

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp. | DOCKET NO. 060246-WS
| ORDER NO. PSC-07-0609-PAA-WS
| ISSUED: July 30, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

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 the action discussed herein, except for the four-year rate reduction and proof of adjustment of books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Gold Coast Utility Corp. (Gold Coast or utility) is a Class B utility providing water and wastewater service to approximately 131 residential and 32 general service water and wastewater customers in Polk County. The 32 general service customers include 1,100 unmetered residential customers. In July 2006, we approved the transfer of the utility's assets from Lake Wales Utility Company.¹ Section 367.071, Florida Statutes (F.S.), allows us to set rate base in transfer dockets. Although rate base is typically set in transfer proceedings, no audit was performed at that time because Gold Coast had planned to file this rate case. Rate base was last set for this utility in 1998 at \$68,638 and \$241,248 for water and wastewater, respectively.²

¹ See Order No. PSC-06-0331-PAA-WS, issued July 7, 2006, in Docket No. 050902-WS, In re: Application to transfer assets and Certificate Nos. 590-W and 508-S from Lake Haven Utility Associates, Ltd., d/b/a Lake Wales Utility Company to Gold Coast Utility Corp. Consummating Order No. PSC-06-0415-CO-WS, issued May 18, 2006, made Order No. PSC-06-0331-PAA-WS final and effective.

² Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, in Docket No. 981258-WS, In re: Investigation of water and wastewater rates of Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. In Polk County for possible overearnings.

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FPSC-COMMISSION CLERK

On August 18, 2006, the utility filed its Application for Rate Increase in this docket and requested that the application be processed under the Proposed Agency Action (PAA) procedure. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 3, 2006, was established as the official filing date.

Gold Coast waived this Commission's requirement pursuant to Section 367.081(8), Florida Statutes, to process its petition within five months of the official filing date. By letter dated February 27, 2007, Gold Coast waived the case processing requirements through May 22, 2007. Subsequent to our staff's original staff recommendation being filed, the utility requested a deferral of the item to supply additional support for its pro forma item. By letter dated May 21, 2007, the utility again waived the case processing requirements through July 10, 2007, to allow our staff time to evaluate the supplemental data.

In its petition, Gold Coast requested final rates designed to generate revenues of \$366,262 for water and \$584,229 for wastewater. To achieve these revenues, the company has proposed increases of \$225,877 for water and \$369,501 for wastewater representing increases of 160.89% and 172.07%, respectively. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, we shall determine the overall quality of service provided by a utility by evaluating three separate components of water operations. The components are: 1) the quality of the utility's product; 2) the operating conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customers' satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Our analysis addresses each of these three components.

Quality of Product

We reviewed both the utility's and Polk County Health Department's (PCHD) records. In Polk County, the potable water program is regulated by the PCHD. The PCHD's inspector conducted a plant inspection on January 24, 2006. At that time, the monthly sample showed a positive result for coliform. Follow-up testing conducted in January and in February 2006, showed satisfactory readings. At this time, the utility's finished water product complies with the PCHD standards.

Gold Coast utility operates within the South Florida Water Management District (SFWMD). The utility's SFWMD permit number is #53-00030-W and the wastewater treatment facility falls under the jurisdictional purview of the Department of Environmental Protection (DEP) which is located in Tampa, Florida. The last wastewater inspection was performed by

DEP on October 26, 2006. At that time, the plant was out of compliance due to four minor deficiencies not related to quality of product. DEP evaluated the utility's quality of product and found it to be satisfactory. Based on the above, it appears the quality of the finished water product and wastewater effluent is satisfactory.

Operating Condition of the Water and Wastewater Treatment Facilities

Based on inspections by PCHD, the operating condition of the water treatment facility currently complies with PCHD regulatory standards. The last DEP wastewater facility inspection indicated the following minor deficiencies:

- (a) The safety grates along the aeration and digester basins are rusted and need to be replaced;
- (b) A copy of the current flow calibrations was not included;
- (c) Information on the Discharge Monitoring Reports (DMR) is being incorrectly reported;
- (d) The May DMR was incomplete (missing values for CBOD, TSS maximum and fecal maximum); and
- (e) Unacceptable turbidity values were reported.

These deficiencies relate to the condition of the plant and, due to these deficiencies, DEP stated the plant was out of compliance. The utility has requested a pro forma plant item related to the cost of DEP's mandated system repairs for grates at the wastewater treatment plant in this rate proceeding. We are approving an allowance of this wastewater treatment plants' upgrades in this Order. We discussed the other items with DEP, and they indicated they have been resolved. Based on the above, it appears the condition of the water treatment plant is satisfactory but the condition of the wastewater treatment is unsatisfactory. The utility, however, is taking action to correct the deficiencies.

The Utility's Attempt to Address Customer Satisfaction

In its filing, the utility stated that no customer complaints were received during the test year. Our records indicate that from the period of January 2001 to the present no complaints were received.

A customer meeting was held in the utility's service area on February 20, 2007, in Nalcrest, Florida. Approximately twenty-two customers and six utility representatives attended the meeting. During the customer meeting, three residents expressed their concerns regarding: the ratemaking procedures, future growth, unmetered customers, the rate increase, new generators, and black specks in the toilet. Customers' concerns were addressed as follows:

- a) Rate making procedures – During the customer meeting, our staff explained the ratemaking process. The majority of the customers appeared to have been satisfied with our staff's comments.

- b) Future growth – Through a staff data request, we asked the utility about potential new developments within its service territory. The utility responded that two developers are in the process of obtaining final development approval. However, given the condition of the current housing market, any anticipated customer growth is not likely to start for 5 to 7 years. In addition, our staff asked the utility if it intended to increase the capacity of its plants. The utility stated that there has been preliminary discussions with DEP about increasing the capacity of its wastewater treatment plant by 100%. The utility believes this is prudent planning considering there are two developers in its service territory that may require its services. Further, we discovered that the utility has requested a significant increase in its SFWMD consumption permit, which is discussed further in this Order.
- c) Unmetered customers – A customer expressed concerns that the metered customers were subsidizing the unmetered customers.
- d) The utility’s requested rate increase - At the customer meeting, our staff explained the rate making process and how the utility proposed rates would impact the customers by increasing their monthly billings. The customers appeared to understand the changes; however, they were not supportive of any rate increase.
- e) New generator - A customer believed the new generator was improperly installed and did not have an automatic switch over. Through the utility’s response to our staff’s data request, we determined the generator was properly installed and has an automatic switch over.
- f) Black specks in the toilet – One of the customers stated he has black specks in his toilet. Through a data request, we asked the utility whether it was aware of the situation and what would be the cause. The utility stated it has not received verbal or written communication from the customer regarding poor water quality but is investigating the situation further.

In addition, we received letters from four customers regarding their displeasure with any form of a rate increase. Our staff promptly responded to each customer’s letter. At the customer meeting, one of the customers commended the two plant operators for their work. After reviewing the operations and procedures of the utility, we believe the utility is attempting to address the customers’ concerns.

Summary

Based on our review, the water and wastewater treatment, distribution, and collection systems appear to be operating properly and, except for the condition of the wastewater treatment plant, are in compliance with DEP and PCHD standards. We believe the utility is attempting to address customers’ concerns and is taking action to address the problems with the

wastewater treatment plant. Therefore, we find that the quality of service provided by Gold Coast is satisfactory.

RATE BASE

In the course of conducting the audit, we requested specific invoices as part of the audit. Gold Coast was unable to provide the invoices for several plant additions. Since documentation could not be provided to support the amounts recorded in Gold Coast's books and records, we believe that adjustments should be made to remove the plant additions.

To remove the unsupported amounts in the Utility's filing, the average water plant in service balance shall be reduced by \$5,835 and the average wastewater plant in service shall be reduced by \$4,727. Associated deductions shall be made to accumulated depreciation of \$1,606 for water and \$1,538 for wastewater. Depreciation expense for water and wastewater shall be reduced by \$494 and \$445, respectively.

Accumulated Amortization of Contributions in Aid of Construction (CIAC)

The utility used a composite rate of 4.00% to amortize CIAC. The appropriate composite rate that should have been used is 1.92%. Based on the difference between the applied rate of 4.00% and the correct amortization rate of 1.92%, Gold Coast's accumulated amortization of CIAC shall be reduced by \$4,780 for its water system.

Pro Forma Plant Additions

In Schedule A-3, pages 1 through 4, of its MFRs, the utility requested pro forma plant items in the amount of \$450,810 for water and \$604,569 for wastewater, representing a 94% increase in water plant and 86% increase in wastewater plant. In Order No. PSC-99-1742-PAA-SU, issued September 7, 1999, we indicated that under the previous owner, this utility had low service rates, good customer service, and minimal water and wastewater treatment plant requirements resulting in a small rate base. The utility's proposed pro forma plant additions increase rate base substantially.

We requested detailed information concerning Gold Coast's proposed pro forma items through data requests. In the first data request, we requested supporting documentation for the utility's request, including all invoices, contracts, and bids. We further requested anticipated completion dates and a statement justifying the need for each pro forma item. In Gold Coast's first response, it supplied various invoices and bids. However, upon further analysis of the utility's response, we became aware of numerous affiliated parties transactions, as well as estimates that were dated subsequent to our data request. Further, it appeared that there were numerous requests where the utility had not requested bids for the requested capital projects. For the majority of the projects, a single source bid was obtained per project. Several pro forma projects were scheduled to be completed in 2008, three years outside the historical test period.

The utility's MFRs and application were received on August 18, 2006. As previously stated, the requested pro forma items were contained in the utility's MFRs. Typically, a utility will receive several bids and estimates for its projected capital budgets in order to determine the estimated costs. Once these estimates are received, the utility will use these amounts to compile its requested rate increase. However, in this case, the utility received twelve estimates for its major requested pro forma items in January, 2007, from a single source. Further, the bids were only requested after our first data request was issued and six months after the filing of its MFRs. Usually, utilities will obtain bids from at least three sources. Of the \$1 million in pro forma plant requested, the estimates received in January, 2007, represent approximately \$824,000 in plant. We have concerns with these estimates. The majority of these proposals have a 30-day acceptance period and are not signed by either party; therefore, there is some question whether these projects will be undertaken. We have previously denied pro forma projects where there were no signed contracts.³

Related Party Transactions

As stated in the background, we approved the transfer of the utility's assets from Lake Wales in July 2006. The shareholders of Gold Coast are Reginald Burge and Keith Burge. Reginald Burge is the President and Keith Burge is Vice President/Secretary/Treasurer. In addition to Gold Coast, the Burges also own Laniger Enterprises of America, Inc. in Martin County, and are former owners of Burkim Enterprises, Inc. in Brevard County. The utility provided numerous invoices and estimates from Reginald Burge, Gold Coast Utility Corporation, and Burkim Enterprises, Inc. Basically, the owners/shareholders were billing the utility or providing estimates for many of the requested pro forma plant items. According to Statement of Financial Accounting Standard No. 57, examples of related party transactions include, but are not limited to, transactions between an entity and its principal owners or members of their immediate families and affiliates.

Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable.⁴ This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to the contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair.⁵

To determine if the related party transactions are at or below the current market rate, we submitted a subsequent data request concerning the pro forma plant requests. We requested the

³ See Order No. PSC-07-0205-PAA-WS, issued March 6, 2007 in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.

⁴ Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

⁵ See also Order No. PSC-05-0621-PAA-WU, issued, June 6, 2005 in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; Order No. PSC-00-1513-TRF-WS, issued August 21, 2000, in Docket No. 991835-WS, In Re: Application for allowance for funds prudently invested (AFPI).

utility to identify whether the bids received for the various projects had been through a bidding process. We also requested an explanation for the items which had not been through a bidding process. The utility indicated that it had not requested bids on all of the pro forma plant. The utility attempted to identify which projects the utility had either obtained verbal bids or proceeded with the projects on an emergency basis. However, the utility failed to address all of the related party estimates or invoices. We believe some of the items would have been relatively simple to justify. Copies of supporting invoices for items billed to the utility from the related parties were not submitted for review. We are unable to determine the fair market value of these items without the supporting invoices or similar bids from outside businesses.

Further, there were numerous invoices submitted by Reginald Burge for labor costs. These invoices related to pro forma items and included either installation costs or costs for supervision. However, there is no indication as to who the "men" or employees were that installed the items. The utility currently has three employees, as well as the Director of Utility Operations, Keith Burge. Based on the job description of the duties performed by these employees and officer of the utility, we believe many of these items were either installed or should have been installed by the utility's employees. We are concerned that the men used for the labor on the various related party invoices are the same employees of Gold Coast. If the utility is capitalizing the labor costs of employees, then a likewise reduction should be made to the salary expenses. Further, for the invoices from outside parties which included installation, we do not believe Reginald Burge's supervision was required. If supervision of the projects was required, we believe either the Utility Director or the Facility Manager should have supervised.

Gold Coast included three trucks in its calculation of pro forma costs. The utility indicated the trucks were to replace existing leased vehicles. All three vehicles were obtained through a related party transaction. The first vehicle was a 2006 GMC in the amount of \$22,315, which was obtained through a dealership in the owners' hometown. The sales associate for this transaction was the brother of the President, and uncle of the Vice President. However, upon further review, we do not believe the amount to be unreasonable for this type of vehicle purchase. The second vehicle was another truck in the amount of \$40,240. This truck was for the use by Keith Burge, the Vice President and Director of Utility Operations. Both of the Burges live in Jensen Beach which is not close to the service territory. This vehicle was also purchased from the same dealership. We have concerns as to the amount and prudence of this vehicle. We believe a more reasonable amount would be the same as the amount for vehicle number 1. Both of these vehicles are 2006 GMC Sierra trucks. We do not believe there is reasonable support for a truck for the Vice President that is almost double the cost of a similar truck. The third vehicle was a 2002 truck purchased from Burkim Enterprises, Inc., another company owned by the Burges. However, upon further request, the utility was able to submit a comparable amount through a Blue Book Value which showed this purchase was at or below the market price.

We informed the utility that additional information and supporting documentation would need to be filed to justify the related party transactions. Gold Coast was informed that we would need documentation as to the market prices of the related party transactions, as well as, the identity of the employees used for related party labor. To supply the information would have

required an additional waiver of the statutory timeframe. The utility declined to extend the statutory timeframe further to supply this information. It is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). We do not believe the utility has met its burden of proof. Therefore, the items where no supporting or comparable documentation was provided shall be disallowed.

Up-Charge from Related Parties

For several of the requested pro forma items, the utility requested either a 25 percent up charge or finance charges. In a previous rate case by Burkim Enterprises, which was also owned by the Burges, we stated:⁶

In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, we found that 15% overhead was reasonable for related party invoices; however, overhead should only be applied to labor. We have reduced this invoice by \$375 to reflect 15% of overhead on labor only.

We have reviewed the invoices submitted in this docket and have determined the requested 25 percent up-charge was based on the cost of the item and not labor. Further, the finance charge invoiced from the related party is for the charges on a vehicle. These interest costs are not included in plant items. Recovery of debt interest is through the allowed rate of return included in the capital structure. Therefore, it is not appropriate to accept the up charge or finance charge.

Items to be completed in 2008

In its MFRs, there were three items which were not anticipated to be completed until 2008 - a new steel building at the wastewater plant, repairs to the road at the wastewater treatment plant, and the rehabilitation of manholes. The historical test year for this rate case is the calendar year ending December 31, 2005. Pursuant to Section 367.081(2)(a)2, Florida Statutes, the Commission shall consider utility property constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission. We do not believe there are sufficient reasons to justify the items anticipated to be complete beyond the 24 months, as allowed by statute. Reginald Burge, the new owner of the utility has little or no history with Gold Coast operations. We believe these pro forma items are included on the premise that the projects will only be undertaken if approved by us. If these items are necessary and the utility believes they should be included, it may subsequently file for a limited proceeding at a future date. Therefore, we find that the items the utility projected to be complete in 2008 shall be disallowed. This is consistent with our past decisions.⁷

⁶ Order No. PSC-01-2511-PAA-WS, issued, December 24, 2001 in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

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.

Subsequent to the filing of our staff's original recommendation, the utility requested a deferral so that we could consider additional information concerning its pro forma items. One of the items was for the rehabilitation of the manholes. The utility submitted a signed contract in the amount of \$21,904 for this item. Originally, the utility requested \$100,000 for this item and anticipated its completion in March, 2008. The signed proposal of \$21,904 is reasonable, and this item is scheduled to be complete during 2007. Accordingly, we find that this item shall be approved.

Water Meters and Back Flow Prevention

In its requested pro forma items, the utility included the costs for water meters and back flow prevention devices. We believe this is an important project, since we are requiring the utility to implement metered rates. There are approximately 1,108 unmetered customers. However, we have concerns with the proposal received on this item. As previously discussed, the utility obtained proposals in January, 2007 for many of its requests. The first estimate for meters was dated January 27, 2007, in the amount of \$146,950. The proposal was received from a vendor who also submitted numerous estimates for the major projects requested by the utility. This estimate was for installation of 2 hydrant relief valves, 3 eight-inch backflow preventers, 4 eight-inch compound flow meters and 2 two-inch compound flow meters. The utility corrected this estimate in a conference call on April 25, 2007 to reflect 2 eight inch backflow preventers and 3 eight-inch compound flow meters. We originally believed the amount of this estimate was unreasonable and overstated. Subsequent to the filing of our staff's original recommendation, the utility requested a deferral of the item to obtain additional proposals for this pro forma item. We have received these additional proposals and, based on these proposals, we find that a reasonable amount for the meter installations is \$104,085.

Land

In its MFRs, the utility included a pro forma land amount of \$25,000 for wastewater. Gold Coast indicated that this 11.5 acre land purchase is necessary for the percolation pond. The utility owned two-thirds of the pond. The other one third of the pond was owned by the previous owner of the utility. Therefore, the utility must purchase the remaining portion of this pond for its continued use. We believe \$25,000 is reasonable for the land purchase and acknowledge the land is necessary for the continued operation of the wastewater treatment plant. Therefore, pro forma land in the amount of \$25,000 shall be allowed.

Summary

According to Gold Coast, it allocated its plant and expenses based on its 2005 Annual Report. Gold Coast used allocation percentages of 56.7% for water and 43.3% for wastewater. For the purposes of allocating common plant items and operating expenses, we accepted the utility's allocation factor for water and wastewater. Based on the utility's responses to a data request, the pro forma items for Gold Coast in this case, as detailed in Table 4-1, shall be allowed. The approved Accumulated Depreciation for the pro forma plant items is detailed in Table 4-2, and the retirement amounts related to the pro forma items is detailed in Table 4-3.

As shown on Tables 4-1, 4-2, and 4-3, the appropriate amount of pro forma plant is \$312,814 for water and \$343,269 for wastewater. The respective retirements associated with these pro forma plant items are \$83,612 for water and \$108,216 for wastewater. To arrive at these amounts, net adjustments shall be made to reduce water plant in the amount of \$122,590 and wastewater plant in the amount of \$195,538. Accumulated depreciation shall be increased by \$4,866 for water and \$55,652 for wastewater. Depreciation expense shall also be reduced by \$9,259.85 for water and \$8,286.55 for wastewater. Corresponding adjustments shall be made to reduce taxes other than income by \$1,404 for water and \$8,592 for wastewater. The utility shall complete all pro forma items by December 31, 2007. The utility shall file monthly reports that identify each pro forma plant addition, the amount, and the date of completion.

Table 4 - 1 Adjustment summary			Utility Requested		Commission Approved		Adjustments	
No.	Acct.		Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	Chart Recorder	\$829		\$829	\$0	(\$0)	\$0
2	371	Three phase, two HP w/w pump		\$4,292	0	756	0	(3,536)
3	371	Reuse pump at wwtp		969	0	756	0	(213)
4	340/390	Computer and printer	1,194	1,194	0	0	(1,194)	(1,194)
5	380	Wiring and starters for blower		1,514	0	1,514	0	(0)
6	341/391	New Truck	16,130	16,130	9,819	12,497	(6,311)	(3,633)
7	340	Air conditioning / insulation office	3,634		3,550	0	(84)	0
8	347/397	Truck winch	1,347	1,347	948	1,207	(399)	(140)
9	347/397	Disc for tractor	668	668	588	748	(80)	80
10	347/397	Signage for both plants	331	661	243	309	(88)	(352)
11	370	Check valves at lift station		617	0	617	0	(0)
12	339	Switch over and scales	4,600		8,364	0	3,764	0
13	380	Switch over and scales		4,600	0	6,626	0	2,026
14	310	125 KW generator with switch over	60,000		40,671	0	(19,329)	0
15	355	125 KW generator on trailer		65,000	0	39,374	0	(25,626)
16	370	Pumps, wiring, & controls for lift station		55,000	0	44,445	0	(10,555)
17	370	Pumps, wiring, & controls for lift station		55,000	0	44,445	0	(10,555)
18	320	Water plant controls, wiring	65,000		59,763	0	(5,237)	0
19	336	Meters and Backflow prevention devices	146,000		104,085	0	(41,915)	0
20	370	Update all lift stations with generator quick		35,000	0	29,020	0	(5,980)
21	304/354	New steel building at sewer plant	60,000	60,000	0	0	(60,000)	(60,000)
22	370	Install lift station at water plant bathroom		20,000	18,500	0	18,500	(20,000)
23	304/354	Roof replacement @ water and ww plants	7,000	21,000	3,131	13,094	(3,869)	(7,906)
24	345/395	Gator ATV	7,000	7,000	5,482	6,976	(1,518)	(24)
25	341/391	Truck	20,548	20,548	9,819	12,497	(10,729)	(8,051)
26	354	WWTP improvements		60,000	0	66,050	0	6,050
27	361	Inflow protectors		2,500	0	1,160	0	(1,340)
28	361	Rehab manholes / sewer lines		100,000	0	21,904	0	(78,096)
29	345/395	Backhoe	36,000	36,000	26,115	33,237	(9,885)	(2,763)
30	354	Repairs to road @ wwtp		30,000	0	0	0	(30,000)
31	340/390	New laptop	750	750	539	687	(211)	(63)
32	304	Build storage building at wtp	15,000		16,164	0	1,164	0
33	341/391	Truck	4,779	4,779	4,206	5,352	(573)	573
		Total	\$450,810	\$604,569	\$312,814	\$343,269	(\$137,996)	(\$261,300)

Table 4 -2 Accumulated Depreciation			MFR amount		Commission Approved		Adjustments	
No.	Acct.		Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	Chart Recorder	(\$38)		(\$38)		\$0	\$0
2	371	Three phase, two HP w/w pump		(\$238)		(42)	0	196
3	371	Reuse pump at wwtp		(54)		(42)	0	12
4	340/390	Computer and printer	(199)	(199)	0	0	199	199
5	380	Wiring and starters for blower		(84)		(84)	0	(0)
6	341/391	New Truck	(2,689)	(2,689)	(1637)	(2083)	1052	606
7	340	Air conditioning / insulation office	(242)		(89)		153	0
8	347/397	Truck winch	(90)	(90)	(63)	(80)	27	10
9	347/397	Disc for tractor	(45)	(45)	(39)	(50)	6	(5)
10	347/397	Signage for both plants	(22)	(44)	(16)	(21)	6	23
11	370	Check valves at lift station		(21)		(21)	0	0
12	339	Switch over and scales	(184)		(335)		(151)	0
13	380	Switch over and scales		(184)		(189)	0	(5)
14	310	125 KW generator with switch over	(3,000)		(2034)		966	0
15	355	125 KW generator on trailer		(3,250)		(1969)	0	1281
16	370	Pumps, wiring, & controls for lift station		(1,833)		(1480)	0	353
17	370	Pumps, wiring, & controls for lift station		(1,833)		(1480)	0	353
18	320	Water plant controls, wiring	(2,955)		(2719)		236	0
19	336	Meters and Backflow prevention devices	(9,733)		(6942)		2791	0
20	370	Update all lift stations with generator quick		(1,167)		(966)	0	201
21	304/354	New steel building at sewer plant	(1,875)	(1,875)	0	0	1875	1875
22	370	Install lift station at water plant bathroom		(677)	(561)	0	(561)	677
23	304/354	Roof replacement @ water and ww plants	(219)	(657)	(95)	(436)	124	221
24	345/395	Gator ATV	(584)	(584)	(457)	(581)	127	3
25	341/391	Truck	(3,425)	(3,425)	(1637)	(2083)	1788	1342
26	354	WWTP improvements		(1,875)		(2067)	0	(192)
27	361	Inflow protectors		(167)		(26)	0	141
28	361	Rehab manholes / sewer lines		(2,222)		(486)	0	1736
29	345/395	Backhoe	(3,000)	(3,000)	(2175)	(2769)	825	231
30	354	Repairs to road @ wwtp		(938)		0	0	938
31	340/390	New laptop	(125)	(125)	(90)	(114)	35	11
32	304	Build storage building at wtp	(455)		490		945	0
33	341/391	Truck	(797)	(797)	(701)	(892)	96	(95)
		Total	(\$29,677)	(\$28,073)	(\$19,137)	(\$17,963)	\$10,540	\$10,110

Table 4-3 Pro forma retirements			Utility Requested		Commission Approved		Adjustments	
No.	Acct.		Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	Chart Recorder	(622)		(622)		0	0
2	371	Three phase, two HP w/w pump		(3,219)		(567)	0	2,652
3	371	Reuse pump at wwtp		(727)		(567)	0	160
4	340/390	Computer and printer	(896)	(896)	0	0	896	896
5	380	Wiring and starters for blower		(1,136)		(1,135)	0	1
18	320	Water plant controls, wiring	(48,750)		(44,822)		3,928	0
23	304/354	Roof replacement @ water and ww plants	(5,250)	(15,750)	(2,348)	(9,821)	2,902	5,929
24	345/395	Gator ATV	(5,250)	(5,250)	(4,111)	(5,232)	1,139	18
26	354	WWTP improvements		(45,000)		(49,538)	0	(4,538)
28	361	Rehab manholes / sewer lines		(75,000)		(16,428)	0	58,572
29	345/395	Backhoe	(27,000)	(27,000)	(19,586)	(24,928)	7,414	2,072
32	304	Build storage building at wtp	(11,250)		(12,123)		(873)	0
		Total	(\$99,018)	(\$173,978)	(\$83,612)	(\$108,216)	\$15,406	\$65,762

USED AND USEFUL

In its filing, the utility reflected the used and useful percentages of its water treatment plant at 100%. The utility stated that the system consists of simple chlorination and the only storage is a 100,000 gallon elevated tank. Thus, the utility calculation indicates demands must be met by well pumping capacity and used and useful was calculated on peak demand. The utility's calculation shows that its peak demand was 319 gallons per minute (gpm).

Water Treatment Plant

The utility calculated the used and useful percentage for the water treatment plant by taking the peak demand without unusual occurrences, adding a fire flow allowance plus a statutory growth allowance, minus excessive unaccounted for water, and dividing the sum by the permitted capacity of the plant. The utility's peak demand of 229,000 gallons per day (gpd) is based on the second highest day of the test year which was March 18, 2005. The required fire flow allowance is 1,000 gpm to be maintained for two hours, or 120,000 gpd, based on the requirements of Polk County. The utility stated that its firm reliable capacity for the water plant is 230,000 gpd. The utility based this amount on the SWFWMD water usage permit. The utility's calculation did not include excessive unaccounted for water. In addition, it calculated a growth allowance of 12,460 gpd. The utility's calculation reflected 100% used and useful. In addition, the utility states there has been no significant change made to this system since its last rate proceeding in Docket No. 981258-WS. The utility states the water system was found to be 100% used and useful in Order No. PSC-99-1742-PAA-WS. However, Docket No. 981258-WS was an investigation into possible overearnings. Order No. PSC-99-1742-PAA-WS, pertained to our acceptance of an offer of settlement. The issue of used and useful was not discussed in either the settlement offer, or our order. As there was no specific finding regarding used and useful, we do not believe we determined the water and wastewater plant to be 100% used and useful simply by accepting the utility's offer of settlement.

We have reviewed the utility's proposed calculation and believe it is not consistent with our practice. The utility did not use our methodology of calculating some of the components in the formula. Our analyses follows:

Peak Demand

Past practice of determining peak demand is based on using a single maximum day in the test year if there is no unusual occurrence on that day. If an unusual occurrence has occurred on that day, the average of the 5 highest days within a 30 day period in the test year is then used. Since there was an unusual occurrence on the single maximum day, we believe the peak demand should be 219,000 gpd, based on the average of the 5 highest days within a 30 day period, instead of 229,000 gpd used by the utility.

Plant Capacity

The utility has two wells with a total capacity of 1,850 gpm. Consistent with our past practice and in accordance with the American Waterworks Association Manual of Water Supply Practices, if a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's reliability (firm reliable capacity). By taking the largest 1,100 gpm well out of service, the utility reflected a firm reliable capacity of 750 gpm (540,000 gpd = 750gpm x 60 minutes x 12 hours), which is the capacity of the smaller well. This calculation of firm reliable capacity is consistent with our practice.

Growth Allowance

The utility's calculated projected annual growth of 6.16 % exceeded the allowable 5% per year, pursuant to Section 367.081(2)(a)2.b., F.S. We calculated the projected annual growth by using the statutory growth allowance of 5% per year and the result is 5,729 gpd instead of 12,460 gpd. Accordingly, we determined the water treatment plant shall be considered 63.67% used and useful, as set forth in Attachment A.

Storage

The utility has a 100,000 gallon elevated storage tank that was built in 1972 to accommodate the anticipated customer build out for pressure and fire flow. We have reviewed the utility's fire flow requirement (120,000 gpd) and the tank's useable capacity (100,000 gallons – 10%). Based on the above, we find that the tank shall be considered 100% used and useful.

Conclusion

Based on our analysis, the utility's water treatment plant shall be considered 63.67% used and useful, and the storage shall be considered 100% used and useful, as set forth in Attachment A. As a result, net water rate base shall be reduced by \$119,666. Corresponding adjustments shall be made to reduce water depreciation expense by \$3,650 and property taxes by \$824 for water.

The Office of Public Counsel and the utility agreed to accept the water treatment plant used and useful established herein on the condition that we would revisit this matter if the methodology for determining water treatment plant used and useful is changed by the rule promulgated in Docket No. 070183-WS. Any resulting change to the water rates will be applied prospectively.

Wastewater Treatment Plant

In its application, the utility calculated the used and useful percentage of the wastewater treatment plant by taking the 3 maximum months average daily flow (3MADF) plus a growth allowance and dividing the sum by the permitted capacity of the plant. The utility's test year 3MADF was 212,165 gpd. The utility's calculated growth allowance is 20,190 gpd. The

wastewater treatment plant's permitted capacity is 250,000 gpd. The utility's calculation reflected 93% used and useful. Like with the calculation of water treatment plant used and useful, the utility assert that the used and useful percentage should be 100%. The utility states there has been no significant change made to this system since its last rate proceeding in Docket No. 981258-WS. The utility states the water system was found to be 100% used and useful in Order No. PSC-99-1742-PAA-WS. However, Docket No. 981258-WS was an investigation into possible overearning. As we stated above, Order No. PSC-99-1742-PAA-WS, pertained to an offer of settlement. The issue of used and useful was not discussed in either the settlement offer or our order. As there was no specific finding regarding used and useful, we do not believe we determined the water and wastewater plant to be 100% used and useful simply by accepting the utility's offer of settlement.

Rule 25-30.432, F.A.C., provides that the used and useful determination for a wastewater treatment plant should be based on 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.

We reviewed the utility's calculation and believe it is not consistent with our method of calculating wastewater treatment plant used and useful percent. Our analyses follows:

Growth Allowance

The utility's calculated projected annual growth of 6.16% exceeded the statutory allowance of 5% per year. Pursuant to Rule 25-30.431(2)(a), F.A.C., and Section 367.081(2)(a) 2b, F.S., we calculated the projected growth by using the allowable 5% per year with the result of 5,599 gpd instead of 20,190 gpd.

Inflow and Infiltration

In its application, the utility calculated 28.76% excessive inflow and infiltration. This amount was based on 98% of the water purchased by both residential metered and non-metered customers as being returned to the wastewater treatment plant. This resulted in 51,344 gpd of excessive inflow and infiltration. However, the utility did not include the calculated 28.76% (51,344 gpd) excessive inflow and infiltration in its wastewater used and useful calculation.

The industry standard that we rely upon is based on the assumption that 80% of the water purchased by residential customers is returned as wastewater and 96% of the water purchased by general service customers is returned as wastewater. Our calculation of 34.25% excessive inflow and infiltration was based on using 80% and 90% of the water purchased by residential metered and residential non-metered customers being returned as wastewater, respectively. For the non-metered customers, we increased the amount of return water by 10% because during the field inspection our staff noticed numerous multi-family units that have small pebble lawns. Therefore, we believe a more realistic amount of water returned to the wastewater system for these customers would be 90% instead of the normal 80%.

Conclusion

Based on the above, the wastewater treatment plant shall be considered 62.65% used and useful, as set forth in Attachment B. As a result, net wastewater rate base shall be reduced by \$201,396. Corresponding adjustments shall be made to reduce wastewater depreciation expense by \$12,531 and property taxes by \$1,903. In addition, an adjustment shall be made to reduce wastewater O&M expense by \$8,759 for excessive inflow and infiltration.

Water Distribution and Wastewater Collection Systems

In its application, the utility states the water distribution and wastewater collection systems serve the areas of Nalcrest, Lake Shore Club, Village Green Walden Shores, Island Oaks and Granada Condos. According to the utility, these areas are built out, thus, the water distribution and wastewater collection systems are 100% used and useful.

We reviewed the service territory and agree that all the current mains are providing service for only the existing customers. Accordingly, we find that the water distribution and wastewater collection systems are considered 100% used and useful.

Working Capital Allowance

Pursuant to Rule 25-30.433(2), F.A.C., working capital for Class B utilities is based on the formula methodology or one-eighth of operation and maintenance (O&M) expenses. The utility has properly filed its allowance for working capital using the formula method. We have approved several adjustments to the utility's balance of O&M expenses. Due to the adjustments approved in this order, working capital of \$24,767 and \$40,146 shall be approved for water and wastewater, respectively. This reflects a decrease of \$6,064 for water and \$8,719 for wastewater from the utility's request.

Rate Base for the December 31, 2005, Test Year

Consistent with other approved adjustments, the appropriate rate base is \$218,202 for water and \$274,815 for wastewater. The approved schedules for rate base are shown on Schedules 1-A and 1-B, respectively, and the adjustments are shown on Schedule 1-C.

CAPITAL STRUCTURE

Return on Common Equity

In its MFRs the utility included a return on equity of 9.43%. Gold Coast's proposed return is based on the application of our leverage formula approved in Order No. PSC-05-0680-PAA-WS at an equity ratio of 78.83%. However, in arriving at this equity ratio, the utility included \$1,080,379 in requested pro forma equity contributions to fund the requested pro forma additions.

The utility has not provided any documentation as to this specific adjustment. In the absence of supporting documentation, it is our practice to allocate pro forma additions across all sources of capital on a pro rata basis.

The purchase of the utility was accomplished through long-term debt in the amount of \$550,000 issued November 18, 2005. We have no reason to believe the requested pro forma items will be paid for exclusively through shareholders equity. We believe it is more likely that these items will be funded through a combination of both long-term debt and equity and is representative of the historical test year.

We find that the appropriate return on equity is 12.00% based on the most recent Commission-approved leverage.⁸ Applying a return on equity of 12.00% results in an overall rate of return of 7.48%.

NET OPERATING INCOME

Pro Forma Salaries

The utility recorded \$4,500 each in Accounts 603 and 703, Salaries and Wages – Officers. In addition, the utility requested pro forma salary expenses for its officer in the amount of \$35,663 for Account 603 and \$45,337 for Account 703. However, in its response to our data request, Gold Coast admitted it made a typographical error in its filing. According to the utility, the annual salary for the officer should be \$72,000. By including the amount requested in its MFRs, the result is a requested officer salary amount of \$90,000. The appropriate amount that should be included in Accounts 603 and 703 is \$31,700 and \$40,300, respectively. Therefore, to correct this error, we made adjustments to reduce Account 603 by \$8,483 and Account 703 by \$9,517.

Further, in its MFRs, the utility requested pro forma salary expenses for its employees in the amount of \$36,499 for Account 601 and \$47,828 for Account 701. In Order No. PSC-99-1742-PAA-SU, issued September 7, 1999, we indicated that under the previous owner, Gold Coast utility had been trying to keep expenses low for cost effectiveness. We requested additional information concerning the utility's proposed pro forma salary increases. In its response, the utility indicated it currently has three operations employees. It also requested a new position. We also requested information concerning the position descriptions and salary history of the utility's existing employees. Based on the information provided by the utility in response to our data request, we have compiled a table detailing the utility's request. Table 9-1 reflects the utility's employees, the historical salary as of December 31, 2005, the salary as of March, 2006 and the requested pro forma salary.

⁸ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

Table 9-1			
Employee, Position	Salary 12/31/05	Salary March, 2006	Requested Pro Forma
Nathan Eckstein Wastewater Facility technician (in training)	\$29,237	\$30,200	\$45,000
John Ridgeway Wastewater and Water Facilities Technician	\$29,237	\$35,100	\$45,000
David Pearce Facility Manager	\$53,900	\$57,200	\$65,000
New Employee Daily work / general upkeep	N/A	N/A	\$45,000

Based on an analysis of the salary history over the past five years, there is no pattern in the salary amounts for these positions. These positions have experienced years of decreases, small increases, and large increases. We believe it is reasonable to allow the salaries of the two current technicians based on their March 2006 salary levels. The proposed salaries represent an increase of 3.3% for Nathan Eckstein, a new employee who began employment on December 1, 2005, and an increase of 20.05% for John Ridgeway. These amounts represent actual dollar amounts for two existing employees. We also approve an increase for David Pearce. Mr. Pearce is a long-term employee who has not received a substantial pay increase for a number of years. This employee has historically done the majority of the work for Gold Coast. In addition, the customers had nothing but kind and supporting comments concerning Mr. Pearce. We do not believe this amount is unreasonable for this employee considering his job description and performance.

It is not reasonable to accept the utility's request for a new employee. We inquired as to whether the position was advertised or filled. The utility indicated it was waiting on a decision from the Commission before it would proceed in filling the position. The position has not been advertised or filled to date. The utility indicated it has made some informal inquiries. The new owner has little experience with the operations of this particular utility. As such, there is limited historical data to rely on in conducting an analysis of the ongoing operations of the utility. We do not believe it is reasonable to base a decision on filling a position on whether it is approved by the Commission. It is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). The utility has not met its burden of proof, and its request for the new position shall not be allowed. This is consistent with Commission practice.⁹

In its response to our data request, the utility indicated it used an allocation based on its 2005 annual report of 43.3% for water and 56.7% for wastewater. For the purposes of allocating common plant items and operating expenses, staff used an allocation factor of 44% for water and

⁹ Order No. 8601, issued December 15, 1978, in Docket No. 770113-WS, In re: Application of Central V Utilities Corporation for an increase in water and sewer rates to its customers in Orange and Seminole Counties, Florida.

56% for wastewater. We find that the appropriate pro forma salaries for Gold Coast are \$130,300 for employees and \$72,000 for officers. Adjustments shall be made to reduce Account 601 by \$30,668 and Account 701 by \$39,032. Further, to correct a utility error, adjustments shall be made to reduce Accounts 603 by \$8,483 for water and Account 703 by \$9,517 for wastewater. In addition, payroll taxes shall be reduced by \$2,995 for water and \$3,714 for wastewater to reflect these reductions.

Pensions and Benefits

The utility requested pro forma increases in pensions and benefits for a retirement plan and for increases in benefits for insurance. In response to our data requests, the utility indicated that there is currently no retirement plan for its employees and officers. Further, the utility indicated that it has requested a retirement plan that would entail a contribution from the utility to the employees' IRA in the amount of \$2,000 a year.

The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) states that employee pensions and benefits shall include all accruals under pension plans to which the utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits or insurance. It also includes expenses for medical, educational or recreational activities of employees. The requested retirement plan does not meet this requirement. Thus, consistent with our practice, we find that this pro forma item is denied.¹⁰ Therefore, adjustments shall be made to reduce this account by \$3,463 for water and \$4,537 for wastewater.

In addition, the utility requested pro forma adjustments in the amount of \$15,011 for water and \$18,263 for wastewater for increased insurance benefits for its employees and officers. In response to our data request, the utility submitted documentation in reference to these insurance costs. Based on this documentation, the actual pro forma increase for this request is \$22,591 (\$10,311 for water and \$12,280 for wastewater). Therefore, we made adjustments to reduce Accounts 604 and 704 by \$4,701 (\$15,011-\$10,310) for water and \$5,983 (\$18,263-\$12,280) for wastewater to reflect the actual costs of insurance.

Based on our analysis, we find that total reductions shall be made to Accounts 604 and 704 of \$8,164 (\$3,463 +\$4,701) for water and \$10,520 (\$4,537+\$5,983) for wastewater.

Operating and Maintenance (O&M) Expense

In its filing, Gold Coast included \$128 for expenses that were not supported. In addition, the utility included expenses related to obtaining sewer permits for engineering studies and permit renewal fees. As the permit is valid for five years, the cost of the permits should be amortized over a five-year period. The total cost of the permits included in the test year is

¹⁰ Order No. PSC-99-1883-PAA-SU, issued September 21, 1999 in Docket No. 980242-SU, In re: Petition for limited proceeding to implement two-step increase in wastewater rates in Pasco County by Lindrick Service Corporation

\$4,796. Since one-fifth of the expense totals \$959 (\$4,796/5), an adjustment shall be made to remove \$3,837 (\$4,796-\$959) from Gold Coast's wastewater O&M expense.

Rate Case Expense

The utility included in its MFRs an estimate of \$98,500 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On March 6, 2007, the utility submitted a revised estimated rate case expense through the completion of the PAA process of \$109,691.

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we believe adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. The consultant and attorney attempted to appropriately remove expenses associated with correcting the MFR deficiencies; however, based on our staff's review of invoices, a combined amount of \$1,479 was inadvertently included for correcting the MFR deficiencies and revising the utility's filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.¹¹

Utility Expense

The next adjustment is for the utility's estimate to complete the rate case. In its estimate, the utility included a total of 10 hours for Keith Burge, the Vice President and Utility Director, to perform telephone conferences and communications with legal counsel and rate case consultants concerning future data requests by our staff. In addition, the utility also estimated 5 hours for David Pierce, the Facilities Manager to do the same. It is our practice to disallow salaries and wages from rate case expense as these amounts are already included in O&M expenses.¹² As a result, we have made an adjustment to remove \$6,328 from rate case expense related to utility salaries. Expenses related to postage, copying, and mailing were allowed.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to the allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in

¹¹ 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.

¹² See Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030569-GU, In re: Application for rate increase by City Gas Company of Florida.

the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied, 529 So. 2d 694 (Fla. 1988).

The components of the estimated rate case expense and adjustments are as follows:

	<u>MFR Estimated</u>	<u>Updated Actual and Estimated</u>	<u>Commission Adjustments</u>	<u>Approved Rate Case Expense</u>
Utility	\$0	\$8,440	(6,328)	\$2,111
Cronin, Jackson, Nixon	55,000	46,730	(190)	46,540
Rose Sundstrom Bentley	30,000	36,913	(1,289)	35,624
M&R Consultants	10,000	14,148		14,148
Filing Fee	2,000	2,000		2,000
Notices	1,500	1,500		1,500
Total	\$98,500	\$109,731	(\$7,807)	\$101,923

We find that the appropriate amount of rate case expense is \$101,923 (\$44,846 for water and \$57,077 for wastewater.) This expense shall be recovered over four years for an annual expense of \$11,212 for water and \$14,269 for wastewater. Thus, rate case expense shall be reduced by \$1,194 for water and increased by \$2,050 for wastewater.

Taxes Other Than Income

During the review of Gold Coast's Taxes Other than Income, our staff auditor requested supporting documentation for the amounts included in the utility's MFRs. The utility was unable to provide documentation to support \$301 for water and \$466 for wastewater. Further, the utility allocated 37% of its property and tangible taxes to water and 63% to wastewater. Property and tangible taxes should have been recorded based on the actual tax invoice for each system. Based on the actual tax invoice, property taxes and tangible taxes for water shall be decreased by \$1,257 and for wastewater, shall be increased by \$924. Accordingly, Taxes Other Than Income shall be reduced by \$1,558 (\$1,257 + \$301) for water and shall be increased by \$458 (\$924-\$466) for wastewater.

Test Year Operating Income

As shown on Schedules 3-A and 3-B, after applying the adjustments, the test year net operating loss before any revenue increase is \$45,664 and \$85,656 for water and wastewater, respectively. The adjustments to operating income and expenses are shown on Schedule 3-C.

REVENUE REQUIREMENT

Pre-Repression Test Year Revenue Requirement

Gold Coast's requested final rates are designed to generate annual revenues of \$366,262 and \$584,229 for water and wastewater, respectively. These revenues exceed test year revenues by \$225,877 (160.90%), and \$369,501 (172.21%) for water and wastewater, respectively.

Consistent with our determinations herein regarding the underlying rate base, cost of capital, and operating income issues, we find it appropriate to approve rates that are designed to generate a water pre-repression revenue requirement of \$244,451 and a wastewater pre-repression revenue requirement of \$393,044. These revenues are an increase to our adjusted test year revenues of \$104,066, or 74.13%, for water and \$178,316, or 83.04%, for wastewater. These pre-repression revenue requirement amounts are shown on Schedules 3-A and 3-B. These increases allow the utility the opportunity to recover its expenses and earn a 7.46% return on its investment in water and wastewater rate base.

RATES AND RATE STRUCTURE

Rate Structures

The utility's current water and wastewater rate structures were approved by Polk County in July 1996. The utility's customer base is very diverse. There are residential customers living in efficiency or one bedroom apartments, others living in 2 bedroom/2 bath units, with a small number of customers living in houses. The utility also has general service customers. The current water rate structure for the great majority of residential customers (those living in small apartments in the Nalcrest, Lakeshore and Village Green service areas) is a flat, unmetered rate structure. Rates prior to filing the instant case for those customers living in Nalcrest, Lakeshore and Village Green were a flat rate of \$7.19 per month. The current rate structure for the remaining residential and general service customers is the BFC/uniform gallonage charge rate structure. Metered residential customers in the Walden Shores (a subdivision of single family houses) and Granada apartments service areas are served by 5/8" x 3/4" meters. Prior to filing the instant case, these customers also paid \$7.19 per month, which included a 5 kgal allotment. Residential monthly consumption in excess of 5 kgal was charged a uniform consumption rate of \$1.03 per kgal. General service customers on a 5/8" x 3/4" meter paid \$18.46 per month – more than 2.5 times the comparable residential rate – plus the same \$1.03 per kgal for all kgal consumed.

The utility's current wastewater rate structure for all currently-classified residential customers is a flat rate structure. The rate structure for the general service customers is the BFC/gallonage charge rate structure. The residential rate prior to filing was \$12.62 per month, while the rates for the general service customers on a 5/8" x 3/4" meter were \$24.24 per month, plus \$1.60 for all kgal used.

The utility is located in the South Florida Water Management District (District), but not within a water use caution area. Although the utility's permit expired in September 2006, the utility timely filed for permit renewal. At the request of the District, the renewal review process was to be postponed until mid-2007.

Customers in disparate, diverse housing types represent different peak demands on the system and different levels of associated fixed costs to recover. Therefore, we believe that applying the same fixed charge to all residential-type customers represents a rate structure inequity that must be corrected. Furthermore, charging different rates for 5/8" x 3/4" meters (such as the residential vs. general service classes in this case) also represents an inequity to be corrected. We have approved appropriate customer classes and equivalent residential connection (ERC) values for the different customers in order to appropriately set rates. A discussion of our methodology follows.

Water Rates

The residential customer class applies to those customers living in private residences or in individually metered apartment units. As discussed above, the residential customers in the Walden Shores and Granada apartments service areas are individually metered. Based on the relative size of the apartments versus the houses (and associated yards), we believe it is appropriate to assign the customers living in Granada apartments 0.8 ERC per customer, while the customers living in Walden Shores should be assigned 1.0 ERC per customer.

As previously discussed, the utility has requested numerous pro forma plant additions, including three 8" meters and two 2" meters. Two of the 8" meters will serve as master meters for the Nalcrest and Lakeshore service areas, while the 2" meters will serve as master meters to the Village Green service area. Based on the placement of these pro forma master meters, and the fact that the customers living in the Nalcrest, Lakeshore and Village Green apartments will not be individually metered, we find that these 1,108 currently unmetered customers (500 customers each in Nalcrest and Lakeshore, and 108 customers in Village Green) shall be reclassified from the residential to the multi-residential service class.

In order to estimate ERC values for the master-metered customers, we compared the average monthly consumption for the different customer types. The utility's estimated monthly usage for its unmetered customers was 1.9 kgal, or less than 40% of the average residential metered consumption per month of 5.2 kgal. It may appear appropriate to assign the unmetered customers a value of 0.4 ERC per customer. However, the unmetered customers represent a seasonal customer base, which means there are periods of the year when more customers are in residence, placing greater demand on the system during these periods. We believe this justifies increasing the assigned ERC value to 0.6 ERC per customer. Therefore, the 8" meters at Nalcrest and Lakeshore will be assigned 300 ERCs (500 customers per meter x 0.6 ERC per customer), while the 2" meters at Village Green will be assigned values of 32.4 ERCs each (54 customers per meter x 0.6 ERC per customer).

A utility customer has expressed his disagreement with our methodology of assigning ERC values to the metered and unmetered customers. The customer believes that, since all currently-classified residential customers have paid the same BFC since 1996 with no complaints about the unfairness of such a policy, no change should be made to the ERC values. However, merely because no complaints have been raised does not mean that the current policy is equitable for the reasons stated above. The customer is also concerned that we have based the ERC value for the Nalcrest, Lakeshore and Village Green customers based on an estimated monthly consumption of 1.9 kgal. Given the comparable size of the living space of these units compared to the Granada and Walden Shores areas, we believe the estimated monthly usage of 1.9 kgal is reasonable. In addition, since the Nalcrest, Lakeshore and Village Green customers are not individually metered residential customers, it is inappropriate to assign these customers an ERC value equal to those customers in Walden Shores and Granada. Given the size of the master meters and the number of customers those meters are serving, we find that our ERC values are appropriate.

Our staff performed a detailed analysis of the utility's residential billing data in order to evaluate various BFC cost recovery percentages for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with our Memorandum of Understanding with the State's Water Management Districts.

Based on initial accounting allocations, the water system's BFC cost recovery percentage was 64%. We typically approve BFC cost recovery allocations of 40% or less. However, there are two reasons why we believe a cost recovery allocation greater than 40% is appropriate in this instance. First, the number of unmetered customers during the test year represents greater than 87% of the total bills rendered by the utility. These customers are seasonal in nature, which results in uneven cash flow distribution during the year.

Second, the utility had to estimate the average consumption for its unmetered customers in order to calculate its proposed consumption charges and unaccounted for water percentage. If the utility overestimated the test year consumption attributable to the unmetered customers (thereby underestimating the unaccounted for water), the utility's financial sufficiency may be harmed. Based on an analysis of different BFC cost recovery percentages and the resulting price impacts to customers, the BFC cost recovery percentage shall be 60% for the water system. This will result in greater financial sufficiency and stability for the utility.

Our staff examined the consumption levels of the metered customers in Walden Shores and the Granada apartments. We often implement inclining-block rate structures for residential classes of service. However, as discussed above, we are approving a water system BFC cost recovery percentage of 60%. Based on our other rate structure changes, plus the difficulty in designing meaningful inclining-block rates with only 40% of the cost recovery through the gallonage charge, we do not believe an inclining-block rate structure for the residential class is appropriate at this time. As such, a uniform gallonage charge rate structure is hereby approved.

The BFC/uniform gallonage charge rate structure has long been our water rate structure of choice for nonresidential classes. With this methodology, nonresidential customers continue to pay their fair share of the cost of service.

Wastewater Rates

As discussed above, the utility's current wastewater rate structure for all residential customers is a flat rate structure, while the general service customers are subject to the BFC/gallonage charge rate structure. Due to the capital intensive nature of wastewater systems, we do not typically set the BFC cost recovery percentage for wastewater systems at less than 50%. Based on initial accounting allocations, the utility's BFC cost recovery percentage is 64%. The initial allocation is consistent with how we have set wastewater rates in other cases; therefore, we find that the 64% fixed cost allocation is hereby approved.

Since metered data is available, we find that the appropriate rate structure for the residential class shall be changed to the BFC/gallonage charge rate structure. Absent data to the contrary, the residential wastewater monthly gallonage cap is set at the lesser of: 1) 80% of the consolidated factor for residential service; or 2) 10 kgal. In this case, the consolidated factor at 10 kgal is 78%. There is no data that would lead us to believe that a lesser residential monthly gallonage cap is appropriate. Therefore, we find that the residential monthly gallonage cap shall be set at 10 kgal.

Consistent with our decision on the water system, customers located in the Nalcrest, Lakeshore and Village Green service areas shall be reclassified from the residential to the multi-residential service customer class. The multi-residential and general service gallonage charge shall be 1.2 times greater than the corresponding residential charge, consistent with how we typically set wastewater rates.

Based on the foregoing, we find that the appropriate rate structure for the water system is the base facility charge (BFC)/uniform gallonage charge rate structure. The residential flat rates, as well as the 5 kgal allotment in the residential metered base facility charge, shall be discontinued. Customers located in the Nalcrest, Lakeshore, and Village Green service areas shall be reclassified from the residential to the multi-residential service customer class. The BFC cost recovery percentage for the water system shall be set at 60%. The appropriate rate structure for the wastewater system is the BFC/gallonage charge rate structure. Residential flat rates shall be eliminated, and the residential wastewater monthly gallonage cap shall be set at 10 kgal. Customers located in the Nalcrest, Lakeshore, and Village Green service areas shall be reclassified from the residential to the multi-residential service customer class. The multi-residential and general service gallonage charge shall be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery for the wastewater system shall be set at 64%.

Repression Adjustment

We conducted a detailed analysis of the consumption patterns of the utility's residential customers, as well as the effect of increased revenue requirements on the amount paid by

residential customers at varying levels of consumption. This analysis showed that a substantial portion (27.1%) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates a seasonal residential customer base. This analysis also showed that average residential consumption per customer, after excluding those bills below 1 kgal per month, was 7 kgal per month. This level of consumption indicates that there is a moderate amount of discretionary, or non-essential, consumption of approximately 4 kgal per month per customer while the utility's customers are in residence. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this utility based upon the increase approved in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases. Based on this methodology, we calculated that test year residential water sold shall be reduced by 3,267 kgal, purchased power expense shall be reduced by \$1,025, chemicals expense shall be reduced by \$94, and regulatory assessment fees (RAFs) shall be reduced by \$53. We find that the final post-repression revenue requirement for the water system is \$243,280. For the wastewater system, test year kgals sold shall be reduced by 2,548 kgal, purchased power expense shall be reduced by \$1,133, chemicals expense shall be reduced by \$59, and RAFs shall be reduced by \$54. We find that the final post-repression revenue requirement for the wastewater system is \$391,796.

In order to monitor the effect of the rate changes, the utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with our staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision.

Monthly Rates for Water and Wastewater Systems

The appropriate pre-repression revenue requirements are \$244,451 for the water system and \$393,042 for the wastewater system. As previously discussed, the appropriate water system rate structure for all customer classes is the BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage shall be set at 60%. All wastewater customers shall be subject to the BFC/gallonage charge rate structure. In addition, the residential wastewater gallonage cap shall be set at 10 kgal, the general service gallonage charge rate shall be 1.2 times greater than the corresponding residential rate, and the BFC cost recovery percentage shall be set at 64%. Further, repression adjustments shall be made to the water and wastewater systems. Applying these rate design and repression adjustments to the pre-repression revenue requirements results in the final rates contained in Schedules Nos. 4-A and 4-B. These rates are designed to recover a post-repression revenue requirement for the water system of \$243,280, and a post-repression revenue requirement for the wastewater system of \$391,796.

The utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The approved 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 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, and the water and wastewater rates approved herein are shown on Schedules Nos. 4-A and 4-B, respectively.

No Refund of Interim Required

By Order No. PSC-06-0925-PCO-WS, issued November 6, 2006, we approved an interim revenue requirement of \$152,671 for water and \$311,691 for wastewater. This represents an increase of \$12,286 or 8.75% for water and \$96,963 or 45.16% for wastewater. The interim collection period is November 2006 through May 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 and pro forma plant and O&M expense items not completed through May 2007 are examples of adjustments which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ending December 31, 2005. Gold Coast'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.

To establish the proper refund amount, we calculated the interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense and pro forma plant and O&M expense items not completed through May 2007 were excluded because those items are prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the revenue requirements of \$152,671 for water and \$311,691 for wastewater granted in Order No. PSC-06-0925-PCO-WS for the interim test year are less than the revenue requirements for the interim collection period of \$203,233 for water and \$351,332 for wastewater. Therefore, no interim refund is required. Further, upon issuance of the Consummating Order in this docket, the irrevocable letter of credit shall be released.

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. The decreased water and wastewater revenues will result in the rate reduction as shown on Schedule Nos. 4-A and 4-B.

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

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

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decision, Gold Coast shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gold Coast Utility Corp.'s application for increased water and wastewater rates is granted 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 are hereby approved in every respect. It is further

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

ORDERED that Gold Coast Utility Corp. shall complete all pro forma items, approved herein, by December 31, 2007. It is further

ORDERED that Gold Coast Utility Corp. shall file monthly reports that identify each pro forma plant addition, the amount of the addition, and the date of completion. It is further

ORDERED that Gold Coast Utility Corp. shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports shall be provided by customer class, usage block, and meter size, on a quarterly basis for a period of two

years, beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, Gold Coast Utility Corp. shall file a revised monthly report within 30 days of any revision. It is further

ORDERED that Gold Coast Utility Corp. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule Nos. 4-A and 4-B. 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 Gold Coast Utility Corp. is hereby authorized to charge the rates and charges are set forth in the body of this Order. It is further

ORDERED that the approved rates and charges 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 are the date of the notice. It is further

ORDERED that the increased rates and charges approved herein shall be effective for service rendered on or after the stamped approved date on the revised tariff sheets, in accordance with Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that no refund of interim rates is required. 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 one month prior to the actual date of the required rate reduction. It is further

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

ORDERED that Gold Coast Utility Corp. 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 the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the

close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and for the purpose of possibly revisiting the used and useful calculation of the water treatment plant upon the conclusion of the used and useful rule hearing in Docket No. 070183-WS. It is further

ORDERED that, if the methodology for calculating used and useful water treatment plant is not changed by the promulgation of the rule in Docket No. 070183-WS, the docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 30th day of July, 2007.



ANN COLE
Commission Clerk

(S E A L)

KEF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein, except for the four-year rate reduction and proof of adjustment of books and records, 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 Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 20, 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 four-year rate reduction and proof of adjustment of books and records may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk 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.

Name of Utility: Gold Coast Utility Corp.
Docket No: 060246-WS

Attachment A
Historical Test Year (2005)

WATER TREATMENT SYSTEM USED & USEFUL

1)		Capacity of Plant	540,000	gallons per day
2)		Maximum 5 Days Average	219,000	gallons per day
	a)	Maximum day @ peak		gallons per day
3)		Average Daily Flow	116,244	gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	120,000	gallons per day
5)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	1,271	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	6.62	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\ (5a)]	5,729	gallons per day
6)		Excessive Unaccounted for Water (EUW)		gallons per day
	a)	Percentage of Excessive amount	.80	
	b)	Total Unaccounted for Water	12,523	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	11,624	gallons per day
	d)	Excessive Amount	899	gallons per day

USED AND USEFUL FORMULA

$(5 \text{ Max days} - \text{EUW} + \text{FF} + \text{Growth}) / 1 \text{ Well @ 12hrs} + \text{usable storage (gpd)}$

$$(219,000 - 899 + 120,000 + 5,729) / 540,000 = 63.67 \% \text{ Used \& Useful}$$

Name of Utility: Gold Coast Utility Corp.
Docket No: 060246-WS

Attachment B
Historical Test Year (2005)

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

1)		Permitted Capacity of Plant Using (3 MADF)	250,000	gallons per day
2)		Average Daily Glow (3MADF)	212,165	gallons per day
3)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	1,260	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	6.65	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2\ (3a)]	5,599	Gallons per day
4)		Excessive Infiltration or Inflow (I&I)		Gallons per day
	a)	Total I & I	87,149	gallons per day
	b)	Percent of Excessive	34.25	
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	26,006	gallons per day
	d)	Excessive Amount	61,143	gallons per day

USED AND USEFUL FORMULA

$$[(2) + (3) - (4)] / (1) =$$

$$(212,165 + 5,599 - 61,143) / 250,000 = (62.65\%) \text{ Used \& Useful}$$

Gold Coast Utility Corp. Schedule of Water Rate Base Test Year Ended 12/31/05			Schedule No. 1-A Docket No. 060246-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$477,805	\$353,033	\$830,838	(\$128,425)	\$702,413
2 Land and Land Rights	14,473	0	14,473	0	14,473
3 Non-used and Useful Components	0	0	0	(119,666)	(119,666)
4 Accumulated Depreciation	(444,378)	76,036	(368,342)	(3,260)	(371,602)
5 CIAC	(237,190)	0	(237,190)	0	(237,190)
6 Amortization of CIAC	208,596	1,190	209,786	(4,780)	205,006
7 Working Capital Allowance	<u>18,605</u>	<u>12,226</u>	<u>30,831</u>	<u>(6,064)</u>	<u>24,767</u>
8 Rate Base	<u>\$37,911</u>	<u>\$442,485</u>	<u>\$480,396</u>	<u>(\$262,194)</u>	<u>\$218,202</u>

Gold Coast Utility Corp.				Schedule No. 1-B	
Schedule of Wastewater Rate Base				Docket No. 060246-WS	
Test Year Ended 12/31/05					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$704,804	\$430,591	\$1,135,395	(\$200,265)	\$935,130
2 Land and Land Rights	34,247	25,000	59,247	0	59,247
3 Non-used and Useful Components	0	0	0	(201,396)	(201,396)
4 Accumulated Depreciation	(634,755)	133,358	(501,397)	(54,114)	(555,511)
5 CIAC	(189,368)	0	(189,368)	0	(189,368)
6 Amortization of CIAC	183,661	2,905	186,566	0	186,566
7 Working Capital Allowance	<u>33,304</u>	<u>15,561</u>	<u>48,865</u>	<u>(8,719)</u>	<u>40,146</u>
8 Rate Base	<u>\$131,893</u>	<u>\$607,415</u>	<u>\$739,308</u>	<u>(\$464,493)</u>	<u>\$274,815</u>

Gold Coast Utility Corp.		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 060246-WS	
Test Year Ended 12/31/05			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To remove unsupported plant additions (AF No. 1)	(\$5,835)	(\$4,727)	
2 To reflect the appropriate pro forma plant items	(137,996)	(261,300)	
3 To reflect the appropriate retirements on pro forma plant	<u>15,406</u>	<u>65,762</u>	
Total	<u>(\$128,425)</u>	<u>(\$200,265)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment	(\$77,464)	(\$136,431)	
To reflect net non-used and useful on pro forma	<u>(42,202)</u>	<u>(64,965)</u>	
Total	<u>(\$119,666)</u>	<u>(\$201,396)</u>	
<u>Accumulated Depreciation</u>			
1 To remove unsupported plant additions (AF No. 1)	\$1,606	\$1,538	
2 To reflect the appropriate pro forma plant items	10,540	10,110	
3 To reflect the appropriate retirements on pro forma plant	<u>(15,406)</u>	<u>(65,762)</u>	
Total	<u>(\$3,260)</u>	<u>(\$54,114)</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect the use of an incorrect composite rate (AF No. 2)	<u>(\$4,780)</u>	<u>\$0</u>	
<u>Working Capital</u>			
To reflect 1/8 of the O&M expense (AF No. 3)	<u>(\$6,064)</u>	<u>(\$8,719)</u>	

Gold Coast Utility Corp. Capital Structure-Simple Average Test Year Ended 12/31/05						Schedule No. 2 Docket No. 060246-WS			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$294,414	\$0	\$294,414	(\$36,203)	\$258,211	21.17%	7.24%	1.53%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	15,599	1,080,379	1,095,978	(134,485)	961,493	78.83%	9.43%	7.43%	
5 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Total Capital	<u>\$310,013</u>	<u>\$1,080,379</u>	<u>\$1,390,392</u>	<u>(\$170,688)</u>	<u>\$1,219,704</u>	<u>100.00%</u>		<u>8.97%</u>	
Per Staff									
8 Long-term Debt	\$294,414	\$0	\$294,414	\$173,795	\$468,209	94.97%	7.24%	6.88%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	15,599	0	15,599	9,208	24,807	5.03%	12.00%	0.60%	
12 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
13 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
14 Total Capital	<u>\$310,013</u>	<u>\$0</u>	<u>\$310,013</u>	<u>\$183,003</u>	<u>\$493,016</u>	<u>100.00%</u>	-	<u>7.48%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>11.00%</u>	<u>13.00%</u>		
OVERALL RATE OF RETURN						<u>7.43%</u>	<u>7.53%</u>		

Gold Coast Utility Corp. Statement of Water Operations Test Year Ended 12/31/05						Schedule No. 3-A Docket No. 060246-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$140,385</u>	<u>\$225,877</u>	<u>\$366,262</u>	<u>(\$225,877)</u>	<u>\$140,385</u>	<u>\$104,066</u> 74.13%	<u>\$244,451</u>
Operating Expenses							
2 Operation & Maintenance	\$148,840	\$97,808	\$246,648	(\$48,509)	\$198,139		\$198,139
3 Depreciation	(4,968)	23,762	18,794	(13,404)	5,390		5,390
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	14,842	21,401	36,243	(17,120)	19,123	4,683	23,806
6 Income Taxes	0	21,534	21,534	(58,137)	(36,603)	37,398	795
7 Total Operating Expense	<u>158,714</u>	<u>164,505</u>	<u>323,219</u>	<u>(137,170)</u>	<u>186,049</u>	<u>42,081</u>	<u>228,130</u>
8 Operating Income	<u>(\$18,329)</u>	<u>\$61,372</u>	<u>\$43,043</u>	<u>(\$88,707)</u>	<u>(\$45,664)</u>	<u>\$61,985</u>	<u>\$16,321</u>
9 Rate Base	<u>\$37,911</u>		<u>\$480,396</u>		<u>\$218,202</u>		<u>\$218,202</u>
10 Rate of Return	<u>-48.35%</u>		<u>8.96%</u>		<u>-20.93%</u>		<u>7.48%</u>

Gold Coast Utility Corp. Statement of Wastewater Operations Test Year Ended 12/31/05						Schedule No. 3-B Docket No. 060246-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$214,728</u>	<u>\$369,501</u>	<u>\$584,229</u>	<u>(\$369,501)</u>	<u>\$214,728</u>	<u>\$178,316</u> 83.04%	<u>\$393,044</u>
Operating Expenses							
2 Operation & Maintenance	\$266,428	\$124,486	\$390,914	(\$69,742)	\$321,172		\$321,172
3 Depreciation	17,752	20,721	38,473	(21,263)	17,210		17,210
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	24,198	31,262	55,460	(30,378)	25,082	8,024	33,106
6 Income Taxes	0	33,140	33,140	(96,220)	(63,080)	64,081	1,001
7 Total Operating Expense	<u>308,378</u>	<u>209,609</u>	<u>517,987</u>	<u>(217,603)</u>	<u>300,384</u>	<u>72,105</u>	<u>372,489</u>
8 Operating Income	<u>(\$93,650)</u>	<u>\$159,892</u>	<u>\$66,242</u>	<u>(\$151,898)</u>	<u>(\$85,656)</u>	<u>\$106,211</u>	<u>\$20,555</u>
9 Rate Base	<u>\$131,893</u>		<u>\$739,308</u>		<u>\$274,815</u>		<u>\$274,815</u>
10 Rate of Return	<u>-71.00%</u>		<u>8.96%</u>		<u>-31.17%</u>		<u>7.48%</u>

Gold Coast Utility Corp.
Adjustment to Operating Income
Test Year Ended 12/31/05

Schedule No. 3-C
Docket No. 060246-WS

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
Remove requested interim revenue increase	<u>(\$225,877)</u>	<u>(\$369,501)</u>
<u>Operation and Maintenance Expense</u>		
1 To remove excessive I&I adjustment	\$0	(\$8,759)
2 To reflect the appropriate employees' salaries	(30,668)	(39,032)
3 Adjust Accts. 603/703 to reflect utility's error	(8,483)	(9,517)
4 To remove pro forma retirement plan - IRA contribution	(3,463)	(4,537)
5 To reflect the appropriate benefits	(4,701)	(5,983)
6 To reflect unamortized wastewater permit renewal fees (AF No.3)	0	(3,837)
7 To remove unsupported expenses (AF No. 3)	0	(128)
8 To reflect rate case expense amortization	(1,194)	2,050
Total	<u>(\$48,509)</u>	<u>(\$69,742)</u>
<u>Depreciation Expense - Net</u>		
1 To reflect the removal of plant (AF No.1)	(\$494)	(\$445)
2 To reflect the appropriate pro forma	(10,540)	(10,110)
3 To reflect the appropriate retirements on pro forma plant	1,280	1,824
4 To remove net depreciation on non-U&U pro forma plant.	(1,597)	(2,506)
5 To remove net depreciation on non-U&U adjustment above.	(2,053)	(10,025)
Total	<u>(\$13,404)</u>	<u>(\$21,263)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$10,164)	(\$16,628)
2 To reduce pro forma property taxes.	(1,404)	(8,592)
3 To reflect non-used and useful property taxes.	(998)	(1,903)
4 Water tangible taxes and other taxes being overstated. (AF No. 4)	(1,558)	0
5 Wastewater tangible and other taxes understated. (AF No.4)	0	458
6 To reduce pro forma payroll taxes.	(2,995)	(3,714)
Total	<u>(\$17,120)</u>	<u>(\$30,378)</u>

Gold Coast Utility Corp.				Schedule No. 4-A	
Water Monthly Service Rates				Docket No. 060246-WS	
Test Year Ended 12/31/05					
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Comm. Approved Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge By Meter Size: (rates prior to filing and Commission approved interim rates include a 5 kgal allotment)	\$7.19	\$7.82	\$20.46	N/A	
<u>Base Facility Charge All Meter Sizes:</u>					
5/8" x 3/4"				\$13.78	\$0.66
5/8" x 3/4" at Granada			\$14.32	\$11.02	\$0.53
3/4"			\$30.69	\$20.67	\$0.99
1"			\$51.15	\$34.45	\$1.65
1 1/2"			\$102.30	\$68.90	\$3.31
2"			\$163.68	\$110.24	\$5.29
Gallonge Charge, per 1,000 Gallons	\$1.03	\$1.12	\$3.19	\$2.81	\$0.13
<u>Multi-Residential and General Service</u>					
Base Facility Charge By Meter Size:					
5/8" x 3/4"	\$18.46	\$20.08	\$20.46	\$13.78	\$0.66
3/4"			\$30.69	\$20.67	\$0.99
1"	\$46.15	\$50.19	\$51.15	\$34.45	\$1.65
1 1/2"	\$92.28	\$100.36	\$102.30	\$68.90	\$3.31
2"	\$147.64	\$160.56	\$163.68	\$110.24	\$5.29
2" at Village Green			\$327.36	\$446.67	\$21.45
3"	\$295.20	\$321.03	\$327.36	\$220.48	\$10.59
4"			\$511.50	\$344.50	\$16.54
6"			\$1,023.00	\$689.00	\$33.09
8"			\$0.00	\$1,102.40	\$52.94
8" at Nalcrest, Lakeshore				\$4,134.00	\$198.54
Gallonge Charge, per 1,000 Gallons	\$1.03	\$1.12	\$3.19	\$2.81	\$0.13
<u>Typical Walden Shores Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$7.19	\$7.82	\$30.03	\$22.21	
5,000 Gallons	\$7.19	\$7.82	\$36.41	\$27.83	
10,000 Gallons	\$12.34	\$13.42	\$52.36	\$41.88	

Gold Coast Utility Corp.			SCHEDULE NO. 4-B		
Wastewater Monthly Service Rates			Docket No. 060246-WS		
Test Year Ended 12/31/05					
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Comm. Approved Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$12.62	\$18.32	\$37.08	\$23.89	\$0.91
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$0.00	\$0.00	\$3.74	\$3.59	\$0.14
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$24.24	\$35.19	\$37.08	\$23.89	\$0.91
3/4"			\$55.62	\$35.84	\$1.36
1"	\$60.63	\$88.01	\$92.70	\$59.73	\$2.27
1 1/2"	\$121.24	\$175.99	\$185.40	\$119.45	\$4.54
2"	\$193.98	\$281.57	\$296.64	\$191.12	\$7.27
2" at Village Green				\$774.04	\$29.43
3"	\$387.98	\$563.18	\$556.20	\$382.24	\$14.53
4"			\$927.00	\$597.25	\$22.70
6"	\$0.00	\$0.00	\$1,854.00	\$1,194.50	\$45.41
8"	\$0.00	\$0.00		\$1,911.20	\$72.65
8" at Nalcrest, Lakeshore	\$0.00	\$0.00	\$0.00	\$7,167.00	\$272.45
Gallonge Charge, per 1,000 Gallons	\$1.60	\$2.32	\$4.39	\$4.31	\$0.16
<u>Typical Walden Shores Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$12.62	\$18.32	\$48.30	\$34.66	
5,000 Gallons	\$12.62	\$18.32	\$55.78	\$41.84	
10,000 Gallons	\$12.62	\$18.32	\$74.48	\$59.79	
(Wastewater Gallonge Cap - 10,000 Gallons)					