had been made. Moreover, pursuant to Audit Finding No. 1, in the Audit Report filed in this docket, under the STATEMENT OF FACT section, the auditors stated:

> The utility adjusted its general ledger in December 2005 to record the utility plant in service adjustments required as of December 31, 2002, for its last rate case proceeding in Docket No. 020408-SU.

Because these adjustments were made at such a late date, we believe that this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to the PAA Order in Docket No. 020408-SU. Based on this audit finding, it appears that the required adjustments to plant in service and accumulated depreciation were not made until December 2005. Therefore, it appears that the appropriate adjustments were not made until almost 17 months after the due date of July 27, 2004. Also, it appears that several schedules filed in its minimum filing requirements (MFRs) were not "consistent with and reconcilable with the utility's annual report to the Commission," as required by Rule 25-30.110(2), F.A.C.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful order of the Commission. By failing to comply with the above-noted requirements of the PAA Order in a timely manner and Rule 25-30.110(2), F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

We find that the circumstances in this case are such that show cause proceedings shall be initiated. We are especially concerned with Alafaya's apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the PAA Order. We note that in the Order Approving Settlement Agreement Filed by Utilities, Inc. (Settlement

Order),[25] issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the PAA Order, issued just eight months apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, see Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., where we discovered another Utilities, Inc. utility, Labrador Utilities, Inc., has also apparently failed to adjust its books and records. The continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined \$2,500 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the PAA Order and provide proof of such adjustments within 90 days of the Consummating Order.

Also, the MFR schedules filed with this rate case were not "consistent with and reconcilable with the utility's annual report," as required by Rule 25-30.110(2), F.A.C. However, this apparent violation may be attributable to the utility's failure to timely adjust its books to reflect the adjustments reflected in the PAA Order. Accordingly, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined \$500 for its apparent failure to file MFR schedules consistent with its annual report.

Based on the above, Alafaya shall be made to show cause in writing, within 21 days, why it should not be fined a total of \$3,000 for its two apparent violations noted above. The following conditions shall apply:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;

2. Should Alafaya file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;

4. In the event that Alafaya fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;

[25] See Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

5. If the utility responds timely but does not request a hearing, a recommendation shall be presented to the Commission regarding the disposition of the show cause order; and

6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility shall be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

B. Show Cause for Assessing Unauthorized Charges

Section 367.091(3), F.S., states that "[e]ach utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the commission." As discussed earlier in this Order, it does not appear that this Commission has approved any miscellaneous service charges for Alafaya. However, according to its past annual reports and MFRs in its last rate case and this current case, the utility began in 1995 assessing the standard charges that this Commission has routinely allowed since at least 1990. Most of the utility's sister companies that are currently in for rate cases appear to have authorization to assess the standard miscellaneous service charges. This appears to be an oversight on UI's part in not obtaining this Commission's approval to collect these charges when it acquired Alafaya in 1995.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than $5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with Section 367.091(3), F.S., and charging miscellaneous service charges without an approved tariff, the utility's acts were "willful" in the sense intended by Section 367.161, Florida Statutes. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

For the reason set forth earlier, the utility shall not be required to refund any of the unauthorized charges, and shall be allowed to charges miscellaneous service charges as set forth in this Order. However, given the number of years the utility has assessed unauthorized charges, we find that Alafaya shall be required to show cause why it should not be fined $1,200 for apparently assessing miscellaneous service charges without an approved tariff. This equates to approximately $100 per year. The conditions set forth in the show cause proceeding immediately preceding this show cause proceeding shall also apply in this show cause proceeding. Also, as stated in the immediately preceding show cause, the utility shall be put on notice that failure to comply with orders, rules, or statutes will again subject the utility to additional show cause proceedings and fines of up to $5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

C. Proof of Adjustments

To ensure that the utility adjusts its books in accordance with our decisions, Alafaya shall provide proof within 90 days of the final order issued in this docket that the 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 the application for increased wastewater rates of Alafaya Utilities, Inc. is approved as set forth in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Alafaya Utilities, Inc. shall file revised wastewater tariff sheets and a proposed customer notice to reflect the approved wastewater rates shown on Schedule No. 4. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. 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 25-30.475(1), F.A.C. It is further

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

ORDERED that Alafaya Utilities, Inc. 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 all existing and new reuse customers shall be metered by December 31, 2007. It is further

ORDERED that the cost for metering the existing customers, approximately $180,000, shall be funded by the utility and the amount shall be capitalized. New customers shall pay for the cost of the meters for new reuse connections. It is further

ORDERED that Alafaya Utilities, Inc. shall provide quarterly updates beginning March 31, 2007 and ending December 31, 2007 on the progress of the reuse improvements, including the augmentation wells, and any discussion on obtaining additional reuse from the City, including the progress on metering, the ground storage system. It is further

ORDERED that the residential reuse rate structure shall be a base facility charge of $3.65 and a gallonage charge of $0.39 per thousand gallons. It is further

ORDERED that Alafaya Utilities, Inc.'s flat rate shall be assessed to all unmetered reuse customers pending completion of the meter installation. It is further

ORDERED that all reuse meters shall be installed by December 31, 2007, and the flat rate shall be discontinued. It is further

ORDERED that Alafaya Utilities, Inc.'s reuse availability fee shall be eliminated and its general service reuse rate shall be $0.60 per thousand gallons. It is further

ORDERED that Alafaya Utilities, Inc. shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that within ten days of the date the order is final, Alafaya Utilities, Inc. shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within ten days after the date the notice was sent. It is further

ORDERED that Alafaya Utilities, Inc. shall be authorized to revise its miscellaneous service charges as set forth herein. It is further

ORDERED that Alafaya Utilities, Inc. shall file a proposed customer notice to reflect the approved miscellaneous service charges. It is further

ORDERED that the approved miscellaneous service charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that within ten days of the date the order is final, Alafaya Utilities, Inc. shall provide notice of the tariff changes regarding its miscellaneous service charges to all customers. The utility shall provide proof the customers have received notice within ten days after the date that the notice was sent. It is further

ORDERED that no refund of interim rates is required. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4 to remove $29,309 of rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. It is further

ORDERED that 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. 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 30 days prior to the actual date of the required rate reduction. 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 25-30.475(1), F.A.C. It is further

ORDERED that 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. It is further

ORDERED that 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. It is further

ORDERED that the appropriate plant capacity and meter installation charges are $1,762 and $150, respectively, for this utility. It is further

ORDERED that if there is no timely protest to the Proposed Agency Action by a substantially affected person, the utility shall file the appropriate revised tariff sheets within ten days of the issuance of the Consummating Order for the approved tariff changes. It is further

ORDERED that our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that if the revised tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. It is further

ORDERED that within ten days of the issuance of the Consummating Order for the approved tariff changes, Alafaya Utilities, Inc. shall also provide notice of the Commission's decision to all persons in the service area who are affected by the approved plant capacity charges and the authorization to collect donated property. It is further

ORDERED that the notice shall be approved by our staff prior to distribution. It is further

ORDERED that Alafaya Utilities, Inc. shall provide proof that the appropriate customers or developers have received noticed within ten days of the date of the notice. It is further

ORDERED that Alafaya Utilities, Inc. shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that Alafaya Utilities, Inc. shall be ordered to show cause in writing, within 21 days, why it should not be fined a total of $3,000 for its apparent failure to timely comply with the requirements of Order No. PSC-04-0363-PAA-SU, and for its apparent violation of Rule 25-30.110(2), F.A.C., and also why it should not be fined $1,200 for apparently assessing miscellaneous service charges without an approved tariff. It is further

ORDERED that any response shall comply with the conditions as set forth in the body of this Order and shall be filed with the Director, Division of the Commission Clerk and Administrative Services within 21 days of the date of issuance of this Order. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a Consummating Order will be issued. It is further

ORDERED that the provisions of this Order, except for the show cause proceedings and the statutory four-year rate reduction, are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is 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 if Alafaya Utilities, Inc. pays the $4,200 in fines, and complies with the other requirements of this Order, the docket shall be closed administratively. If the utility timely responds in writing to the Order to show cause, the docket shall remain open to allow for the appropriate processing of the response. It is further

ORDERED that upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released.

By ORDER of the Florida Public Service Commission this 15th day of February, 2007.

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.

The show cause portion of this Order is preliminary, procedural or intermediate in nature. Any person whose substantial interests are affected by this Show Cause Order may file a response within 21 days of issuance of the Show Cause Order as set forth herein. This response must be 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 March 8, 2007.

Failure to respond within the time set forth above shall constitute an admission of all facts and a waiver of the right to a hearing and a default pursuant to Rule 28-106.111(4), Florida Administrative Code. Such default shall be effective on the day subsequent to the above date.

If an adversely affected person fails to respond to the show cause portion of this Order within the time prescribed above, that party may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure.

As identified in the body of this Order, except for the show cause proceedings and the four-year statutory rate reduction, our action concerning rates and charges is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 8, 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 concerning the statutory four-year rate reduction may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Attachment A

Wastewater Treatment System
Used and Useful Analysis

1	Permitted Capacity (AADF)		1,535,000 gpd
2	Demand (AADF)		1,216,277 gpd
3	Excessive Infiltration and Inflow		0 gpd
	a Water demand per ERC	220 gpd	
	b AADF per ERC	173 gpd	
4	Growth = (2/4a) X 4b X 5		232,602 gpd
	a Average Test Year Customers	7,033 ERCs	
	b Customer Growth per year	269 ERCs	
5	Used and Useful = (2 – 3 + 4)/1		94%
	(1,216,277 – 0 + 232,602)/1,535,000		

Alafaya Utilities, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/05

Schedule No. 1-A
Docket No. 060256-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year
1	Plant in Service	$21,402,133	$2,267,717	$23,669,850	($350,999)	$23,318,851
2	Land and Land Rights	60,843	0	60,843	0	60,843
3	Non-used and Useful Components	0	(75,568)	(75,568)	(139,244)	(214,812)
4	Accumulated Depreciation	(6,497,520)	533,163	(5,964,357)	(126,549)	(6,090,906)
5	CIAC	(13,634,102)	0	(13,634,102)	(128,582)	(13,762,684)
6	Amortization of CIAC	4,483,331	0	4,483,331	32,611	4,515,942
7	CWIP	356,711	(356,711)	0	0	0
8	Deferred Tax Asset	0	0	0	116,251	116,251
9	Working Capital Allowance	0	309,962	309,962	207,944	517,906
10	**Rate Base**	$6,171,396	$2,678,563	$8,849,959	($388,569)	$8,461,390

	Alafaya Utilities, Inc. Adjustments to Rate Base Test Year Ended 12/31/05	Schedule No. 1-B Docket No. 060256-SU
	Explanation	**Wastewater**
	Plant In Service	
1	To reflect audit adjustments agreed to by the utility and our staff.	($76,749)
2	To included the appropriate net WSC rate base.	56,853
3	To reflect the appropriate allocated plant from UIF.	81,966
4	To reflect the appropriate amount of pro forma plant.	(413,070)
	Total	($350,999)
	Non-used and Useful	
	To reflect the appropriate net non-used and useful adjustment.	($139,244)
	Accumulated Depreciation	
1	To reflect audit adjustments agreed to by the utility and staff.	($7,495)
2	To reflect the appropriate allocated plant from UIF.	(25,629)
3	To reflect the appropriate amount of pro forma plant.	(93,425)
	Total	($126,549)
	CIAC	
	To reflect the appropriate amount of pro forma plant.	($128,582)
	Accumulated Amortization of CIAC	
1	To reflect audit adjustments agreed to by the utility and staff.	$29,621
2	To reflect the appropriate amount of pro forma plant.	2,990
	Total	$32,611
	Deferred Tax Asset	
	To reflect the utility's deferred tax asset in rate base.	$116,251
	Working Capital	
	To reflect the appropriate working capital allowance.	$207,944

Alafaya Utilities, Inc. | **Schedule No. 2**
Capital Structure 13-Month Average | **Docket No. 060256-SU**
Test Year Ended 12/31/05

	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	$133,025,102	$0	$133,025,102	($127,970,572)	$5,054,530	57.11%	6.65%	3.80%
2	Short-term Debt	4,522,923	0	4,522,923	(4,351,030)	171,893	1.94%	6.62%	0.13%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	91,510,699	0	91,510,699	(88,033,669)	3,477,030	39.29%	11.79%	4.63%
5	Customer Deposits	125,672	0	125,672	0	125,672	1.42%	6.00%	0.09%
6	Deferred Income Taxes	20,833	0	20,833	0	20,833	0.24%	0.00%	0.00%
7	**Total Capital**	$229,205,229	$0	$229,205,229	($220,355,271)	$8,849,958	100.00%		8.65%
Per Commission									
8	Long-term Debt	$133,025,102	$0	$133,025,102	($128,246,202)	$4,778,900	56.48%	6.58%	3.72%
9	Short-term Debt	4,522,923	(119,308)	4,403,615	(4,245,416)	158,199	1.87%	5.14%	0.10%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	91,510,699	3,093,004	94,603,703	(91,205,084)	3,398,169	40.17%	11.46%	4.61%
12	Customer Deposits	125,672	0	125,672	0	125,672	1.49%	6.00%	0.09%
13	Deferred Income Taxes	20,833	(20,833)	0	0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$229,205,229	$2,952,863	$232,158,092	($223,696,702)	$8,461,390	100.00%		8.51%

	LOW	HIGH
RETURN ON EQUITY	10.46%	12.46%
OVERALL RATE OF RETURN	8.10%	8.91%

Alafaya Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/05

Schedule No. 3-A
Docket No. 060256-SU

	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:**	$2,781,124	$1,361,339	$4,142,463	($1,259,621)	$2,882,842	$626,000	$3,508,843
							21.71%	
	Operating Expenses							
2	Operation & Maintenance	$2,013,286	$190,644	$2,203,930	($507,746)	$1,696,184		$1,696,184
3	Depreciation	295,596	77,035	372,631	(6,872)	365,759		365,759
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	437,478	108,654	546,132	(82,207)	463,925	28,170	492,095
6	Income Taxes	45,626	349,997	395,623	(385,519)	10,104	224,964	235,068
7	**Total Operating Expense**	$2,791,986	$726,330	$3,518,316	($982,344)	$2,535,972	$253,134	$2,789,106
8	**Operating Income**	($10,862)	$635,009	$624,147	($277,277)	$346,870	$372,867	$719,737
9	**Rate Base**	$6,171,396		$8,849,959		$8,461,390		$8,461,390
10	**Rate of Return**	-0.18%		7.05%		4.10%		8.51%

Alafaya Utilities, Inc. | **Schedule 3-B**
Adjustment to Operating Income | **Docket No. 060256-SU**
Test Year Ended 12/31/05

	Explanation	Wastewater
	Operating Revenues	
1	Remove requested final revenue increase	($1,284,377)
2	To impute pro forma miscellaneous service revenues.	2,118
3	To impute pro forma reuse revenues.	22,638
	Total	($1,259,621)
	Operation and Maintenance Expense	
1	To reflect audit adjustments agreed to by the utility and staff.	($49,104)
2	To reflect the appropriate WSC allocated expenses.	(37,053)
3	To reflect the appropriate UIF allocated expenses.	(3,950)
4	Reflect appropriate pro forma salaries and pension & benefits.	(18,676)
5	To reflect the appropriate Sludge Removal Expense.	(300,000)
6	Reflect appropriate Rental Real property and Insurance expense.	(20,396)
7	To reflect the appropriate pro forma O&M expenses.	(32,336)
8	To remove prior rate case expense.	(27,977)
9	To reflect the appropriate amount of rate case expense.	(18,254)
	Total	($507,746)
	Depreciation Expense – Net	
1	To reflect audit adjustments agreed to by the utility and staff.	($694)
2	To included the appropriate net WSC rate base.	9,213
3	To reflect the appropriate allocated plant from UIF.	(5,430)
4	To reflect the appropriate amount of pro forma plant.	(16,830)
5	To remove net depreciation on non-U&U adjustment.	6,869
	Total	($6,872)
	Taxes Other Than Income	
1	RAFs on utility's revenue increase adjustment above	($68,575)
2	To reflect audit adjustments agreed to by the utility and staff.	10,778
3	To remove property on Non-U&U plant.	(4,738)
4	Adjust RAFs for pro forma misc. service charge revenue.	95
5	Adjust RAFs for pro forma reuse revenue.	1,019
6	To the appropriate WSC allocated property taxes.	(2,461)
7	To reflect the appropriate pro forma payroll taxes.	(4,389)
8	To reflect the appropriate property taxes.	(13,936)
	Total	($82,207)
	Income Taxes	
	To reflect the appropriate income taxes.	($385,519)

Alafaya Utilities, Inc. — **SCHEDULE NO. 4**
Wastewater Monthly Service Rates — **Docket No. 060256-SU**
Test Year Ended 12/31/05

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$16.69	$19.85	$24.50	$20.54	$0.17
Gallonage Charge - Per 1,000 gallons (10,000 gallon cap)	$2.23	$2.65	$3.27	$2.73	$0.02
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$16.69	$19.85	$24.50	$20.54	$0.17
1"	$41.73	$49.63	$61.25	$51.34	$0.43
1-1/2"	$83.48	$99.27	$122.54	$102.68	$0.86
2"	$133.56	$158.83	$196.05	$164.28	$1.37
3"	$267.13	$317.67	$392.11	$328.56	$2.74
4"	$417.38	$496.35	$612.66	$513.38	$4.29
Gallonage Charge, per 1,000 Gallons	$2.65	$3.09	$8.48	$3.28	$0.03
Reuse Irrigation Service					
Residential Flat Rate (1)	$6.93	$8.24	$10.17	$8.24	N/A
Residential Availability Fee	$5.78	$6.87	$8.48	$0.00	N/A
Residential Base Charge	$0.00	$0.00	$0.00	$3.65	N/A
Residential Gallonage Charge	$0.00	$0.00	$0.00	$0.39	N/A
General Service Gallonage Charge	$0.29	$0.34	$0.43	$0.60	N/A
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$23.38	$27.80	$34.31	$29.02	
5,000 Gallons	$27.84	$33.11	$40.85	$34.54	
10,000 Gallons	$38.99	$46.37	$57.20	$48.34	
(Wastewater Gallonage Cap - 10,000 Gallons)					

Footnote:

(1) Alafaya's flat rate prior to filing should be assessed to all unmetered reuse customers pending the completion of their meter installation. Once the utility has completed all meter installations on or before December 31, 2007, the flat rate shall be discontinued.

UTILITY CO.: **Alafaya Utilities, Inc.** **SCHEDULE NO. 5**
Docket No.: **060256-SU**
Wastewater Operation

Commission Approved:

Plant Capacity Charge:	**$1,762**
Meter Installation Charge:	**$150**

	2005	2006	2007	2008	2009	2010	2011	2012
Capacity	1,535,000	1,535,000	1,535,000	1,535,000	1,535,000	1,535,000	1,535,000	1,535,000
Demand	1,216,277	1,262,797	1,309,318	1,355,838	1,402,359	1,448,879	1,495,399	1,535,002
% Used	75.00%	75.00%	85.30%	88.33%	91.36%	94.39%	97.42%	100.00%
Growth (in ERCs)		269	269	269	269	269	269	229

	2006	2007	2008	2009	2010	2011	2012
Utility Plant	$21,784,192	$23,638,839	$25,656,685	$25,697,035	$25,737,385	$25,777,735	$25,818,085
Accumulated Depreciation	(6,817,282)	(7,051,514)	(7,859,112)	(8,695,172)	(9,533,248)	(10,373,343)	(11,215,455)
Net Plant	$14,966,910	$16,587,325	$17,797,573	$17,001,863	$16,204,136	$15,404,392	$14,602,630
CIAC	$14,058,897	$14,231,057	$14,873,967	$15,388,295	$15,902,623	$16,416,951	$16,931,279
Accumulated Amortization	(4,759,861)	(5,099,872)	(5,450,732)	(5,817,076)	(6,196,832)	(6,589,998)	(6,996,575)
Net CIAC	$9,299,036	$9,131,185	$9,423,236	$9,571,219	$9,705,792	$9,826,954	$9,934,705
Net Investment	$5,667,874	$7,456,140	$8,374,337	$7,430,644	$6,498,344	$5,577,438	$4,667,925
CIAC Ratio:	**62.13%**	**55.05%**	**52.95%**	**56.30%**	**59.90%**	**63.79%**	**68.03%**