

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

DOCKET NO. 060285-SU  
ORDER NO. PSC-07-0865-PAA-SU  
ISSUED: October 29, 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 RATE INCREASE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except the requirement to reduce rates to reflect the removal of the amortized rate case expense and the requirement to provide proof that the utility has adjusted its books for all applicable NARUC USOA primary accounts, 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

Utilities, Inc. of Sandalhaven (Sandalhaven or utility) is a Class B wastewater utility providing service to approximately 910 customers in Charlotte County. Sandalhaven is a wholly-owned subsidiary of Utilities, Inc. In its 2006 Annual Report, Sandalhaven reported operating revenues of \$280,256 and a net operating income of \$4,897. Sandalhaven's rates were last established in its 2002 rate case.<sup>1</sup>

On May 15, 2006, Sandalhaven filed its Application for an increase in wastewater rates. On August 22, 2006, the utility satisfied all outstanding deficiencies in its Minimum Filing Requirements (MFRs), and the official filing date for the rate case was established at that time. Initially the test year for the rate case was the historic test year ending December 31, 2005. On October 4, 2006, our staff issued its audit report for the 2005 test year. Due to the uncertainty surrounding the retirement of the utility's wastewater treatment plant, and after discussion with

<sup>1</sup> See Order No. PSC-03-0602-PAA-SU, issued May 13, 2003, in Docket No. 020409-SU, In re: Application for rate increase in Charlotte County by Utilities, Inc. of Sandalhaven.

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our staff and the parties, Sandalhaven agreed to revise its filing, which included the utilization of a projected test year ending December 31, 2007. Thereafter, on December 28, 2006, Sandalhaven filed its Amended Application for increase in rates, which included a request for increased service availability charges. On January 16, 2007, Sandalhaven filed a request for authority to collect revised system capacity charges on a temporary basis, pending the determination of final rates and charges in the case.

Our staff determined that Sandalhaven's revised MFRs contained a number of deficiencies that would require revisions by the utility. On February 9, 2007, Sandalhaven filed revisions that satisfied the MFR deficiencies, and that date was established as the new official filing date. The utility initially requested final rates designed to generate annual revenues of \$1,118,134. This represented a revenue increase of \$841,571 (or 313.33 %.) The Office of Public Counsel (OPC) and Placida HG, LLP (Placida) intervened in the docket. On April 17, 2007, our staff issued its audit report for the 2006 test year.

We addressed Sandalhaven's request for temporary service availability charges at our March 27, 2007, Agenda Conference. After hearing discussion from Placida opposing temporary service availability charges, responses by Sandalhaven and OPC, and comments by our staff, we approved the temporary charges subject to refund at the conclusion of the case. We confirmed that decision in Order No. PSC-07-0327-PCO-SU, issued April 16, 2007. We based our decision to approve temporary service availability charges on Section 367.101, Florida Statutes (F.S.), Commission precedent, and Rule 25-30.580, Florida Administrative Code (F.S.). On April 25, 2007, Placida filed a Motion for Reconsideration of Order No. PSC-07-0327-PCO-SU, which we denied in Order No. PSC-07-0561-FOF-SU, issued July 5, 2007.

The primary reason for the utility's requested increased rates and service availability charges is to recover the costs incurred for its interconnection with the Englewood Water District (EWD). Before Sandalhaven completed its interconnection in April 2007, its wastewater treatment plant was the sole means of treating its wastewater effluent. The sole means of disposal of the treated effluent was reclaimed water irrigation at the Wildflower Golf Course (Wildflower). Plans in existence to redevelop Wildflower would have eliminated Sandalhaven's means of effluent disposal, but in May 2007 Charlotte County reversed its approval of the Wildflower developer agreement it had granted in December 2006. In addition, because Wildflower declared bankruptcy, the utility's reuse water is not being used for irrigation purposes after reaching the holding pond. Due to the uncertainty of the retirement date for the utility's wastewater treatment plant, it was not possible to calculate a revenue requirement as Sandalhaven initially proposed in Sandalhaven's filing, which projected the plant would be retired by July 2007.

On June 7, 2007, our staff and the parties met to discuss the unique situation regarding the timing of Sandalhaven's wastewater treatment plant retirement. Based on discussions the utility has had with developers, Sandalhaven expects its customer base to double within the next three years. The projected test year in this case is December 31, 2007, which will not encompass all the expected customer growth or the retirement of the utility's wastewater treatment plant. The concern was that until the plant is retired, current customers will be paying for the costs of interconnection with the EWD. On the other hand, the parties and our staff recognized that all

customers will eventually be served by the interconnection with the EWD. In light of the above concerns, the parties and staff discussed a two-phased rate increase for Sandalhaven. Phase one would recognize the operation of both the wastewater treatment plant and the interconnection with the EWD, and phase two would establish rates in the same way we treat original certificate cases at 80% of build-out.

On July 9, 2007, Sandalhaven filed its two-phased rate proposal. Sandalhaven attempted to calculate a precise phase one revenue requirement and rates, but was unable to do so because of the complexity and unusual circumstances in this case. Instead, the utility derived phase one rates by simply adding 80% of the difference between the phase two rates and the current rates to the current rates. With the exception of a few adjustments, Sandalhaven used the existing MFR schedules for the rate base components through the projected 2007 test year as a starting point for its phase two revenue requirement calculation.

On August 2, 2007, the parties and staff held a final informal meeting to discuss the utility's rate proposal. During the meeting, the parties discussed several concerns regarding errors in the calculations of contributions-in-aid-of-construction (CIAC) and accumulated amortization of CIAC, the necessity of other adjustments based on staff audit reports and responses to data requests, and the arbitrary nature of the utility's calculation of phase one rates. OPC expressed concerns that the accumulated depreciation and accumulated amortization of CIAC balances were understated because they only represented the projected 2007 balances instead of the balances at the point the utility will reach 80% buildout. Although there were several concerns, the parties did agree conceptually to the two phase rate approach.

The phase two rate approach recognizes 80% of the rate base and net operating income at build-out. Specifically, in an effort to mitigate the level of the utility's requested increase, this approach recognizes a substantial portion of the CIAC and revenues from future customers at 80% build-out. As with original certificate cases and the speculative nature of growth at times, there is a risk to the utility that expected future growth may not materialize, which could place the utility in an under-earnings posture.

By letter dated August 7, 2007, Sandalhaven waived the 5-month statutory deadline for this case to October 9, 2007. On August 14, 2007, Sandalhaven filed its revised two phased rate proposal which corrected the CIAC, accumulated depreciation, accumulated amortization of CIAC and other errors noted by our staff and OPC. Sandalhaven included requests for the loss on its wastewater treatment plant retirement and AFPI charges for the amount of interconnection costs not recovered through rates. Sandalhaven asserted that 80% buildout and total buildout will occur on June 30, 2010, and December 31, 2010, respectively. The utility requested phase two rates designed to generate annual revenues of \$1,125,682. This revised request would amount to a revenue increase of \$849,119 (or 307.02%).

To derive Sandalhaven's requested phase one rates, 80% of the difference between phase two rates and current rates was added to the current rates. Sandalhaven asserted that the phase one rates would be in effect until the infrastructure to redirect flows of its existing customers to the interconnection with the EWD is complete and the wastewater treatment plant is retired. The utility projects the retirement and interconnection to be placed into service within two years.

Due to the arbitrary nature of the utility's requested phase one rates, we have calculated a revenue requirement for phase one which more appropriately recognizes the operation of both the wastewater treatment plant and the interconnection with the EWD through the projected 2007 test year. Specifically, we have adjusted the utility's requested rate base, capital structure, and NOI in the MFRs to derive its revenue requirement for phase one.

On September 25, 2007, the Charlotte County Commission passed a resolution to rescind our jurisdiction over privately-owned water and wastewater utilities in the county. Section 367.171(5), F.S., requires that all cases pending before us shall remain within our jurisdiction until disposed of in accordance with the law in effect at the time the case was filed. Therefore, we will proceed to set new rates for Sandalhaven based on the regulatory principles found in Chapter 367, F.S., and our rules and precedents.

Below we address in detail the appropriate phase one and phase two revenue requirements and rates. We have jurisdiction pursuant to Sections 367.011, 367.081, 367.101, and 367,121, F.S.

### QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

We will address each of these three components below based on the information available.

#### Quality of Product

The wastewater treatment plant at Sandalhaven is regulated by the Department of Environmental Protection (DEP). The DEP inspected the plant on February 9, 2007. According to DEP's Compliance Inspection Report, the utility is currently up to date with its environmental compliance, and all chemical analysis and test results are satisfactory. The quality of wastewater service meets or exceeds regulatory standards, and therefore we find that it is satisfactory.

#### Operating Condition of the Wastewater Facilities

The wastewater plant-in-service is reflective of the quality of product provided by the utility. The utility's operating permit was issued on March 8, 2007, and will expire on March 7,

2012. According to DEP's Compliance Inspection Report, the utility is in compliance with its regulations for operation and maintenance, record keeping and effluent disposal.

As discussed above, Sandalhaven intends to retire the existing wastewater treatment plant in the near future and interconnect with the EWD. In its response to a staff data request, Sandalhaven stated that in order for the existing wastewater treatment plant to remain in service for the benefit of existing customers, the utility must have 150,000 gallons per day of effluent disposal capacity. Currently, the utility's only reuse application point is the former Wildflower Golf Course, which may be redeveloped as a residential community and will no longer provide a long-term disposal option. The utility's on-site percolation ponds do not have adequate percolation capacity during peak flow periods throughout the winter months to serve as the sole disposal option. There are no large tracts of vacant land suitable for effluent disposal within the utility's service area. During the low flow portion of the year, and as long as the Wildflower property continues to be available as an effluent disposal option, the utility can continue to treat flows from existing customers at the existing plant. The utility stated that the retirement date of the wastewater treatment plant is dependent on the timing of the redevelopment of the property as a residential community.

Maintenance at the wastewater plant site appears to have been given adequate attention. The wastewater plant equipment and percolation ponds have been receiving periodic maintenance and are functioning properly. The plant grounds within the fenced in area are well maintained. For these reasons we find that the operational conditions at the wastewater plant are satisfactory at this time.

#### Customer Satisfaction

An informal customer meeting was held on May 2, 2007, in the Tringali Recreation Center in Englewood, Florida. In the afternoon, two customers from Eagle Preserve Home Associations asked to meet with our staff to discuss issues related to the rate increase. The customers were concerned about the 309% rate increase. They believed the current customers should not pay for future customers. One customer stated that he had had a vacant lot in the Eagle Preserve subdivision for many years. The utility charged him approximately \$12 per month for the undeveloped lots. There are 90 lots in the Eagle Preserve subdivision, of which 73 are vacant and all lots are hooked up to the wastewater treatment plant.

The evening meeting was held at 6:00 p.m. at the Tringali Recreation Center. Twenty-nine people attended the meeting, including three utility representatives and one representative from OPC. Seven customers provided comments and concerns about the utility. All customers were concerned about the proposed 309% rate increase. All customers believed it is unfair for the current customers to pay for future customers. They also believed that current customers should not be penalized for the extreme increase in growth. One customer who lives near the wastewater treatment plant was concerned about methane gas in his unit. He stated that once in a while, he smells the gas in his house. He does not know the source of the odor.

Regarding the rate increase, our staff explained to the customers that the major cost of the increase is the cost to interconnect to EWD. With regard to the methane gas odor, our staff

reported the matter to the DEP. The DEP's inspector contacted the customer and explained that the odor he smells in his home cannot be the smell of methane gas because methane gas is odorless. The inspector indicated that she had inspected the utility recently and she did not smell any odor at the wastewater treatment plant. The inspector told the customer that she would investigate further if he would notify her when he has the odor problem again.

Upon review, we find that the utility is putting forth a sufficient good faith effort to resolve customer complaints and maintain good customer relations. We find that Sandalhaven's quality of service is satisfactory.

### RATE BASE

#### Audit Adjustments

We find, and Sandalhaven agrees, that the following adjustments to rate base shall be made for both phase one and phase two: (1) plant shall be decreased by \$12,941; (2) accumulated depreciation shall be decreased by \$310; (3) long-term debt shall be increased by \$55,955,797; (4) short-term debt shall be decreased by \$11,347,000; (5) common equity shall be decreased by \$17,464,864; (6) customer deposits shall be increased by \$263; (7) long-term debt cost rate of 6.81% shall be decreased by 0.21%; and (8) taxes other than income taxes (TOTI) shall be decreased by \$1,715. Net depreciation expense shall be increased by \$34,921 for phase one. Revenues for phase one and phase two shall be increased by \$10,663 and \$5,801, respectively.

<b>Audit Adjustments to Which Sandalhaven Agrees</b>							
Audit Finding	Plant	Acc. Depr.	Depr. Exp.	CIAC Amort. Expense	Capital Structure	Revenue	TOTI
<i>2005 Audit</i>							
Finding No. 3: Reflect Refund from Vendor	(\$6,200)	\$310	(\$207)				
Finding No. 8: Correct Amort.				\$35,128			
<i>2006 Audit</i>							
Finding No. 3: Organization Cost	(\$6,741)						
Finding No. 8: Increase L-T Debt Decrease S-T Debt Decrease Equity Incr. Cust. Deposits Decr. L-T Debt Rate					\$55,955,797 (\$11,347,000) (\$17,464,864) \$263 (0.21%)		
Finding No. 9: Correct Revenues						Phase one \$10,663 Phase two \$5,801	
Finding No. 13: TOTI							(\$1,715)

<b>Audit Adjustments to Which Sandalhaven Agrees</b>							
Audit Finding	Plant	Acc. Depr	Depr. Exp.	CIAC Amort. Expense	Capital Structure	Revenue	TOTI
<i>2005 Audit</i>							
Total Adjustments	<u>(\$12,941)</u>	<u>\$310</u>	<u>(\$207)</u>	<u>\$35,128</u>	As Noted Above	As Noted Above	<u>(\$1,715)</u>

The auditors recommended that a \$10,663 adjustment be applied to the utility's 2006 projected revenues. On MFR Schedule B-2, the utility decreased revenues by \$4,862 to arrive at its operating revenues of \$271,700 for the year ending December 31, 2006. Accordingly, we find that revenues for phase one shall be increased by \$10,663. However, in its revised phase two proposal, the utility reflected operating revenues of \$276,562 for the year ending December 31, 2005. Because the actual 2005 revenues exceed the utility's projected 2006 revenues by \$4,862, the effect of the auditor's recommended adjustment is \$5,801 for phase two.

Franchises Account

We find, as explained below, that plant and accumulated depreciation shall be reduced by \$9,826 and \$1,116, respectively, for phase one and phase two. In addition, phase one and phase two operation and maintenance (O&M) expenses shall be increased by \$1,983.

In its filing, Sandalhaven reflected an historical 2005 balance of \$3,421 for Franchises. On MFR Schedule A-6, the utility added \$9,826 in 2006 which resulted in a projected 2007 balance of \$13,247 for Franchises. In Finding No. 4 of the 2006 Audit, the staff auditors stated Sandalhaven recorded a \$9,916 addition to Franchises in 2006 for legal fees related to the bulk wastewater agreement with the EWD. The auditors stated that the two agreements with EWD were for impact fees and that these agreements are not franchise agreements.

In its MFRs, Sandalhaven reflected the plant capacity fees paid to EWD under Account No. 354 – Structures and Improvements. The auditors stated that the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) does not include legal costs related to plant projects. As such, the auditors stated these costs would more appropriately be classified under Account 733 – Contractual Services Legal. Thus, the auditors recommended that plant should be reduced by \$9,916.

In response to the 2006 Audit, the utility agreed to the auditors' adjustment. However, because the utility recorded 2006 additions of \$9,826 in its filing instead of \$9,916, we find that plant and accumulated depreciation shall be reduced by \$9,826 and \$1,116, respectively, for phase one and phase two. Rule 25-30.433(8), F.A.C., states: "non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified." In accordance with Rule 25-30.433(8), F.A.C., we find that the legal fees of \$9,916 shall be amortized over 5 years, which results in an O&M expense increase of \$1,983 for phase one and phase two.

### WSC and UIF Rate Base Allocations

As explained below, we find that the appropriate Water Service Corporation (WSC) net rate base allocation for Sandalhaven is \$7,561, which represents an increase of \$103. WSC depreciation expense shall also be increased by \$4 for both phase one and phase two. Further, the appropriate Utilities, Inc. of Florida (UIF) rate base allocation for Sandalhaven is \$9,921. This represents plant and accumulated depreciation decreases of \$813 and \$224, respectively. In addition, depreciation expense shall be decreased by \$417 for both phase one and phase two. Moreover, in its revised phase two rate proposal, the utility combined its UIF net plant with WSC net plant as a separate line in rate base totaling \$19,522. For phase two, the appropriate combined WSC and UIF rate base is \$17,482, which is \$2,040 less than the utility's requested amount of \$19,522. Accordingly, phase two WSC and UIF rate base shall be reduced by \$2,040.

In its MFRs, Sandalhaven reflected a WSC rate base allocation of \$7,458, but the utility did not include any UIF rate base allocation in the 2007 projected test year plant. Our staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Sandalhaven and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. We believe that several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

### Audit Adjustments

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

### ERC Methodology

WSC uses 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, we found that WSC's

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<sup>2</sup> Issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

method of allocating its common costs based on CEs was unsupported and unreasonable. Further, we found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocated its common plant and expenses quarterly as of June 30, 2005. In addition, the staff auditors indicated that instead of using ERCs, WSC uses the following: (1) if the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) if the customer is an availability customer only, the customer is counted as one-half; (3) if the water company is a distribution company only, the customer is counted as one-half; and (4) if the wastewater company is a collection company only, the customer is counted as one-half. These additional four factors unnecessarily complicate the allocation process. With the use of this methodology, WSC's ERC count will not conform to the ERC count in each Florida subsidiary's annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology we use to set rates for water and wastewater utilities. Accordingly, we find that UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. We note that we have approved the above audit and ERC methodology adjustments in several recent rate cases for UI's other subsidiaries in Florida.<sup>3</sup>

### Conclusion

Based on the above, we find that the appropriate WSC net rate base allocation for Sandalhaven is \$7,561, which represents an increase of \$103. WSC depreciation expense shall also be increased by \$4 for both phase one and phase two. Further, we find that the appropriate UIF rate base allocation for Sandalhaven is \$9,921 (plant of \$14,210 less accumulated depreciation \$4,289). This represents plant and accumulated depreciation decreases of \$813 and \$224, respectively. In addition, depreciation expense shall be decreased by \$417 for both phase one and phase two. Moreover, in its revised phase two rate proposal, the utility combined its UIF net plant with WSC net plant as a separate line in rate base totaling \$19,522. We find that the combined WSC and UIF rate base is \$17,482. Accordingly, we find that phase two WSC and UIF rate base shall be reduced by \$2,040.

### Projected Plant Additions

In its filing, Sandalhaven reflected \$7,062,555 of projected average test year plant. This represents an increase of \$4,986,281 from the utility's historical 2005 average plant balance of

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<sup>3</sup> See Order No. PSC-07-0505-SC-WS, pp.25-27 and pp.44-45, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.; Order No. PSC-07-0199-PAA-WS, pp. 6-8 and pp. 14-15, issued March 5, 2007, in Docket No. 060257-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; Order No. PSC-07-0130-SC-SU, pp. 11-13 and 22-23, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.; Order No. PSC-07-0082-PAA-SU, pp. 4-5 and p. 10, issued January 29, 2007, in Docket No. 060255-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.; and Order No. PSC-07-0134-PAA-SU, pp.6-8 and p. 15, issued February 16, 2007, in Docket No. 060254-SU, In re: Application for increase in wastewater rates in Pinellas County by Mid-County Services, Inc.

\$2,076,274. The following table reflects the plant projects and the proposed retirements that account for the majority of Sandalhaven's average plant balance increase.

<u>Acct No.</u>	<u>Plant Projects</u>	<u>In-Service Date</u>	<u>MFR Amount</u>
354.2	Purchase of 100,000 gpd of Treatment Capacity at EWD	6/8/2006	\$752,373
354.2	Purchase of 200,000 gpd of Treatment Capacity at EWD	12/8/2006	1,504,745
354.2	Master Lift Station	4/19/2007	546,920
360.2	Force Mains	4/19/2007	2,150,656
360.2	Force Mains to Redirect Flows from Existing Customers	2009	200,000
360.2	Survey and Route Selection for Master Lift Station Force Main	5/26/2006	98,147
360.2	Sandalhaven Lift Station No. 4 Force Main Repair	3/8/2006	16,000
361.2	Sanitary Sewer I&I Corrections	5/8/2006	132,585
380.4	Design/Permitting - Sandalhaven WWTP Expansion	4/20/2006	204,440
380.4	Variable Frequency Drive Units, Pipes and Pumps	6/26/2006	<u>31,997</u>
	Total Additions		<u>\$5,637,863</u>
<u>Acct No.</u>	<u>Plant Projects</u>	<u>In-Service Date</u>	<u>MFR Amount</u>
380.4	Retirement of the Wastewater Treatment Plant	2009	<u>(\$1,159,262)</u>

Based on the information the utility provided for the above projects and for the retirement of the wastewater treatment plant, we find that no adjustments shall be made to the Sanitary Sewer I&I Corrections, and the Variable Frequency Drive Units, Pipes, and Pumps projects for phase one and phase two. Because the Force Mains to Redirect Flows from Existing Customers project and the Retirement of the Wastewater Treatment Plant are scheduled to be completed in two years, the requested adjustments for these projects shall be removed from phase one consideration but allowed for phase two. As discussed below, we believe several adjustments are necessary for the remaining projects.

#### Purchase of Treatment Capacity from EWD

In its revised application filed on December 28, 2006, Sandalhaven stated that it has entered into an agreement with the EWD whereby the EWD will provide bulk wastewater treatment and disposal to serve new customers of Sandalhaven through an interconnection with the EWD's existing system. The utility also asserted that it is requesting a change in its service availability charges to enable it to pass through the costs of the interconnection to the future customers who will be connected after the interconnection is complete.

According to Audit Workpaper 16-2 of our staff's 2006 Audit, Sandalhaven paid the EWD \$752,373 on June 8, 2006, and \$1,504,745 on December 8, 2006. On April 19, 2007, Sandalhaven completed the interconnection with the EWD. According to the utility's two phase rate proposal, Sandalhaven stated there are 1,382 additional ERCs to reach buildout.

In its response to our staff's data requests, the utility stated that the plant will continue to treat flow generated from the Northeast sector as long as the Wildflower property is available as a disposal site and until capital improvements are built on Gasparilla Pines Blvd. to pump the Northeast sector flow to the EWD interconnection. Sandalhaven also stated that the size, timing of construction, and exact location of the new Gasparilla Pines lift station are all dependent on when Wildflower is redeveloped or when that property is no longer available as a disposal site.

On MFR Schedule E-13, Page 2 of 2, the utility listed by development the anticipated growth for 2006 and 2007. Based on a discussion with Mr. Patrick Flynn, Regional Director of UI's Florida subsidiaries, the Hacienda Del Mar, Cape Haze, and Cape Haze Resort developments represent the only customers that would be served by the interconnection with EWD as long as Sandalhaven's wastewater treatment plant remains in service. The total anticipated growth from these developments in 2006 and 2007 is 223 customers. A few developments can be served by either the EWD or the utility's wastewater treatment plant, but Mr. Flynn stated that they were currently being served by Sandalhaven's wastewater treatment plant. The utility stated that the remaining developments were old subdivisions that could only be served by the utility's wastewater treatment plant until the project to redirect the flows from existing customers is completed.

The facts show that there will only be 223 ERCs of the additional 1,382 ERCs anticipated at buildout utilizing the interconnection with the EWD by the end of the projected 2007 test year. The utility's existing wastewater treatment plant will serve the remaining customers in 2007. Until the wastewater treatment plant is retired, a non-used and useful adjustment is necessary for the interconnection costs, including the impact fees paid to the EWD.

We calculated a 5-year growth capped at 5% per year for the 223 customers to be 56 ERCs in accordance with Section 367.081(2)(a)2.b.2., F.S. Using the designed 190 gallons per day (gpd) per ERC for the 279 (223 plus 56) future customers, the resulting wastewater flow is 52,963 gpd. Dividing the 52,963 gpd by the 300,000 gpd capacity reserved from the EWD yields a used and useful percentage of 17.65%.

Based on the above, we find that phase one rate base shall be reduced by \$1,800,560 to remove non-used and useful plant. Corresponding adjustments should also be made to reduce depreciation expense by \$58,083 and property taxes by \$23,303. Regarding phase two rate base, we find that no adjustments are necessary for the total impact fees paid to the EWD.

#### Survey and Route Selection, Master Lift Station and Force Mains

On MFR Schedule A-6, the utility reflects survey and route selection, master lift station, and force main project costs of \$98,147, \$546,920, and \$2,150,656, respectively. In its response to a staff data request, Sandalhaven stated that survey and route selection entailed identifying the preferred location and route of the interconnecting force main and master lift station site. The master lift station and force main have a total capacity of 500,000 gpd and 1,000,000 gpd, respectively.

The survey and route selection project was completed on May 26, 2006, and the master lift station and force main projects were completed on April 19, 2007. Because the master lift station and force main projects were completed in 2007 instead of 2006, we find that an averaging adjustment is necessary for phase one. Accordingly, that plant for phase one shall be reduced by \$1,348,788. In addition, based on the supporting documentation provided by the utility, the master lift station and force main costs were \$441,414 and \$1,735,775, respectively. Accordingly, projected plant shall be reduced by \$260,194 for phase one and \$520,387 for phase two.

As stated previously, there will only be 223 ERCs of the additional 1,382 ERCs utilizing the interconnection with the EWD by the end of the projected 2007 test year, and the utility's existing wastewater treatment plant will serve the remaining customers in 2007. Until such time that the wastewater treatment plant is retired, we find that a non-used and useful adjustment for phase one is necessary for the interconnection costs of the master lift station and force main.

We calculated a 5-year growth capped at 5% per year of the 223 customers to be 56 ERCs in accordance with Section 367.081(2)(a)2.b.2., F.S. Using the designed 190 gpd per ERC for the 279 (223 plus 56) future customers, the resulting wastewater flow is 52,963 gpd. Dividing the 52,963 gpd by the 500,000 gpd capacity of the master lift station yields a used and useful percentage of 10.59%. Dividing the 52,963 gpd by the 1,000,000 gpd capacity of the force main yields a used and useful percentage of 5.30%. Based on these used and useful percentages, we find that phase one rate base shall be further reduced by \$1,092,319. Corresponding adjustments shall also be made to reduce depreciation expense by \$36,662 and property taxes by \$27,535.

#### Force Mains to Redirect Flows from Existing Customers

On MFR Schedule A-6, Sandalhaven requested \$200,000 for the redirection of flow from existing customers served by the wastewater treatment plant to the EWD for treatment. This project includes the construction of a sub-master lift station to direct the flows to the utility's master lift station. As stated previously, the requested adjustments for this project should be removed from phase one consideration, but allowed for phase two because this project is scheduled to be completed in two years.

#### Lift Station No. 4 Force Main Repair

In its filing, Sandalhaven reflected \$16,000 for its Lift Station No. 4 Force Main Repair. In response to a staff data request, Sandalhaven provided supporting documentation that totaled \$16,474. Based on this information we find that plant should be increased by \$474 for both phase one and phase two.

#### Design/Permitting for Wastewater Treatment Plant Expansion

On MFR Schedule A-6, the utility requested \$204,440 for the design and permitting of its wastewater treatment plant. In Finding No. 5 of the 2006 Audit, the staff auditor stated that the

utility capitalized two projects to plant in service that were actually cancelled when the utility decided to complete an interconnection with the EWD. The first project was for the wastewater treatment plant expansion and the second related to design and engineering of a deep well injection. The actual cost of the engineering for the wastewater plant was \$227,056 and was charged to Account 3804005. The depreciation taken was \$4,329. The actual cost for the deep well injection was charged to Account 3542011 and was \$99,884. The depreciation was \$1,940. According to the USOA for Class A Wastewater Utilities, staff auditors stated that preliminary survey and investigation expenses related to abandoned projects should be charged to Account 426, Miscellaneous Non-utility Expenses, and recommended these costs be removed from plant in service.

In response to the 2006 Audit, Sandalhaven stated that it developed a sewer master plan project in 2004 that was intended to increase the capacity of the wastewater treatment plant. The project included a capacity analysis of its service area based on capacity commitments, proposed developer activity, Charlotte County land use and zoning information, and other information, as well as a feasibility study of alternatives to an expansion, including the construction of an interconnection with either EWD or Charlotte County Utilities to treat and/or dispose of part or all of the utility's flow. Sandalhaven contends that, after significant attempts to uncover the best alternative, it was determined that an interconnection with the EWD was the best option as opposed to the expansion of the wastewater treatment plant and deep well injection options.

Specifically, the NARUC USOA states the following regarding Account 183 – Preliminary Survey and Investigation (PS&I) Charges:

This account shall be charged with all expenditures for preliminary survey, plans, investigations, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility account charged. If the work is abandoned, the charge shall be to account 426 – Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise authorized by the Commission (See account 775 – Miscellaneous Expenses).

In accordance with the requirements for the NARUC USOA Account No. 183, we note that the \$227,056 for the wastewater treatment plant expansion project and the \$99,884 for the deep well injection project cannot be capitalized because these projects were abandoned.

In response to a staff data request, Sandalhaven asserted that the estimated costs of the wastewater treatment plant expansion and deep well injection would be \$7,022,290. This estimated total cost is \$2,489,836 greater than the total actual cost of \$4,532,454 for the impact fees to the EWD and the master lift station and force main interconnection costs. As mentioned above, the means to dispose of the utility's treated effluent was reclaimed water irrigation at the Wildflower Golf Course. Since there were plans to redevelop Wildflower that would have eliminated Sandalhaven's means of effluent disposal, the utility acted prudently to explore alternative treatment and disposal options to accommodate its existing and future customers, as well as to implement the most cost effective option.

We find that the total expenditures of \$326,940 for the wastewater treatment plant expansion and deep well injection projects shall be considered a non-recurring expense. Rule 25-30.433(8), F.A.C., states “non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified.” We find that a 15-year amortization period is a reasonable time over which to amortize these costs, because it reflects the long-term nature of these costs had they resulted in assets being placed into service. Therefore, we shall increase miscellaneous expenses by \$21,796, to reflect the amortization of Sandalhaven’s PS&I costs over a 15-year period.

The 15-year amortization period is consistent with our decision in Florida Cities Water Company’s 1995 rate case.<sup>4</sup> Florida Cities Water Company had expended \$1,019,922 for its deep well injection viability project because its means of effluent disposal through surface water discharge was being eliminated by a consent order with the DEP. In that case, we approved an increase of \$67,995 (\$1,019,922 divided by 15 years) to miscellaneous expenses in order to reflect the amortization of those PS&I costs over a 15-year period.

#### Retirement of Wastewater Treatment Plant

In its filings, Sandalhaven reflected its wastewater treatment retirement adjustments to plant of \$1,159,262, accumulated depreciation of \$434,200, CIAC of \$935,733, and accumulated amortization of CIAC of \$678,441. On MFR Schedule A-12, the utility only showed CIAC for main extension charges. However, in accordance with its approved tariff, Sandalhaven had a plant capacity charge of \$1,250 prior to filing, and no authorized main extension charge.

Rule 25-30.140(9)(a), F.A.C., states:

(a) Beginning with the year ending December 31, 2003, all Class A and B utilities shall maintain separate sub-accounts for: (1) each type of Contributions-in-Aid-of-Construction (CIAC) charge collected including, but not limited to, plant capacity, meter installation, main extension or system capacity; (2) contributed plant; (3) contributed lines; and (4) other contributed plant not mentioned previously. Establishing balances for each new sub-account may require an allocation based upon historical balances. Each CIAC sub-account shall be amortized in the same manner that the related contributed plant is depreciated. Separate sub-accounts for accumulated amortization of CIAC shall be maintained to correspond to each sub-account for CIAC. (Emphasis added)

Considering the utility’s 2005 year-end customers of approximately 803 and its \$1,250 plant capacity charge, the CIAC associated with the wastewater treatment plant retirement should be at least \$1,003,750. The retired amounts for CIAC is understated, and accumulated amortization of CIAC is overstated. The retired plant amount of \$1,159,262 represents 50.97% of the total 2005

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<sup>4</sup> PSC-96-1147-FOF-WS, pp. 7-13, issued September 12, 1996, in Docket No. 951258-WS, In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).

year-end plant balance of \$2,274,338. Applying the 50.97% ratio to the total 2005 year-end CIAC balance of \$2,293,750 results in a retired CIAC amount of \$1,169,155. Applying the 50.97% ratio to the total 2005 year-end accumulated amortization of CIAC of \$829,268, we arrive at a retired accumulated amortization of CIAC of \$422,689.

Moreover, because the utility's MFRs reflect reductions to plant and CIAC in 2007, the projected average plant and CIAC adjustments are \$579,631 and \$467,867. We find that the average retirement plant and CIAC adjustments of \$579,631 and \$467,867, respectively, shall be removed from phase one because the wastewater treatment plant will not be retired until 2009.

In its revised rate proposal, the utility's projected plant balance at 80% buildout and the 2007 average plant balance in its MFRs were both \$7,062,555. Because this amount only contains the average plant retirement adjustment of \$579,631, Sandalhaven has overstated its projected plant balance at 80% buildout. Therefore, we find that plant for phase two shall be reduced by \$579,631 in order to recognize the total plant retirement of \$1,159,262. Moreover, we find that CIAC shall be reduced by \$584,578 in order to recognize the total CIAC associated with the wastewater treatment plant retirement.

#### Summary of Plant Adjustments

A summary of phase one and phase two plant and other adjustments are reflected in the following table.

	Phase one	Phase two
<u>Plant Adjustments</u>		
Averaging Adjustments	(\$1,348,788)	\$0
Support Documentation Adjustments	(564,159)	(724,353)
Retirement of Wastewater Treatment Plant	579,631	(579,631)
Total Projected Plant Additions	(\$1,333,316)	(\$1,303,984)
<u>Non-Used &amp; Useful Impact Fees</u>		
Rate Base	(\$1,800,560)	0
Depreciation Expense	(\$58,083)	0
Property Taxes	(\$23,303)	0
<u>Non-Used &amp; Useful Interconnection Costs</u>		
Rate Base	(\$1,092,319)	0
Depreciation Expense	(\$36,662)	0
Property Taxes	(\$27,535)	0
<u>CIAC Adjustments</u>		
Retirement of Wastewater Treatment Plant	(\$467,867)	\$584,578
<u>Amortization of Preliminary, Survey, and Investigation Costs</u>		
Miscellaneous Expenses	\$21,796	\$21,796

We will address the appropriate adjustments to accumulated depreciation, CIAC, accumulated amortization of CIAC, and the loss on the early retirement of the wastewater treatment plant, in a subsequent portion of this order.

### Land

In its filing, the utility reflected a land balance of \$154,429. In Finding No. 1 of the 2005 Audit, our staff auditors stated that Sandalhaven added \$93,588 for a 1.7 acre parcel of land related to a proposed treatment plant expansion. Because this proposed plant expansion was abandoned, the auditors recommended that the \$93,588 addition should be removed from rate base and reclassified to Account 103 – Property Held for Future Use pending final disposition. In its response to this audit finding, Sandalhaven stated that after the closing, 0.74 acres of the 1.7 acre parcel was swapped with another 0.74 acre parcel in order to provide legal ingress/egress to the wastewater treatment plant. Because the new 0.74 acres is used daily to access its plant, the utility contends that the 0.74 acres should remain in rate base. Sandalhaven asserted that the land was transferred at equal value and it only incurred survey and legal fees associated with putting this land swap together. With regard to the 0.96 acres of the original 1.7 acre parcel, Sandalhaven stated that it is not in use and will not be used in the near term since the plant will not be expanded.

In Finding No. 2 of the 2006 Audit, the auditors stated that the \$93,588 land addition in 2005 includes some legal costs but does not include a \$10,000 deposit reflected on the closing statement for the original 1.7 acre parcel. The auditors recommended that land be increased by \$10,000 for the deposit. On MFR Schedule A-6, the utility reflected a \$25,841 land addition which represented legal and other costs related to the new land purchase. This results in the total land addition cost of \$129,429.

We used Charlotte County's GIS map database to investigate the utility's claim regarding legal ingress to its plant. With additional information from Charlotte County's Department of Real Estate Services, we determined that the new .74 acres represents the land between the Fiddler's Green Condominium II property and the entrance to Sandalhaven's wastewater treatment plant. Therefore, we find that the new .74 acres should remain in rate base. However, we find that the 0.96 acres of the original 1.7 acre panel shall be considered non-used and useful land. The 0.96 represents 56.47% of the total 1.7 acres of additional land. Based on the above, we find that the land should be reduced \$73,089 for both phase one and phase two.

### Used and Useful

In its filing, Sandalhaven calculated the used and useful percentage for the wastewater treatment plant to be 100%. The utility also requested that the used and useful percentages for the collection and reclaimed water systems be considered 100%.

### Wastewater Treatment Plant

Sandalhaven provides only wastewater service in Charlotte County and is located in Englewood, Florida. Charlotte County provides the water service to this area. Its customer base

consists of multi-family residential, single-family residential, commercial, and general service customers. The plant is permitted by DEP based on an annual average daily flow (AADF) basis and has a capacity of 150,000 gallons per day (gpd). The wastewater treatment plant is an extended aeration domestic wastewater treatment plant. This facility processes the inflowing waste and directs it to the reclaimed water processing system of the plant. The reclaimed system consists of a filtration system and a high-level chlorination system. The reclaimed water is then transported, via a wastewater distribution line, to a reuse holding pond which is located at the Wildflower Golf Club. As mentioned above, Sandalhaven intends to retire the existing wastewater treatment plant in the future and interconnect to EWD. The retirement date of the wastewater treatment plant is dependent on the timing of the redevelopment of the Wildwood property as a residential community. In Schedule F-6 of its revised MFRs dated December 2006, the utility stated that until the wastewater treatment plant is taken off line, the utility will continue to utilize the existing wastewater treatment plant.

In Schedule F-6 of its revised MFRs dated December 2006, the utility calculated its used and useful percentage for the wastewater treatment plant based on the historical test year 2005 and projected year 2007. The utility calculated its projected used and useful percentage for the wastewater treatment plant by taking the sum of the current annual average daily flows (AADF) of 90,000 gpd and the anticipated flow from various developments of 249,550 gpd. The calculation resulted in a total average flow of 339,550 gpd. It then divided that total demand of 339,550 gpd by the purchased capacity of 300,000 gpd wastewater from EWD. The utility did not make any adjustments for inflow and infiltration (I&I) in its calculations. This resulted in a 100% used and useful percentage for wastewater treatment plant.

#### Wastewater Treatment Plant U&U Percentage

We disagree with the utility's methodology for its used and useful calculation. We believe that the daily flow from existing customers, which is still being treated by Sandalhaven's wastewater treatment plant, should not be added to the daily flow from the new customers that are interconnected to the EWD system, or the anticipated flow from various developments. As indicated previously, Sandalhaven stated that the retirement date of the existing wastewater treatment plant is dependent on the timing of the redevelopment of Wildflower as a residential community. The utility does not know specifically when this property will be redeveloped. At this point, the utility's existing wastewater treatment plant used and useful shall be calculated separately since it is not yet retired.

Also, since we have data for the year 2006 to calculate U&U, the percentage would be more accurate and valid if the U&U is calculated based on the historical test year 2006. Pursuant to Rule 25-30.432, F.A.C., used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. We have calculated the used and useful percentage for Sandalhaven's wastewater treatment plant by taking the 2006 annual average daily flow (AADF) plus a growth allowance, subtracting the excessive I&I, and then dividing by the permitted capacity of the system.

The existing wastewater treatment plant is permitted to operate at a capacity of 150,000 gallons per day based on AADF. According to the DEP discharge monitoring report (DMR), the annual average daily flow for the historical test year of 2006 for the wastewater treatment plant was measured and calculated to be 88,896 gpd. The anticipated growth for the following year was calculated by regression analysis to be 67 ERCs. Since this growth rate exceeds the 5% per year limit provided by Section 367.081(2)(a)2.b., F.S., the customer growth in ERCs was calculated based on the statutory 5% per year cap of the average connections in 2006 (1,059 ERCS). The customer growth using the 5% per year cap was determined to be 53 ERCs (1,059 x 5%). As a result, the total projected growth for 2007 was calculated to be 26,694 gpd. There does not appear to be an excessive infiltration problem occurring within the collection system. In accordance with the formula method and the calculation methodology used (See Attachment A), the used and useful percentage is calculated to be 77.06%.

#### Contribution Level of Plant

Both the utility and our staff analyzed used and useful on an engineering basis and calculated adjustments to rate base consistent with each of their methodologies. If we look at the engineering aspect of the test year equation in a vacuum, however, applying the used and useful adjustment to the utility's rate base produces an illogical result. There are two reasons for this. The first reason is that neither the utility's nor our staff's used and useful equations include an estimate of consumption for the 111 ERCs that result in monthly guaranteed revenues. In its filing, the utility reflected those revenues above the line in calculating its requested revenues. Including the revenues, but not incorporating the usage in used and useful, clearly creates a mismatch between the rate calculation and the used and useful revenue requirement. In order to reflect the proper amount of used and useful, we believe that this estimate should be included in the test year flows. The estimated flows should be included in the numerator of the equation, thus increasing the total used and useful percentage. In this case, however, we do not believe that this adjustment is necessary for the reasons discussed below.

The second and most crucial aspect that was left out of the used and useful analysis is the amount of CIAC included in the utility's rate base. The purpose of making a used and useful calculation is to remove from rate base any investment that the utility has in non-used and useful plant held for future customers. If non-used and useful plant is fully contributed, making a used and useful reduction to rate base would reduce rate base more than the book value originally included. A negative rate base impact would result.

We performed an analysis of the utility's net book value excluding land, the impact fees to the EWD, and the interconnection costs. The historical 2005 base year can best illustrate our concerns with the used and useful analysis for two reasons. First, the contributions received through the 2005 calendar year related only to the utility's wastewater treatment plant and collection system. Second, the 2005 calendar year does not include the impact fees to the EWD and the interconnection costs considered in the non-used and useful adjustments for phase one. Our analysis excluded land also, because a non-used and useful land adjustment has already been made.

Contribution Level

Per Utility

Per Staff

Plant (w/o land)	\$2,076,274	\$2,067,717
Accumulated Depreciation	<u>(839,983)</u>	<u>(842,847)</u>
Net Plant	<u>\$1,236,291</u>	<u>(\$1,224,870)</u>
CIAC	(\$2,266,445)	(\$2,266,445)
Accum. Amort. of CIAC	<u>794,500</u>	<u>794,500</u>
Net CIAC	<u>(\$1,471,945)</u>	<u>(\$1,471,945)</u>
Net Book Value	<u>(\$235,654)</u>	<u>(\$247,075)</u>
Non-U&U Adj. Based on Respective Equations	<u>(\$140,403)</u>	<u>(\$170,777)</u>
Adjusted Net Book Value	<u>(\$376,057)</u>	<u>(\$417,852)</u>

As the above table reflects, making any used and useful adjustment will penalize the utility, given the contribution level of the utility’s plant. Based on the above, we find that no used and useful adjustment shall be made for the wastewater treatment plant in this case. This decision is consistent with our decision in Sandalhaven’s 2002 rate case. See Order No. PSC-03-0602-PAA-SU, pp. 16-20.

Wastewater Collection Systems

A calculation of the used and useful percentage of the collection system was not required in this case, because virtually all of the wastewater mains and lift stations were contributed by the developers. Therefore, the wastewater collection system should be considered 100% used and useful.

Reclaimed Water System

Chapter 367.0817(3), F.S., states that all prudent costs of a reuse project shall be recovered in rates. The utility, in its filing, requested a 100% used and useful percentage for the reclaimed water system. We agree, and we find that the reclaimed water system shall be considered 100% used and useful.

Accumulated Depreciation

On MFR Schedule A-2, Sandalhaven reflected an accumulated depreciation balance of \$785,632 for the test year ending December 31, 2007. In its revised rate proposal, Sandalhaven reflected an accumulated depreciation balance of \$1,114,412 at 80% buildout. In Finding No. 12 in the 2006 Audit, our staff auditors stated that the utility does not use the rates prescribed in Rule 25-30.140, F.A.C. In its response to the 2006 audit, Sandalhaven agreed with the staff auditors’ adjustments to its depreciation. Because the appropriate plant adjustments were not known at the time our staff auditors recomputed the utility’s depreciation expense and phase two was not contemplated until after the 2006 audit was issued, we have recalculated the accumulated depreciation balance for phase one and phase two.

Based on the plant adjustments we have made above, and the calculation of depreciation rates made in accordance with Rule 25-30.140, F.A.C., we find that the appropriate accumulated depreciation balance for phase one is \$966,065 for the average test year ending December 31, 2007. We also find that the appropriate accumulated depreciation for phase two at 80% buildout is \$839,459. Accordingly, accumulated depreciation shall be increased by \$182,083 for phase one, and decreased by \$273,528 for phase two.

#### CIAC and Accumulated Amortization of CIAC

On MFR Schedule A-2, the utility reflected CIAC and accumulated amortization of CIAC balances of \$4,115,745 and \$613,297, respectively, for the test year ending December 31, 2007. In its calculations of these balances, the utility took the 2006 average balance and the 2007 year-end balance to derive its 2007 average balance. The utility should have used the 2006 and 2007 year-end balances to derive the 2007 average balances. To correct the utility's errors for the 2007 average balances, CIAC and accumulated amortization of CIAC shall be increased by \$577,844 and \$29,975, respectively.

On MFR Schedule A-12, Sandalhaven reflected 2006 and 2007 CIAC additions of \$2,284,068 and \$1,167,274, respectively. The utility states that these additions were derived by simply utilizing its plant capacity charge prior to filing of \$1,250 and its approved temporary charge of \$2,627.75 that became effective April 2007. Using the utility's same basis to project CIAC, our recalculation reveals that Sandalhaven overstated its CIAC by \$1,199,068 in 2006 and \$553 in 2007.

Based on the corrections to average balances, the plant capacity charges determined above, and depreciation rates calculated in accordance with Rule 25-30.140, F.A.C., we find that the appropriate CIAC and accumulated amortization of CIAC balances for phase one are \$2,867,354 and \$926,450, respectively, for the average test year ending December 31, 2007. Accordingly, for phase one, CIAC should be decreased by \$2,294,101 and accumulated amortization of CIAC increased by \$283,179.

In its revised rate proposal, Sandalhaven reflected phase two CIAC and accumulated amortization of CIAC balances of \$4,786,153 and \$748,322, respectively. Using the utility's same basis to project CIAC, our recalculation reveals that the utility overstated its CIAC by \$1,291,633 in 2006 and \$553 in 2007. Based on the wastewater treatment plant retirement, the plant capacity charges determined above, and the correct depreciation rates, we find that the appropriate CIAC and accumulated amortization of CIAC balances for phase two at 80% buildout are \$3,442,559 and \$700,504, respectively. Accordingly, for phase two, CIAC and accumulated amortization of CIAC shall be decreased by \$759,017 and \$47,818, respectively.

### Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. We have made several adjustments to the utility's balance of O&M expenses. Due to the adjustments approved in this order, we approve phase one working capital of \$63,948. This reflects an increase of \$4,817 to the utility's requested working capital allowance of \$59,131. We also approve phase two working capital of \$80,796. This represents an increase of \$6,482 to the utility's requested working capital of \$74,314.

### Rate Base for the December 31, 2007, Test Year

Consistent with other approved adjustments, the appropriate phase one and phase two rate bases are \$58,659 and \$2,333,909, respectively. The approved schedules for the phase one and phase two rate bases are shown on Schedules 1-A and 1-B, respectively, and the adjustments to phase one and phase two rate bases are shown on Schedule 1-C and Schedule 1-D, respectively.

## CAPITAL STRUCTURE

### Return on Common Equity

On MFR Schedule D-1, Sandalhaven used a return on equity (ROE) of 11.77%. This return is based on the application of our leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 40.14%.<sup>5</sup> As noted above, we have adjusted Utilities, Inc.'s average common equity balance of \$90,787,422 upward by \$17,464,864 to \$108,252,286. In addition, we find that UI's average long-term debt balance of \$124,044,203 shall be increased by \$55,955,797, and UI's average short-term debt balance of \$11,347,000 shall be removed, because the long-term debt issuance in 2006 extinguished all of its short-term debt. The effect of the above adjustments decreased the equity ratio as a percentage of investor-supplied capital from 40.14% to 37.55%. Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 37.55%, the appropriate ROE for phase one is 12.00%.<sup>6</sup>

In its revised phase two rate proposal, Sandalhaven used a ROE of 11.99%. This return is again based on the application of our leverage formula approved in Order PSC-07-0472-PAA-WS and an equity ratio of 40.14%. Because the utility simply reconciled UI's average 2005 balances for long-term, short-term, and common equity balances to its projected 80% buildout rate base, we find that the same adjustments shall be made to the long-term, short-term, and

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<sup>5</sup> See Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

<sup>6</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

common equity balances for phase two as well. The effect of the above adjustments decreased the equity ratio as a percentage of investor-supplied capital from 40.14% to 37.55%. Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 37.55%, the appropriate ROE for phase two is 12.00%. An allowed range of plus or minus 100 basis points shall be recognized for phase one and phase two ratemaking purposes.

Accumulated Deferred Income Taxes

On MFR Schedule D-1, Sandalhaven reflected an average credit ADITs balance of \$145,878. In Audit Finding No. 16, our staff auditors noted that the general ledger reflected a debit balance of \$99,410. The auditors recalculated the utility's average deferred tax balance before other adjustments as a debit of \$95,694, requiring a debit adjustment to the MFRs of \$241,572. It appears that the utility overstated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$16,321. It also appears that deferred taxes for intangible plant were overstated by \$1,381 for state tax purposes and understated by \$18,196 for federal tax purposes. The net of these adjustments results in a 2005 year-end ADITs balance of \$99,904. The result of these audit adjustments yields an average 2005 ADITs balance of \$95,941. In its response to the audit report, Sandalhaven agreed with these findings.

The following table shows the appropriate adjustments to the utility's ADITs.

<u>Account Name</u>	Utility Year-End <u>2004</u>	Utility Year-End <u>2005</u>	Utility Average <u>2005</u>	2005 Audit <u>Adjustments</u>	Audited <u>2005</u>	Audited Average <u>2005</u>
Federal DIT - Tap Fee Post 2000	\$200,540	\$211,987	\$206,264	\$0	\$211,987	\$206,264
Federal DIT - Rate Case	(11,652)	(7,120)	(9,386)	0	(7,120)	(9,386)
Federal DIT - Def Main	(6,522)	(5,149)	(5,836)	0	(5,149)	(5,836)
Federal DIT- Org Exp	(26,262)	(28,004)	(27,133)	18,196	(9,808)	(18,035)
Federal DIT Depreciation	(95,343)	(104,607)	(99,975)	0	(104,607)	(99,975)
State DIT - Tap Fee Post 2000	34,328	36,288	35,308	0	36,288	35,308
State DIT - Rate Case	(1,995)	(1,220)	(1,608)	0	(1,220)	(1,608)
State DIT - Def Main	(1,116)	(881)	(999)	0	(881)	(999)
State DIT- Org Exp	0	(298)	(149)	(1,381)	(1,679)	(840)
State DIT Depreciation	<u>0</u>	<u>(1,586)</u>	<u>(793)</u>	<u>(16,321)</u>	<u>(17,907)</u>	<u>(8,954)</u>
Total Debit or (Credit) Balance	<u>\$91,978</u>	<u>\$99,410</u>	<u>\$95,694</u>	<u>\$494</u>	<u>\$99,904</u>	<u>\$95,941</u>

The utility explained that the "Tap Fee Post 2000" relates to the payment of taxes on plant capacity fees collected since 2000. Sandalhaven stated that the "Rate Case" relates to rate case expense incurred for its prior case. We note that rate case expense will generate an ADIT credit because the costs are expensed in the year they are incurred for tax purposes, and for book purposes the rate case expense is amortized over four years in accordance with Section 367.0816, F.S. The utility explained that the "Def Main" relates to periodic maintenance expenses that occur regularly but at intervals greater than one year, such as painting tanks. Non-recurring expenses are typically amortized over a five-year period in accordance with Rule 25-30.433(8), F.A.C., for book purposes, which will create an ADIT credit because the total amount of these costs are expensed in the year they are incurred for tax purposes. Further, Sandalhaven stated

that the "Org Exp" relates to the costs of organizing and acquiring companies. This expense creates an ADIT credit because the amortization period of 40 years for book purposes is less than the amortization period of 5 years for tax purposes.

Based on our review, we find that several adjustments to the utility's ADITs are necessary. The adjustments involve the following: (1) the appropriate ratemaking treatment of the utility's ADITs for taxes paid on plant capacity charges; (2) the appropriate amount of any credit ADITs associated with rate case expense; (3) the appropriate projected 2007 average ADITs associated with the deferred maintenance expenses; (4) whether the credit ADITs for the utility's organization and acquisition costs should be disallowed; (5) the appropriate projected 2007 average ADITs associated with depreciation timing differences between book and tax purposes; and (6) the appropriate non-used and useful adjustment to projected 2007 average ADITs associated with depreciation for the impact fees paid to the EWD and the force mains and master lift station interconnection costs.

#### Treatment of Debit ADITs from Taxes Paid on Plant Capacity Charges

Our staff asked the utility to explain why it has paid taxes on plant capacity charges since 2000. The utility was also asked to provide a copy of all documentation, including, but not limited to, treasury regulations, Internal Revenue Service (IRS) letter rulings, and federal tax cases, supporting the utility's basis for paying taxes on these charges. In its response, Sandalhaven asserted that it believes that paragraph (b)(4)(I) of IRS Treasury Regulation 1.118-2 requires the utility to treat plant capacity charges as taxable income.

In support of its position, the utility provided a copy of a portion of an order issued by the North Carolina Utilities Commission (NCUC) in Docket W-354 Sub 266 for Carolina Water Service, Inc. (CWS) which is another subsidiary of Utilities, Inc. In that docket, the NCUC staff witness Fernald testified that the ADITs from Cuss's plant modification fees should be removed. However, based on cross-examination and a late-filed hearing exhibit consisting of a memorandum from PriceWaterhouseCoopers, the NCUC found that CWS had appropriately treated the plant modification fees as taxable income.

Specifically, the NCUC's order states the following:

Witness Fernald has removed from federal ADIT \$670,712 and from state ADIT \$156,793 associated with plant modification fees received by the Company in 2001, 2002, and 2003. CWS has included all cash payments received as tap fees as taxable income for tax purposes and has included a debit balance in ADIT associated with the receipt of plant modification fees. Witness Fernald testified that CWS collects plant modification fees for the expansion of and improvements for the utility system. Witness Fernald testified that the Public Staff had requested CWS's external auditor's opinion on the taxability of plant modification fees but has not received a response. Witness Fernald removed an amount of ADIT related to plant modification fees based on information available as of the

date of her testimony because the Company had not provided the basis for taxing plant modification fees under the tax law changes.

CWS takes the position that plant modification fees are taxable income under the Job Protection Act of 1996. CWS has treated plant modification fees as taxable income and has actually paid tax on them. CWS has followed this procedure based on consultation with its tax experts, PriceWaterhouseCoopers.

On cross-examination, CWS asked witness Fernald to identify the authority she relied upon in support of her position that the post-2000 plant modification fees were not taxable. She identified the IRS final regulation issued on January 11, 2001. Witness Fernald cited portions of the regulation exempting Contributions in Aid of Construction from taxable income generally but listing as an exception customer connection fees.

In particular, witness Fernald cited Section (b)(1) on page 2,255:

(b) Contribution in aid of construction – (1) in general. For purposes of Section 118(e) and this section, the term contribution in aid of construction means any amount of money or other property contributed to a regulated public utility that provides water or sewage disposal service to the extent that the purpose of the contribution is to provide for the expansion, improvement, or replacement of the utility's water or sewage disposal facilities.

Witness Fernald also cited Section (b)(3)(i) on page 2,255. This portion of the regulation exempts from the definition of nontaxable CIAC customer connection fees:

(3) Customer connection fee – (i) In general. Except as provided in paragraph (b)(3)(ii) of this section, a customer connection fee is not a contribution in aid of construction under this paragraph (b) and generally is includible in income. The term customer connection fee includes any amount of money or other property transferred to the utility representing the cost of installing a connection or service line (including the cost of meters and piping) from the utility's main water or sewer lines to the line owned by the customer or potential customer. A customer connection fee also includes any amount paid as a service charge for starting or stopping service.

In support of its position that plant modification fees are taxable, CWS relies on other paragraphs of the same regulation. CWS relied upon paragraph (b)(4)(i):

(4) Reimbursement for a facility previously placed in service – (i) In general. If a water or sewage disposal facility is placed in

service by the utility before an amount is contributed to the utility, the contribution is not a contribution in aid of construction under this paragraph (b) with respect to the cost of the facility unless, no later than 5 ½ months after the close of the taxable year in which the facility was placed in service, there is agreement, binding under local law, that the utility is to receive the amount as reimbursement for the cost of acquiring or constructing the facility.

CWS also cites Section (b)(5):

(5) Classification of ratemaking authority. The fact that the applicable ratemaking authority classifies any money or other property received by a utility as a contribution is not conclusive as to its treatment under this paragraph (b).

In addition, CWS filed as a late filed exhibit a memorandum from PriceWaterhouseCoopers in which the firm stated that it agreed with CWS's tax treatment of plant modification fees. The Public Staff lodged no objection to Commission consideration of this late-filed exhibit. Specifically, Mr. Jerry Cahill stated that, for 2001 through 2003 tax returns, "plant modification fees and tax/connection fees were properly included in taxable income on each return under the provisions of Internal Revenue Code 118 and Income Tax regulations thereunder." Finally, Public Staff witness Lucas testified on cross-examination that CWS serves in a number of subdivisions where the backbone facilities are in place before the residences in the subdivision are completely buildout. Thereafter, infill occurs, and both tap fees and plant modification fees are assessed when residences make connection to the water and sewer system. This testimony supports CWS's position that paragraph (b)(4)(i) is controlling. As a result the Commission concludes that CWS appropriately treated the plant modification fees as taxable.

Upon review, we find that paragraph (b)(4)(ii) of IRS Treasury Regulation 1.118-2 clearly demonstrates that Sandalhaven's plant capacity charges are non-taxable CIAC, if the charges were approved within 8½ months from the in-service date of the wastewater treatment plant. Paragraph (b)(4)(ii) of IRS Treasury Regulation 1.118-2, states:

(ii) Example. The application of paragraph (b) (4) (i) of this section is illustrated by the following example:

Example. M, a calendar year regulated public utility that provides water services, spent \$1,000,000 for the construction of a water facility that can serve 200 customers. M placed the facility in service in 2000. In June 2001, the public utility commission that regulates M approves a tariff requiring new customers to reimburse M for the cost of constructing the facility by paying a service availability charge of \$5,000 per lot. Pursuant to the tariff, M expects to receive reimbursements for the cost of the facility of \$100,000 per year for the years 2001

through 2010. The reimbursements are contributions in aid of construction under paragraph (b) of this section because no later than 8½ months after the close of the taxable year in which the facility was placed in service there was a tariff, binding under local law, approved by the public utility commission requiring new customers to reimburse the utility for the cost of constructing the facility. The basis of the \$1,000,000 facility is zero because the expected contributions equal the cost of the facility.

Pursuant to Section 367.171, F.S., on September 27, 1994, the Board of County Commissioners of Charlotte County adopted a resolution giving this Commission jurisdiction over privately owned water and wastewater utilities in Charlotte County. By Order No. PSC-94-1451-FOF-WS, issued November 28, 1994, we acknowledged the County's resolution. By Order No. PSC-95-0478-FOF-SU,<sup>7</sup> we approved a grandfather certificate for the utility and approved among other things the \$1,250 plant capacity charge that Charlotte County had initially set. By Order No. PSC-99-2114-PAA-SU,<sup>8</sup> we approved the transfer from Sandalhaven Utility, Inc. to Utilities, Inc. of Sandalhaven and approved the adoption of the same \$1,250 plant capacity charge.

Moreover, our staff asked Sandalhaven to provide a copy of the tax returns to support or verify that the taxes were in fact paid on the plant capacity charges from 2001 to the present. To date, the utility has only provided the state returns. It is the federal returns that contain the necessary detail to verify if the utility paid taxes on the plant capacity charges.

In light of the above, we find that, absent the utility showing that Charlotte County approved a plant capacity charge more than 8½ months after the utility's wastewater treatment plant was placed into service, the debit ADITs from taxes paid on plant capacity charges shall be disallowed for ratemaking purposes. The burden of proof in ratemaking cases in which a utility seeks an increase in rates rests on the utility.<sup>9</sup>

#### Appropriate Amount of Credit ADITs from Rate Case Expense

As stated earlier, the audited 2005 average federal and state credit ADITs balances for rate case expense in the utility's last case were \$9,386 and \$1,608, respectively. Based on the utility's annual amortization of \$4,532, the 2007 average federal and state credit ADITs would be \$1,294 and \$223, respectively. By Order No. PSC-03-0602-PAA-SU, p. 25-27, we approved a total rate case expense of \$49,750 with an annual amortization amount of \$12,438. That order was later consummated,<sup>10</sup> and the PAA rates became effective on June 5, 2003. In accordance

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<sup>7</sup> Issued April 13, 1995, in Docket No. 941341-SU, In re: Application for certificate to provide wastewater service in Charlotte County by Sandalhaven Utility, Inc.

<sup>8</sup> Issued October 25, 1999, in Docket No. 981221-SU, In re: Application for transfer of Certificate No. 495-S in Charlotte County from Sandalhaven Utility, Inc. to Utilities, Inc. of Sandalhaven.

<sup>9</sup> See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982); South Fla. Natural Gas Co. v. Florida Pub. Serv. Comm., 534 So. 2d 695 (Fla. 1988); Sunshine Utils. v. Florida Pub. Serv. Comm., 577 So. 2d 663, 666 (Fla. 1st DCA 1991).

<sup>10</sup> See Order No. PSC-03-0677-CO-SU, issued June 4, 2003, in Docket No. 020409-SU; In re: Application for rate increase in Charlotte County by Utilities, Inc. of Sandalhaven.

with Section 367.0816, F.S., the statutory four-year rate reduction was completed on June 5, 2007. Because the four year rate reduction was completed before any change in rates resulting from the current rate case, we find that a normalization adjustment shall be made to remove all credit ADITs associated with the rate case expense from the utility's last case.

According to the utility's 2006 general ledger, Sandalhaven recorded total federal and state credit ADITs associated with rate case expense incurred in the current case of \$28,533. As explained below, we have authorized a total rate case expense of \$141,019, with an annual amortization of \$35,255. Consistent with that authorization, we find that the 2007 average credit ADITs from rate case expense shall be \$35,155.

#### Appropriate Amount of Credit ADITs from Deferred Maintenance Expenses

As mentioned above, the audited 2005 average federal and state credit ADITs balances for "Def Maint" were \$5,836 and \$999, respectively. We note that it is common for water and wastewater utilities to have deferred maintenance expenses, such as painting tanks every five years. Based on the utility's annual amortization of \$1,608, the 2007 average federal and state credit ADITs would be \$3,090 and \$529, respectively. Therefore, we find that the 2007 average credit ADITs from rate case expense shall be \$3,619.

#### Treatment of Credit ADITs from Acquisition Costs

As stated earlier, the audited 2005 average federal and state credit ADITs balances for "Org Exp" were \$18,035 and \$840, respectively. Sandalhaven asserted that the "Org Exp" relates to the costs of organizing and acquiring companies. Per the NARUC USOA, the organization account shall include all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation and putting it into readiness to do business. In addition, the USOA states that the Utility Plant Acquisition Adjustment account includes the difference between the cost of the purchasing utility of plant acquired and the original cost of the property acquired less accumulated depreciation, accumulated amortization, and contributions in aid of construction (CIAC) at the time of purchase. We have consistently interpreted the term "cost of acquisition" to include any consideration paid, plus any other costs incurred related to or given for the purchase of the assets.<sup>11</sup>

By Order No. PSC-03-0602-PAA-SU, p. 7-9, we disallowed all of the utility's acquisition costs that it recorded as organization costs and franchise fees in its last rate case. The acquisition costs were disallowed for the following reasons. First, the expenses are acquisition costs and were inappropriately treated as organization costs and franchise fees. Second, the expenses should be borne by the stockholders of Sandalhaven's parent company, because the purchase of the utility was not the ratepayers' decision, nor did Sandalhaven demonstrate how the customers

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<sup>11</sup> See Order No. PSC-03-0647-PAA-WS, pp. 7-9, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.; Order No. PSC-98-0524-PAA-SU, issued April 16, 1998, in Docket No. 971065, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.; and Order No. PSC-93-1713-FOF-SU, pp. 7-8, issued November 30, 1993, in Docket No. 921293, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

have benefited from this transaction. Because these expenses are directly associated with the change of ownership, they should be recorded as acquisition costs. Therefore, we find that the utility's credit ADITs for its acquisition costs shall also be consistently removed for ratemaking purposes.

Appropriate Projected Net Credit ADITs of Timing Differences in Book and Tax Depreciation

As discussed previously, the audited 2005 average federal and state net credit ADITs balance for timing differences between book and tax depreciation were \$99,975 and \$8,954, respectively. Based on the utility's general ledger ADITs balance, the 2006 and 2007 plant and CIAC additions, the depreciation rates prescribed in Rule 25-30.140, F.A.C., and the IRS accelerated cost recovery system's service life of 25 years for utility property, we find that the appropriate net credit ADITs balance for timing differences between book and tax depreciation is \$140,121.

In our calculations of the appropriate net credit ADITs balance for timing differences between book and tax depreciation, we considered any Section 179 Deductions of depreciation on eligible property. However, pursuant to page 19 of the IRS Publication 946, an entity cannot take a Section 179 Deduction if the cost of an entity's Section 179 property placed in service during 2006 is \$538,000 or more. Presently, we are not aware of any proposed changes in this threshold limit for 2007 returns. The 2007 eligible property additions for the force main and master lift station were \$2,177,189, which are in excess of the present \$538,000 threshold limit to claim a Section 179 Deduction. Thus, no Section 179 deductions were included in the net credit ADITs balance for timing differences between book and tax depreciation.

Non-Used and Useful Credit ADITs for Impact Fees to the EWD and Interconnection Costs

We have approved phase one non-used and useful adjustments for the impact fees paid to the EWD and the force main and master lift station project. The total non-used and useful amount for these costs is \$2,892,879. With the costs of these plant additions totaling \$4,532,454, the non-used and useful percentage equates to 63.83%. Rule 25-30.433(3), F.A.C., states:

Used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes in the capital structure. Any resulting net debit deferred taxes shall be included as a separate line item in the rate base calculation. Any resulting net credit deferred taxes shall be included in the capital structure calculation. No other deferred debits shall be considered in rate base when the formula method of working capital is used.

We calculated a credit ADITs of \$3,733 for the impact fees paid to the EWD and the force main and master lift station project. In accordance with Rule 25.30.433(3), F.A.C., we find that a corresponding non-used and useful adjustment of \$2,383 to the above credit ADITs balance of \$3,733 is necessary. With the \$2,383 adjustment, the used and useful credit ADITs balance for the impact fees paid to the EWD and the force main and master lift station project is \$1,350.

Summary

Based on the above, we find that the appropriate 2007 average net used and useful credit ADITs balance is \$176,511 for phase one, which represents an increase of \$30,633 from the utility's MFR balance of \$145,878. The following table represents the calculation of net credit ADITs balance for timing differences between book and tax depreciation only.

2006 General Ledger Depr. Credit ADITs	Avg Depr. Credits Assoc. WWTP without Impact Fees and Costs of Interconnection	2007 Avg Depreciation Credits Assoc. with 2006 and 2007 Plant Additions	Average Non-U&U Depr. Credits Assoc. w/ Impact Fees & and Costs of Interconnection	Average 2007 CIAC Amortization Debit ADITs	Phase one 2007 Avg Net Depr. Credit ADITs
<u>(\$139,876)</u>	<u>(\$4,136)</u>	<u>(\$3,733)</u>	<u>\$2,383</u>	<u>\$7,625</u>	<u>(\$137,738)</u>

For further illustration, the following table shows the approved 2007 average net used and useful credit ADITs balance of \$176,511.

<u>Account Name</u>	2006 Year-End General Ledger ADITs	2007 Year-End R/C Exp & Def Maint. ADITs	2007 Average R/C Exp & Def Maint. ADITs	2007 Avg Depreciation Credit ADITs	Total 2007 Avg U&U Net Credit ADITs
Federal DIT - Tap Fee Post 2000	\$499,551	\$0	\$0	\$0	\$0
Federal DIT - Rate Case	(24,363)	(35,960)	(30,160)	0	(30,160)
Federal DIT - Def Maint	(3,776)	(2,403)	(3,090)	0	(3,090)
Federal DIT- Org Exp	(28,437)	0	0	0	0
Federal DIT Depreciation	(133,418)	0	0	(131,578)	(131,578)
State DIT - Tap Fee Post 2000	85,513	0	0	0	0
State DIT - Rate Case	(4,170)	(5,817)	(4,994)	0	(4,994)
State DIT - Def Maint	(646)	(411)	(529)	0	(529)
State DIT- Org Exp	(372)	0	0	0	0
State DIT Depreciation	<u>(6,458)</u>	<u>0</u>	<u>0</u>	<u>(6,160)</u>	<u>(6,160)</u>
Total Debit or (Credit) Balance	<u>\$383,424</u>	<u>(\$44,591)</u>	<u>(\$38,773)</u>	<u>(\$137,738)</u>	<u>(\$176,511)</u>

Because the capital structure is reconciled to rate base, we believe it is appropriate to set the phase two net credit ADITs balance equal to the average phase one balance, excluding any non-used and useful adjustment to the credit ADITs. Accordingly, we find that the appropriate net credit ADITs balance for phase two is \$178,894. This represents an increase of \$178,894 because the utility reflected a net debit balance in rate base of \$88,867 in its revised phase two proposal. As such, phase two rate base shall be reduced by \$88,867.

Weighted Average Cost of Capital

On MFR Schedule D-1, the utility requested a weighted average cost of capital of 8.56%. Based on the adjustments we have approved in the case, we calculated a negative weighted average cost of capital of 18.07% for phase one. The negative cost of capital is primarily due to

the non-used and useful rate base adjustments and the customer deposit and ADITs balances exceeding the approved rate base. Because the utility is required to pay customer deposits with interest at 6.00% per annum, we find that it is appropriate to zero out the investor sources of capital and apply a pro rata adjustment to ADITs, in order to reconcile the capital structure to phase one rate base. Accordingly, we approve a weighted average cost of capital of 1.71% for phase one. Schedule No. 2-A details our calculations for phase one including the proper components, amounts, and cost rates associated with the capital structure.

In its revised phase two rate proposal, the utility requested a weighted average cost of capital of 8.65%. Based on the adjustments we have approved in the case, we have calculated a weighted average cost of capital of 7.95% for phase two. Schedule No. 2-B details our calculations for phase two, including the proper components, amounts, and cost rates associated with the capital structure.

### NET OPERATING INCOME

#### Adjustments to Projected Revenues

On MFR Schedule B-2, the utility reflected operating revenues of \$271,700 for the year ending December 31, 2006. Sandalhaven did not include an annualized revenue adjustment for its 2007 projected billing determinants. Instead, the utility incorporated the effect of such an adjustment in its requested revenue increase of \$841,571. Consistent with our practice, we removed the requested revenue increase to determine adjusted operating revenues before any increase or decrease is calculated. Using the incremental difference between the audited 2006 billing determinants and the projected 2007 billing determinants, we have calculated a 2007 annualized revenue adjustment of \$91,942 for phase one.

In its revised phase two proposal, the utility reflected operating revenues of \$276,562 for the year ending December 31, 2005. Reuse revenues of \$3,798 shall be removed because no reuse service will be provided once the wastewater treatment plant is retired for phase two. Using the incremental difference between the audited 2006 billing determinants and the projected 80% buildout billing determinants, we have calculated an annualized revenue adjustment of \$170,698 for phase two.

#### Adjustments to Miscellaneous Service Revenues

In its filing, Sandalhaven reflected miscellaneous service revenue charges of \$6,862. The audited 2006 miscellaneous service revenues are \$7,389, which included 167 combined initial connections and normal reconnections. The utility's initial connection and normal reconnections charges during normal hours are \$15. Using the difference between the 167 initial connections and normal reconnections in 2006 and the projected 387 connections in 2007, we find that miscellaneous service revenues of \$3,298 shall be imputed for phase one and phase two.

WSC and UIF Allocated Expenses

In its MFRs, the utility reflected total WSC allocated O&M expenses of \$30,639 and taxes other than income of \$1,290. Sandalhaven also recorded total UIF allocated O&M expenses of \$16,835. We believe adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, our staff auditors recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS.<sup>12</sup> The auditors recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors, officers; and (3) pension funds. The auditors believe that these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditors recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, we find that the appropriate WSC expenses, before any allocation, are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, we find that the appropriate UIF O&M expenses before any allocation are \$266,650.

In Finding No. 11 of the 2006 Audit, the staff auditors stated that the utility included \$401 for allocated hurricane costs from UIF. Upon further review, the staff auditors determined that these costs were for specific UIF plants and not the office, which can be allocated. The auditors recommended the utility's allocated expenses from UIF be reduced by \$401. In its response to the audit, Sandalhaven agreed with the audit recommendation. We have approved the audit and ERC methodology adjustments in several recent rate cases for UI's other subsidiaries in Florida.<sup>13</sup>

We have found that UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, we find that the appropriate WSC O&M expenses and taxes other than income for Sandalhaven are \$25,229 and \$958, respectively, for phase one and phase two. As such, O&M expenses and taxes other than income shall be decreased by \$5,410 and \$332, respectively. Further, we find that the appropriate UIF O&M expenses for Sandalhaven are \$1,869 for phase one and phase two, which results in an O&M expense reduction of \$842.

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<sup>12</sup> Issued December 22, 2003, p. 82-84, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

<sup>13</sup> See Order No. PSC-07-0505-SC-WS, pp.44-45.; Order No. PSC-07-0199-PAA-WS, pp. 14-15; Order No. PSC-07-0130-SC-SU, pp. 22-23; Order No. PSC-07-0082-PAA-SU, p. 10; and Order No. PSC-07-0134-PAA-SU, p. 15.

### Amortization of Deferred Hurricane Costs

On MFR Schedule B-3 and in its revised phase two rate proposal, the utility requested recovery of hurricane costs totaling \$21,365 to be amortized over a 5-year period. Sandalhaven included the annual amortization of \$4,273 as an adjustment to its net depreciation expense, which should be removed. In response to a staff data request, Sandalhaven provided the invoices totaling \$17,809 which were primarily for the rental of generators to maintain lift stations and to keep the wastewater treatment plant running during a hurricane. The utility also provided timesheets supporting overtime wages of \$3,556 associated with hurricane recovery efforts.

According to its general ledger, these costs were incurred in 2004 and have an unamortized balance of \$11,753 as of December 31, 2006. We have calculated the unamortized balance of \$7,837 as of November 30, 2007. We note that these costs will be fully amortized by August 2009, which is before the phase two rates would become effective.

In Finding No. 11 of the 2006 Audit, our staff auditors stated that the utility charged two invoices totaling \$5,500 to expenses in 2006. The staff auditors stated the expenses were actually for 2005 repairs to fences that were not included with the utility's deferred hurricane costs being amortized. The auditors recommended that these costs be considered out of period expenses and be removed for ratemaking purposes. In its response to the audit, Sandalhaven asserted that it believes the \$5,500 was related to hurricanes, and, because it is nonrecurring, it should be deferred and amortized over a period of 5 years, with an annual amortization amount of \$1,100. Rule 25-30.433(8), F.A.C., states "non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified."

Based on the above, we find that the appropriate amortization amounts for deferred hurricane costs are \$5,373 for phase one and \$1,100 for phase two. Accordingly, phase one and phase two O&M expenses shall be increased by \$5,373 and \$1,100, respectively. Moreover, we find that depreciation expense shall be reduced by \$4,273.

### Additional O&M Expense Adjustments

On MFR Schedule B-6, Sandalhaven reflected increases of \$194,075 and \$7,238 for purchased sewage treatment and purchased power, respectively, and decreases of \$24,042, \$12,145, \$29,165, and \$3,361 for sludge removal expense, chemicals, materials & supplies, and transportation expenses, respectively. The utility stated that these adjustments were to recognize the effect of purchased treatment costs by the EWD and the retirement of the wastewater treatment plant. We find that with the exception of the purchased sewage treatment costs, the remaining adjustments shall be removed because the wastewater treatment plant will not be retired for approximately two years. The reversal of the remaining adjustments represents an O&M expense increase of \$61,475.

The utility reflected purchased sewage treatment of \$1,034 for the year ending December 31, 2005. With the above increase of \$194,075, Sandalhaven had requested total purchased sewage treatment of \$195,109. As discussed earlier, the Hacienda Del Mar, Cape Haze, and Cape Haze Resort developments represent the only customers that would be served by the

interconnection with EWD as long as Sandalhaven's WWTP remains in-service. The total anticipated growth from these developments in 2006 and 2007 is 223 customers. These customers have an estimated demand of 190 gpd, which equates to annual gallons of 15,465,050. The EWD's website reflects a current bulk wastewater rate of \$7.28 per thousand gallons. Based on the above, we have calculated phase one purchased sewage treatment cost of \$113,620. We find that purchased sewage treatment shall be reduced by \$81,489. Phase one O&M expenses shall be reduced by \$20,014.

In its revised phase two rate proposal, the utility reflected 80% buildout O&M expenses of \$643,926. Sandalhaven has projected annual gallons of 60,531,302 at 80% buildout. At \$7.32 per 1,000 gallons, the utility projected a purchased sewage treatment cost of \$443,089. As stated above, the EWD's website reflects a current bulk wastewater rate of \$7.28 per thousand gallons. Based on the above, we have calculated a purchased sewage treatment cost for phase two of \$440,668. Phase two O&M expenses shall be reduced by \$2,421.

#### Rate Case Expense

As we discuss in detail below, we find that the appropriate total rate case expense for the current docket is \$141,019. This expense shall be recovered over four years for an annual expense of \$35,255. Rate case expense shall be reduced by \$13,765.

The utility included a \$196,080 estimate in the MFRs for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On May 4, 2007, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$191,561. The components of the utility's estimated rate case expense are as follows:

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$54,800	\$43,953	\$27,735	\$71,688
Accounting Consultant Fees	18,060	10,859	3,625	14,484
Engineering Consultant Fees	25,500	20,500	5,965	26,465
WS In-House Fees	75,225	15,713	44,975	60,688
Office Temp Fees	0	2,208	2,435	4,643
Travel - WSC	3,200	0	3,200	3,200
Miscellaneous	18,000	790	8,000	8,790
Notices	1,295	621	902	1,523
Fees for Service Area Maps	<u>0</u>	<u>80</u>	<u>0</u>	<u>80</u>
Total R/C Expense	<u>\$196,080</u>	<u>\$94,724</u>	<u>\$97,837</u>	<u>\$191,561</u>

Pursuant to Section 367.081(7), F.S., we are directed to determine the reasonableness of rate case expenses and disallow all rate case expenses determined to be unreasonable. Also, it is the utility's burden to justify its requested costs.<sup>14</sup> We have broad discretion with respect to 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 the rate case proceedings.<sup>15</sup> 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 find that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred related to the utility's test year approval letter. By letter dated March 27, 2006, Sandalhaven filed its request for a historical December 31, 2005, test year. The utility's 2005 annual report was not filed until April 26, 2006. Our staff could not complete its analysis of Sandalhaven's test year request until its 2005 annual report was received. The utility incurred \$550 of legal fees related to the 2005 annual report in order for our staff to complete its analysis of the requested test year. Ratepayers should not have to bear expenses because the utility knew or should have known that the staff would need the 2005 annual report to analyze the appropriateness of its requested 2005 test year. Thus, we find that the legal fees of \$550 shall be disallowed.

The second adjustment relates to legal costs associated with the utility's initial MFRs filed on May 15, 2006. As noted earlier, Sandalhaven filed a revised application on December

<sup>14</sup> See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>15</sup> See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), *review denied*, 529 So. 2d 694 (Fla. 1988).

28, 2006. With the exception of the costs associated with the minimum filing requirements related to customer complaints and additional engineering information for the historical 2005 test year, we find that the remaining legal fees for the May Application shall be disallowed because these are duplicative costs. Such costs include the legal fees and costs associated with the submission of the initial MFRs, the time spent on the initial and customer meeting draft notices that were not sent out because the utility later filed a revised application and the customer meeting was rescheduled, and additional fees related to MFRs deficiencies above the amounts already removed by the utility. Upon review of the invoices provided, these legal fees and costs totaled \$7,094. Accordingly, we find that these expenses shall also be disallowed as duplicative.<sup>16</sup>

The third adjustment relates to legal expense associated with errors. UI made adjustments to correct errors in its consumptive reports that affected MFR Schedule E-14 totaling \$440 in fees and \$114 for an operator conference call for this matter. UI's adjustments were immaterial and did not result in any changes. Thus, we believe that the ratepayers should not have to bear any of these costs.

The fourth adjustment relates to the utility's estimated legal fees of \$19,250 to complete the case. The estimated amount of \$19,250 represents 70 hours to: respond to staff data requests and to conduct telephone conferences between the utility and rate case consultants regarding the data requests; to review our staff's recommendation and to confer with the client and rate case consultants regarding the recommendation; to travel to Tallahassee and attend the Commission Agenda Conference; to review our PAA Order; to draft revised tariff sheets and miscellaneous post PAA matters. The above estimate is based on the utility's supplemental response to Question 4(b) of our staff's first data request. As noted above, our staff and the parties of record in this case have had two informal meetings to discuss the two phase rates in which the utility's legal counsel participated. Given the lengthy discussions on the two phase rates and additional time for the utility to prepare and submit an initial and revised rate proposal, we find that an additional 10 hours or \$2,750 of estimated legal fees is reasonable to complete this case.

The fifth adjustment relates to consulting fees from Virchow, Krause and Company (Virchow), one of the utility's consulting firms. This firm was responsible for the preparation of the utility's MFRs with the exception of the U&U data. We find that \$571 of expenses to correct deficiencies by Virchow shall be disallowed. In addition, Virchow estimated additional expenses of \$3,625 to complete this case. We do not believe the additional \$3,625 is prudent, because the MFRs were completed and all deficiencies were corrected several months ago. Accordingly, we disallow \$4,196 in rate case expense for Virchow.

We have considered whether any adjustments should be made for the utility's estimated consultant fees for Mr. Frank Seidman to complete the rate case. Mr. Seidman estimated 44 hours or \$5,940 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman

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<sup>16</sup> Order Nos. 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.

estimated 20 hours to assist with and respond to staff data requests, 20 hours to assist with and respond to OPC data requests, and four hours to prepare for and attend the agenda. The OPC has not requested any discovery for the utility. However, Mr. Seidman was primarily responsible for the utility's initial and revised rate proposals which took a great deal of time to prepare. Accordingly, we find that 40 hours is reasonable to respond to staff data requests and to prepare the initial and revised rate proposal. In addition, we find that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours we allowed for completion in the 2004 Indiantown Company, Inc. rate case<sup>17</sup> and the 2004 Mid-County Services, Inc. rate case.<sup>18</sup> Thus, we find that no adjustments are necessary to Mr. Seidman's estimated hours to complete the case.

The sixth adjustment relates to the costs by WSC employees to complete the case. In its rate case, the utility provided timesheets for WSC employees. WSC timesheets reflected 376.16 total actual hours for 12 employees totaling \$15,713 in salaries. The timesheets indicated that Mr. Steven Dihel spent nine hours, or \$496, for utility indexes, and Ms. Kirsten Weeks spent one hour, or \$42, on "Sandalhaven Hurricane Expenses," and two hours, or \$84, for correcting MFR deficiencies. We do not believe that the utility has met its burden of proof that these hours relate to the utility's current case. As such, we find that the 12 hours or \$622 shall be disallowed.

Furthermore, in its rate case expense update, the utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the WSC employees estimated 925 hours related to assistance with data requests and audit facilitation. Using these hours, the utility asserted that the WSC employees estimates to complete are \$44,975, based on MFR rates of pay. We have two concerns regarding these estimated hours. First, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.<sup>19</sup> We believe a reasonable method to estimate WSC employee hours to complete the case is to utilize the average monthly adjusted actual hours. Using this method, we calculated an estimate for WSC employees to complete the case of 338.38 hours, which represents a reduction of 586.63 hours or \$25,851. Thus, we find that rate case expense associated with WSC employees shall be decreased by \$26,473.

The seventh adjustment relates to WSC expenses for Office Temps. The utility did not include this expense in its MFRs; however, in its update, \$4,643 was estimated to assist with data

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<sup>17</sup> See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

<sup>18</sup> See Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

<sup>19</sup> See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

and audit requests. The hours needed to complete data and audit requests was not broken down to estimate the hours needed to complete each item. Therefore, we have no basis to determine whether the individual hours estimated were reasonable, although as mentioned above, the estimated hours appear to be excessive. As discussed above, it is the utility's burden to justify its requested costs. The utility indicated that it had incurred \$2,208 in expenses for Office Temps, and provided invoices in support of this total. We believes that the additional \$2,436 estimated by Sandalhaven is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, we find that rate case expense shall be decreased by \$2,436.

The eighth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. However, no WSC staff has attended the Agendas where increases in the previous nine UI utilities' rates and charges were discussed. Therefore, we believe it is reasonable to assume that no one will attend the Agenda to discuss the increase in Sandalhaven's rates and charges. Accordingly, we find that rate case expense shall be decreased by \$3,200.

The ninth adjustment relates to WSC expenses for Federal Express Corporation (Fed Ex), copies and other miscellaneous costs. In its MFRs, the utility estimated \$18,000 for these items. The utility later estimated that that the total costs would be \$8,790. In support of this expense, the utility provided only \$790 in identifiable costs for Sandalhaven for FedEx invoices for services through April 2007. There was no breakdown or support for the remaining estimated costs. UI has requested and received authorization from us to keep its books and records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse us for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., we said the following:

The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.

We believe that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida which then submits them to us. We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they should bear the related costs. Therefore, we find that rate case expense shall be decreased by \$8,790.

In summary, we find that the utility's requested rate case expense shall be decreased by \$50,543 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$141,019. A breakdown of rate case expense is as follows:

	MFR <u>Estimated</u>	Utility Revised <u>Actual &amp; Estimated</u>	Commission <u>Adjustments</u>	Total <u>Allowed</u>
Legal and Filing Fees	\$54,800	\$71,688	(\$5,448)	\$66,240
Accounting Consultant Fees	18,060	14,484	(4,196)	10,288
Engineering Consultant Fees	25,500	26,465	0	26,465
WSC In-house Fees	75,225	60,688	(26,473)	34,215
Office Temp Fees	0	4,643	(2,436)	2,208
Travel-WSC	3,200	3,200	(3,200)	0
Miscellaneous	18,000	8,790	(8,790)	0
Notices	1,295	1,523	0	1,523
Fees for Service Area Maps	0	80	0	80
Total Rate Case Expense	<u>\$196,080</u>	<u>\$191,561</u>	<u>(\$50,543)</u>	<u>\$141,019</u>
Annual Amortization	<u>\$49,020</u>	<u>\$47,890</u>	<u>(\$12,636)</u>	<u>\$35,255</u>

In its MFRs, the utility requested total rate case expense of \$196,080, which amortized over four years would be \$49,020. The total rate case expense of \$141,019 shall be amortized over four years, pursuant to Section 367.016, F.S. This represents annual amortization of \$35,255. Thus, rate case expense shall be decreased by \$13,765 (\$49,020 less \$35,255).

#### Net Depreciation Expense

On MFR Schedule B-2, the utility reflected net depreciation expense of \$64,409. Based on the previous adjustments we have made, we find that the utility's adjusted net depreciation before any non-used and useful adjustments is \$94,643. The appropriate net depreciation expense for phase one is \$72,874, which represents a decrease of \$21,769, but with the non-used and useful adjustments we have made, the result is, a negative net depreciation expense of \$21,871 for phase one.

The net depreciation expense resulted in a negative balance because amortization of CIAC net of non-used and useful amortization of CIAC exceeds net used and useful depreciation expense. As in cases where negative rate base is adjusted to zero, we have previously adjusted test year depreciation expense to zero.<sup>20</sup> Accordingly, we find that phase one net depreciation expense shall be increased by \$21,871 to adjust to zero.

In its revised phase two rate proposal, Sandalhaven reflected net depreciation expense of \$45,394. Based on the adjustments we have made, the utility's adjusted net depreciation before any non-used and useful adjustments is \$40,707. Considering plant adjustments, application of depreciation rates pursuant to Rule 25-30.140, F.A.C., and plant capacity charges, we find that

<sup>20</sup> See Order No. PSC-93-0930-FOF-WS, issued June 21, 1993, in Docket No. 921049-WS, In re: Application for a Staff-Assisted Rate Case in Lee County by Useppa Island Utility, Inc.

the appropriate net depreciation expense for phase two is \$40,514. This represents a decrease of \$193.

#### Early Retirement of the Wastewater Treatment Plant

In its revised phase two rate proposal, the utility requested a loss of \$452,721 on the early retirement of its wastewater treatment plant, with an amortization period of 8.9 years. Rule 25-30.433(9), F.A.C., states:

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

As we discussed above, Sandalhaven's customer base is expected to double over the next three years. Based on the utility's cost benefit analysis of the treatment alternatives to accommodate its existing and future customers, the interconnection with the EWD was the most cost effective option. However, we calculated a 2009 net retired plant of \$566,754 and a 2009 net CIAC of \$588,057. As a result the wastewater treatment plant was 103.76% contributed. Because the wastewater treatment plant was fully contributed, we find that there is no resulting loss on the early retirement of the wastewater treatment plant. Accordingly, we find that the utility's phase two requested annual amortization loss expense of \$50,871 shall be disallowed.

#### Property Taxes

On MFR Schedule B-15, the utility reflected historical 2005 property taxes of \$21,275 and projected an increase of \$140,692 for its 2006 and 2007 net plant additions. This represents a total of \$161,967 for 2007 projected property taxes related to phase one. Because the tax assessed value for the utility's real estate significantly increased in 2006, the millage rate decreased from 15.7820 to 13.5470 in 2006, and the utility projected no land additions in 2007, we believe it is appropriate to use the actual 2006 real estate taxes of \$4,174 for the projected 2007 amount. We have determined that the appropriate taxes other than income allocated from WSC is \$958, of which \$243 relates to property taxes. We calculated the 2007 projected personal tangible property taxes of \$75,498 by multiplying the 2007 year-end net plant of \$5,739,406 by the 2006 millage rate of 13.1543. Based on the above, we find that phase one projected property taxes shall be \$79,915. Accordingly, property taxes shall be reduced by \$82,052.

In its revised phase two rate proposal, the utility reflected 80% buildout phase two property taxes of \$95,395. We believes it is appropriate to use the actual 2006 real estate taxes of \$4,174 and the allocated WSC property taxes of \$243 for phase two. We calculated the projected phase two personal tangible property taxes of \$62,260 by multiplying the 80% buildout at June 30, 2009 year-end net plant of \$4,731,778 by the 2006 millage rate of 13.1543. Based on the above, we find that phase one projected property taxes shall be \$66,677. Accordingly, property taxes shall be reduced by \$28,718.

### Operating Income or Loss

As shown on Schedule 3-A, after applying the adjustments above, the 2007 test year net operating loss before any phase one revenue increase is \$116,629. As shown on Schedule 3-B, after applying the adjustments above, the phase two test year operating loss before any provision for increased revenues is \$168,508. Our adjustments to phase one and phase two operating income and expenses are shown on Schedules 3-C and 3-D, respectively.

### REVENUE REQUIREMENT

Sandalhaven's requested final rates are designed to generate annual revenues of \$1,118,134. These revenues exceed test year revenues by \$841,571 (313.31%). In its phase two rate proposal, the utility requested rates designed to generate annual revenues of \$1,125,682. This represents a revenue increase of \$849,119 (or 307.02%).

Consistent with our determinations herein regarding the rate base, cost of capital, and operating income issues, we find it appropriate to approve rates that are designed to generate phase one and phase two revenue requirements of \$575,099 and \$1,046,922, respectively. These revenues exceed our adjusted phase one and phase two test year revenues by \$197,496, or 52.30%, and \$594,361, or 131.33%, respectively. These increases are shown on attached Schedules Nos. 3-A and 3-B. These increases will allow the utility the opportunity to recover its expenses and earn a 1.71% return on its phase one rate base and 7.95% return on its phase two rate base.

### RATES AND CHARGES

#### Rate Structure for Multi-Residential Service

Typically, Multi-Residential Service (MRS) customers are considered the same as General Service (GS) customers for rate design purposes. This methodology is consistent with our past practice, and it is also the industry-wide standard. In Sandalhaven's last rate case, we established a base facility charge for all meter sizes for the MRS customers. However, there was no specific description or mention of this rate structure contained in the body of Order No. PSC-03-0602-PAA-SU (our order for the utility's last rate case).

In Sandalhaven's MFRs dated December 28, 2006, the utility indicated that in 2005, there were 11 invoices submitted for the 3" MFS customers consisting of roughly 23 units per billed invoice. This equated to 251 units charged the Base Facility Charge (BFC) for one ERC

(\$13.13). In addition, the utility indicated that in 2005, there were also 11 invoices submitted for the 6" MFS customers consisting of roughly 45 units per billed invoices. This equated to 495 units charged the BFC for one ERC.

We do not believe it is appropriate for the utility to go behind the meter in order to count and bill the number of units for each multi-family residential complex. We believe it is more appropriate for the utility to base the BFC on the American Water Works Association (AWWA) meter equivalency. In Sandalhaven's revised filing submitted on July 9, 2007, the utility is projecting a significant increase in multi-family residential customers. The utility has projected the following:

Meter size – Multi Residential Service	Number of Invoices / (approximate # units)
1 ½" meter *	4,264 / (355.3)
2" meter *	812 / (67.6)
3" meter	2,847 / (237.25)
6" meter	2,428 / (202.33)
* no historical customers served in 2005	

This is a significant increase in the number of MFS customers projected to be served. Further, there is no way to verify the number of units to be constructed for these meter sizes. In addition, in the last rate case, we determined that for multi-family and general service customers, approximately 96% of water usage is returned. Thus, we established a higher wastewater gallonage charge for both the general service and multi-family customers. This is consistent with our past practice and the industry-wide standard.

The following is the AWWA meter equivalency:

<u>Meter Size</u>	<u>Meter Equivalency/ Number of ERCs</u>
5/8" X 3/4"	1.0
3/4"	1.5
1"	2.5
1 1/2"	5.0
2"	8.0
3"	16.0
4"	25.0
6"	50.0

It is the utility's burden to show that a variation from the standard AWWA meter equivalency to determine the BFC for this MRS rate class is appropriate and not discriminatory. The utility has not supplied any information to show that this customer class produces a higher demand on the reserved capacity of the system than any other general service customer. Therefore, we find that the MRS customers shall be charged the rate structure applicable to the GS class of customers. The base facility charge shall be based on the meter size and meter

equivalency determined by the AWWA. The gallonage charge shall be equal to the general service gallonage charge with no cap on usage.

#### Monthly Wastewater Rates

The appropriate revenue requirement, excluding miscellaneous service charges and reuse revenues, is \$564,412 for phase one and \$1,040,035 for phase two. We find that the appropriate rate structure for the residential class is a continuation of the utility's base facility charge and gallonage charge rate structure with an 8,000 gallon cap. We find that the appropriate rate structure for the general service classes is a continuation of Sandalhaven's base facility charge and gallonage charge rate structure with a 20% differential above the residential gallonage charge. The differential is designed to recognize that approximately 80% of the residential customer's water usage will not return to the wastewater system. This wastewater gallonage rate differential is commonly employed by us in wastewater rate cases, and is widely recognized as an industry standard. The rate structure for multi-residential service should be the same structure as general service customers.

A comparison of the utility's rates prior to filing, its requested rates, and the wastewater rates approved herein are shown on Schedule No. 4.

#### Effective Dates for Phase One and Phase Two rates

Phase one 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.

Sandalhaven shall not implement phase two rates until the construction of a sub-master lift station to direct the flows to the utility's master lift station has been completed and approved by DEP. Sandalhaven shall provide our staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility shall also file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates shall not be implemented until 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.

#### Miscellaneous Service Charges

In its filing, the utility requested an increase in its after hours initial connection, normal reconnection and premises visit charges. The current and requested charges are shown below.

	<u>Current Charges</u>		<u>Requested Charges</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	\$15	\$15	\$22.50
Normal Reconnection	\$15	\$15	\$15	\$22.50
Violation Reconnection	Actual Cost	Actual Cost	Actual Cost	Actual Cost
Premises Visit	\$10	\$10	\$10	\$15

The miscellaneous service charges currently in effect were approved for Sandalhaven on June 30, 1995, and have not changed since that date. The approved charges have been the standard charges approved by us since at least 1990 - a period of 16 years. In support of its requested charges for after hours, the utility stated that its miscellaneous service charges consist of only labor cost of a field employee who makes \$30 an hour and receives time and a half or \$45 (\$30 multiplied by 1.5) an hour after hours. Sandalhaven asserted that the average time for a connection and premise visit are 0.50 hours and 0.33 hours.

Based on the above, we find that Sandalhaven shall increase its miscellaneous service charges from \$15 to \$22.50 for its after hours initial connections and normal reconnections, and from \$10 to \$15 for its after hours premises visits. The utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. Within ten days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof that customers have received notice within ten days after the date the notice was sent.

Four Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is \$36,916. The decreased phase two revenues will result in the rate reductions shown on Schedule No. 4.

The utility shall be required to file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

If Sandalhaven 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.

## OTHER ISSUES

### Service Availability Charges

Service availability charges are those charges set forth in a utility's approved service availability policy and must be paid in order to obtain water or wastewater service. A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the plant. A main extension charge represents the reimbursement by a developer or a customer to offset the cost of the lines.

By Order No. PSC-95-0478-FOF-SU, we approved a grandfather certificate of the utility and approved among other things the \$1,250 plant capacity charge that Charlotte County had initially set. Prior to April 2007, the utility's plant capacity charge has been \$1,250. By Order No. PSC-07-0327-PCO-SU, we approved the utility's requested temporary system capacity charge of \$2,627.50, which is being held subject to refund. Sandalhaven has also requested a main extension charge at actual cost, which equates to the total cost incurred for the services rendered.

When calculating service availability charges, it is more reasonable to have separate charges for the cost of the plant and the cost of the lines, instead of one system capacity charge. One reason for this delineation is to avoid a possible over contribution by customers. For instance, when a utility accepts donated lines from a developer and only has an authorized system capacity charge, this could create a situation in which the utility would not only accept the donated lines but also collect system capacity charges from customers for those lines that were donated.

For phase two rates, Sandalhaven's wastewater treatment plant will be retired, and the interconnection with the EWD will act as a surrogate treatment plant for the utility. Specifically, the utility's remaining wastewater system will consist of the remaining wastewater facilities (such as lift stations and collection system), the 500,000 gpd master lift station and the 1,000,000 gpd force main connection to the Ewe's treatment system. We find that a plant capacity charge is more appropriate than the proposed system capacity charge to recover the cost of the utility's wastewater system, because Sandalhaven can recover the cost of lines through its requested main extension charge at actual cost.

Rule 25-30.580, F.A.C., states:

A utility's service availability policy shall be designed in accordance with the following guidelines:

- (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

This rule recognizes that every utility is in some sense unique by providing flexibility for utility management to establish its service availability policy. However, there are some drawbacks to the rule because the guidelines are a moving target, looking forward in time when the utility plant is at designed capacity. This type of analysis requires projections of growth rates and many assumptions. The factors used to calculate this forward look in time are constantly changing. Depreciation, replacements of facilities and customer growth can vary significantly from a utility's projections. To bring utilities within the guidelines of the above rule, we have implemented or increased charges if a utility experienced low CIAC levels and we have eliminated service availability charges<sup>21</sup> if a utility experienced over-contributions.

We find that the plant capacity charge of \$2,628 complies with the minimum and maximum levels of Rule 25-30.580, F.A.C. This charge results in a CIAC ratio of approximately 73.33%. In order to further mitigate the level of the rate increase for phase one and phase two, we find that it is reasonable to approve plant capacity charges based on a CIAC ratio of 73.33%. The analysis of the calculated charge is shown on Schedule 5.

In our analysis of the appropriate plant capacity charge, we have also considered the issue of competitive and market-based rates. Utilities sometimes set service availability charges that are lower than the prevailing charges of a county or city. However, it is important to not set charges too low, because it may then be difficult to meet environmental, growth, and infrastructure requirements. Charlotte County's current wastewater impact fees total \$3,770, including a plant capacity charge, transmission capacity charge, and collection charge. Because the interconnection with the EWD will act as a surrogate treatment plant for the utility and Sandalhaven's collection system will remain intact, we believe it is appropriate to compare Charlotte County's impact fees for plant capacity and collection with our calculated charge. Charlotte County's plant capacity and collection charges total \$2,230 which represents a difference of \$398 from our calculated charge.

As stated herein, Placida HG, LLP (Placida), a developer of a 418 unit residential development in Charlotte County, was granted intervention on February 13, 2007. Placida's concerns relate to Sandalhaven's proposed system capacity charges. Placida has paid the utility \$522,500 in plant capacity charges to ensure that wastewater service would be available for its future development. Placida has not connected any of the units to Sandalhaven's system.

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<sup>21</sup> See Order No. PSC-03-0699-PAA-SU, issued June 9, 2003, in Dockets Nos. 020331-SU and 020439-SU, In re: Investigation into alleged improper billing by Sanibel Bayous Utility Corporation in Lee County in violation of Section 367.091(4), Florida Statutes. and In re: Application for staff-assisted rate case in Lee County by Sanibel Bayous Utility Corporation.; Order No. PSC-01-14488-PAA-WS, issued July 18, 2001, in Docket No. 981147-WS, In re: Investigation into potential overearnings in Highlands County by Highlands Ridge Associates, Inc.; and Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS, In re: Application for a staff-assisted rate case in Brevard County by CGD Corporation.

Placida contends that the utility's proposed charge is too high. Placida asserts that the hydraulic share of future customers equates to a lesser charge. Placida argues that the legal decision and principle that should control the Commission's decision on service availability charges in this docket is City of Cooper City v. PCH Corp., 496 So. 2d 843 (Fla. 4th DCA 1986). In that case, the Court held that the municipal utility's proposed connection fee increase was unreasonable because the fees would recover costs for new facilities that would benefit both existing and future customers, but the fees would be imposed only on new customers.<sup>22</sup>

Placida's argument regarding hydraulic share is addressed in Rule 25-30.585, F.A.C. Rule 25-30.585, F.A.C., entitled "Developer Service Availability Charges," which states:

Subject to the limitation in Rule 25-30.580, F.A.C., service availability charges for real estate developments shall not be less than the cost of installing the water transmission and distribution facilities and sewage collection system and not more than the developer's hydraulic share of the total cost of the utility's facilities and the cost of installing the water transmission and distribution facilities and sewage collection system. The terms of a developer's agreement shall be consistent with the basic principles embodied in the rules in this part of the utility's approved tariff. A statement of the potential impact of the developer agreement on the rates of the utility shall be submitted along with the developer agreement pursuant to Rule 25-30.055, F.A.C.

(Emphasis added)

In the 1992 rate case for Mid-County Services, Inc. (Mid-County), we addressed a similar argument related to a hydraulic share. Our decision to approve a service availability charge of \$1,179 was protested by a developer who argued Rule 25-30.585, F.A.C., requires that the methodology used to calculate a fair and equitable service availability charge assumes all existing and future connections to the system paid the same charge that results in a CIAC ratio of 75% at buildout. Under its methodology, the developer asserted that the service availability charge should be \$370. We found this interpretation of Rule 25-30.585, F.A.C., inappropriate<sup>23</sup> because some of the existing customers paid a previously approved charge of \$136.60, and we had no authority to require those customers to pay the \$370 charge. In addition, we determined that when the service availability guideline rules were promulgated, we had considered and adopted a service availability policy that would fix charges for the individual residential and commercial applicants and allow some flexibility within the guidelines for negotiated charges between developers and utilities. See Order No. PSC-94-1042-FOF-SU, p. 5. We approved Mid-County's proposed charge of \$1,235. The developer appealed our final order approving the charge, and subsequently the First District Court of Appeal affirmed our decision.<sup>24</sup>

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<sup>22</sup> See also Citizens Advocates Solutions v. City of Marco Island, 959 So.2d 2003, (Fla. 2007).

<sup>23</sup> See Order No. PSC-94-1042-FOF-SU, issued August 24, 1994, in Docket No. 921293-SU, In re: Application for a rate increase in Pinellas County by Mid-County Services, Inc.

<sup>24</sup> See Suntech Homes, Inc. v. Florida Public Service Commission and Mid-County Services, Inc., 706 So. 2d 294 (Fla. 1995).

We also addressed Placida's argument that it is inequitable for existing customers to pay less than future customers in the 1995 rate case for Southern States Utilities, Inc.<sup>25</sup> In that case, we recognized that intergenerational inequities can occur. Specifically we said:

Mr. Williams also testified that intergenerational inequities are inherent in utility ratemaking and exist in the implementation of service availability charges. Some customers may have connected to the utility system and paid little or nothing, future customers may have to pay very substantial charges. The reverse may also occur, where existing customers may have paid substantial service availability charges, while future customers will have to pay little or no charges. We recognized these intergenerational inequities at the time the rules were adopted.

Order No. PSC-96-1320-FOF, p. 249.

The case law recognizes that we must have the ability to alter service availability charges to defray the expenses of preserving plant capacity with changing economic factors. H. Miller & Sons, Inc. v. Hawkins, 373 So. 2d 913, 916 (Fla. 1979). Further, since Rule 25-30.585, F.A.C., is subject to the limitation in Rule 25-30.580, F.A.C., we believe the proposed charge of \$2,628 is appropriate because it complies with the maximum 75% CIAC ratio level in accordance with Rule 25-30.580(1), F.A.C.

Based on the above, we find that the appropriate plant capacity charge for the utility is \$2,628. This represents an increase of \$0.25 from the approved temporary system capacity charge of \$2,627.75. In addition, we find that the appropriate main extension charge shall be at actual cost. Our decision here is controlled by our governing statutes, our existing rules, and case law applying those statutes and rules.

Sandalhaven shall provide written notice to all persons who have submitted a written request for service within 12 months preceding the date of the Consummating Order in this docket. The plant capacity charge shall become effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(2), F.A.C., provided that customers have received notice and the notice has been approved by our staff. Within 10 days after the notice is given, the utility shall provide proof that all such persons have received notice. Within 30 days from the issuance of the Consummating Order, the utility shall file a revised tariff reflecting its approved plant capacity charge. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with the our decision.

#### Allowance for Funds Prudently Invested

An Allowance for Funds Prudently Invested (AFPI) Charge is a mechanism designed to allow a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by that plant in the form of a charge paid

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<sup>25</sup> See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola County, and In Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

by those customers. The AFPI charge allows the recovery of carrying costs on the non-used and useful plant. By providing this type of charge, the existing customers do not pay for plant expansion used to serve future customers. Future customers bear their equitable share of the carrying costs related to the facilities being constructed to provide service to them.

This one-time charge is based on the number of ERCs and is generally applicable to all future customers who have not already prepaid the connection fees, CIAC charge, or customer advances. The charge should be assessed based on the date the future customers make some form of "prepayment" (connection charge, CIAC, or advance) or on the date the customer connects to the system, whichever comes first.

In its revised phase two rate proposal, the utility states that we should consider the implementation of an AFPI type charge to recover carrying costs not covered until 80% of buildout is reached. Sandalhaven believes an AFPI charge is appropriate because it is implicit that rates based on a projected 80% of buildout cannot provide an opportunity to earn a fair return until the projected growth through buildout occurs. In United Telephone Company of Florida v. Mann, 403 So. 2d 962, 966 (Fla. 1981), the Florida Supreme Court held the following:

A regulated public utility is entitled to an opportunity to earn a fair or reasonable rate of return on its invested capital. A fair rate of return is for the benefit of the utility's investors. This amount should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain credit and to attract capital. Therefore, the purpose of establishing a fair or reasonable rate of return is to fairly compensate investors for the risks they have assumed.

Because the phase two rates are based on CIAC and revenue levels at 80% buildout, which is not expected to occur until June 30, 2010, we agree that without an AFPI charge Sandalhaven would not be given the opportunity to earn a fair return on its investment until the growth at buildout occurs. In addition, we have approved phase one non-used and useful adjustments totaling \$2,892,879 for the utility's impact fees paid in 2006 to the EWD and its interconnection costs for the force main and master lift station. Therefore, we find that Sandalhaven shall be authorized to collect a wastewater AFPI charge.

We believe that Sandalhaven made a prudent decision to interconnect with the EWD to accommodate the wastewater demand of its existing and future customers. Therefore, an AFPI charge is appropriate for this utility. The AFPI charges shall be based upon the number of ERCs required by a particular customer. The AFPI charge is intended to recover the carrying costs associated with the interconnection facilities to supply wastewater to its future customers. Therefore, the charge will vary based upon the date a future customer makes a prepayment on such connection, or on the date the customer actually connects to the system.

The test year used in this case for establishing the amount of non-used and useful plant is the year ending December 31, 2007. Pursuant to Rule 25-30.434(4), F.A.C., the beginning date for accruing the AFPI charge should agree with the month following the end of the test year that

was used to establish the amount of non-used and useful plant. Therefore, the beginning date for accruing the AFPI in this case is January 1, 2008. Further, in accordance with Rule 25-30.434(4), F.A.C., no charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charges. Typically, an AFPI charge is calculated for a five-year period. Rule 25-30.434(5), F.A.C., states: "unless the utility demonstrates that the 5-year period is inappropriate, it is prudent for a utility to have an investment in future use plant for a period of no longer than 5 years beyond the test year."

As discussed herein, the projected 2007 year-end ERCs are 1,040 ERCs, and the total buildout ERCs are 2,298 ERCs. There are 872 ERCs remaining to reach buildout. Rule 25-30.434(3)(d), F.A.C., states that an AFPI charge shall be calculated for one ERC on a monthly basis up to the time the utility reaches the designed capacity of the plant for which the charge applies. Because the utility's estimated buildout date is December 31, 2010, we find that the AFPI charge shall stop accruing after December 31, 2010. Because future growth can take unforeseen and unpredictable paths sometimes, customer growth may not exactly materialize as the utility has estimated, wherein Sandalhaven might reach buildout after December 31, 2010. Under these circumstances, we find that the AFPI charge should remain constant after December 31, 2010, until all remaining 872 ERCs in the calculation have been connected. Once the 872 ERCs have been connected to the utility's system, the charge shall be discontinued.

The following schedule represents the wastewater AFPI charges based upon the time of the initial connection or prepayment. These charges represent one ERC, and if a future customer requires more than one ERC, the connection fee shall be multiplied by the number of connections or ERCs that are required to provide service to the customer. Using the supported cost figures of the interconnection facilities, we approve the following wastewater AFPI charges:

Allowance for Funds Prudently Invested

	<u>2008</u>	<u>2009</u>	<u>2010</u>
January	\$51	\$663	\$1,319
February	\$101	\$717	\$1,377
March	\$152	\$771	\$1,436
April	\$203	\$826	\$1,494
May	\$253	\$880	\$1,552
June	\$304	\$934	\$1,611
July	\$355	\$989	\$1,669
August	\$406	\$1,043	\$1,727
September	\$456	\$1,098	\$1,786
October	\$507	\$1,152	\$1,844
November	\$558	\$1,206	\$1,902
December	\$608	\$1,261	\$1,961

Sandalhaven shall file revised tariff sheets that are consistent with our decision within 30 days of the issuance of the Consummating Order. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with the Commission's decision and provided future customers have been noticed pursuant to Rule 25-30.475(2), F.A.C. In no event shall the rates be effective for services rendered prior to the stamped approval date.

Books and Records

To ensure that the utility adjusts its books in accordance with our decision, we find that Sandalhaven shall provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Utilities, Inc. of Sandalhaven's application for increased wastewater rates is granted to the extent 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 Utilities, Inc. of Sandalhaven shall file revised 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 the approved wastewater rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Utilities, Inc. of Sandalhaven shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Utilities, Inc. of Sandalhaven is hereby authorized to charge the rates and charges as set forth in the body of this Order. It is further

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

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

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

ORDERED that the approved plant capacity charge of \$2,628 for wastewater shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(2), F.A.C., provided customers have received notice and the notice has been approved by our staff. It is further

ORDERED that Utilities, Inc. of Sandalhaven shall provide written notice of the Commission's decision to all persons who have submitted a written request for service within 12 months preceding the date of this Order. It is further

ORDERED that Utilities, Inc. of Sandalhaven shall provide proof that all such persons have received noticed within ten days of the date of the notice. It is further

ORDERED within 30 days from the date of the Consummating Order, Utilities, Inc. of Sandalhaven shall file a revised tariff reflecting the approved plant capacity charge.

ORDERED that Utilities, Inc. of Sandalhaven shall file revised tariff sheets consistent with the approved AFPI charges set forth in the body of this order within 30 days of the issuance of the Consummating Order.

ORDERED that the revised tariff sheets shall be approved upon our staff verification that the tariffs are consistent with the Commission's decision and provided future customers have been noticed pursuant to Rule 25-30.475(2), F.A.C.

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 the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

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

ORDERED that the 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 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 10 days are the date of the notice. It is further

ORDERED that Utilities Inc. of Sandalhaven 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 in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 29th day of October, 2007.



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ANN COLE  
Commission Clerk

( S E A L )

MCB

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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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.

The action proposed herein except the requirement to reduce rates to reflect the removal of the amortized rate case expense and the requirement to provide proof that the utility has adjusted its books for all applicable NARUC USOA primary accounts 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 19, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

Utilities, Inc. of Sandalhaven DKT #: 060285-SU			Attachment A Test Year Jan 06 - Dec 06	
WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA				
1)		Permitted Capacity of Plant (AADF)	150,000	gallons per day
2)	a)	Average Daily Flow (AADF)- 2006	88,896	gallons per day
3)		Growth	26,694	gallons per day
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2006 - Dec 2006	1,059	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	67	ERCs
	c)	Customer Growth in ERCs using 5% per year Cap for 5 year period (1,059x5%)	53	ERCs
	d)	Statutory Growth Period	5	Years
	e)	Projected growth year 2007	1	Year
	f)	Growth = [(3c)x(3d)x(2a)]^(3a) + [(3c)x(3e)x(2a)]^(3a)	26,694	gallons per day
4)		Excessive Infiltration or Inflow (I&I)	0	gallons per day
	a)	Total I & I	28,174	gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	29,626	gallons per day
	d)	Excessive Amount	0	gallons per day

#### USED AND USEFUL FORMULA

$$[\text{Average Daily Flow} + \text{Growth} - \text{Excessive Amount}] / \text{Permitted Capacity of Plant}$$

$$[88,896 + 26,694 - 0] / 150,000 = 77.06\% \quad \text{Used \& Useful}$$

Utilities Inc. of Sandalhaven Schedule of Wastewater Rate Base Test Year Ended 12/31/07 - Phase One			Schedule No. 1-A Docket No. 060285-SU		
Description	Test Year Per Utility 12/31/2005	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,076,274	\$4,986,281	\$7,062,555	(\$1,356,896)	\$5,705,659
2 Land and Land Rights	81,794	72,635	154,429	(73,089)	81,340
3 Non-used and Useful Components	0	0	0	(2,892,879)	(2,892,879)
4 Accumulated Depreciation	(839,983)	54,351	(785,632)	(180,433)	(966,065)
5 CIAC	(2,266,445)	(1,849,300)	(4,115,745)	1,248,391	(2,867,354)
6 Amortization of CIAC	794,500	(181,203)	613,297	313,153	926,450
7 WSC Rate Base	7,458	0	7,458	103	7,561
8 Deferred Tax Asset	0	0	0	0	0
9 Working Capital Allowance	<u>39,156</u>	<u>19,975</u>	<u>59,131</u>	<u>4,817</u>	<u>63,948</u>
10 <b>Rate Base</b>	<u>(\$68,529)</u>	<u>\$3,102,739</u>	<u>\$3,034,940</u>	<u>(\$2,936,834)</u>	<u>\$58,659</u>

Utilities Inc. of Sandalhaven Schedule of Wastewater Rate Base Test Year Ended 6/30/10 - Phase two 80% Buildout			Schedule No. 1-B Docket No. 060285-SU		
Description	Test Year Per Utility 12/31/2005	Utility Adjust- ments	Adjusted Test Year Per Utility 80% Buildout	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$2,076,274	\$4,986,281	\$7,062,555	(\$1,326,751)	\$5,735,804
2 Land and Land Rights	81,794	72,635	154,429	(73,089)	81,340
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(839,983)	(274,429)	(1,114,412)	274,953	(839,459)
5 CIAC	(2,266,445)	(2,519,708)	(4,786,153)	1,343,594	(3,442,559)
6 Amortization of CIAC	794,500	(46,178)	748,322	(47,818)	700,504
7 WSC and UIF Rate Base	19,522	0	19,522	(2,040)	17,482
8 Deferred Tax Asset	95,694	(6,827)	88,867	(88,867)	0
9 Working Capital Allowance	<u>39,156</u>	<u>35,158</u>	<u>74,314</u>	<u>6,482</u>	<u>80,796</u>
10 <b>Rate Base</b>	<u>\$39,229</u>	<u>\$2,246,932</u>	<u>\$2,247,444</u>	<u>\$86,465</u>	<u>\$2,333,909</u>

Utilities Inc. of Sandalhaven		Schedule No. 1-C
Adjustments to Rate Base		Docket No. 060285-SU
Test Year Ended 12/31/07 - Phase One		
Explanation	Wastewater	
<u>Plant In Service</u>		
1	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(\$12,941)
2	Reflect appropriate projected test year balance for franchises. (Issue 3)	(9,826)
3	Reflect appropriate UIF allocated plant. (Issue 4)	(813)
4	Reflect appropriate projected plant additions. (Issue 5)	(1,912,947)
5	To remove retirement adjustment. (Issue 5)	579,631
	Total	<u>(\$1,356,896)</u>
<u>Land</u>		
	To reflect non-used and useful adjustment to land. (Issue 6)	<u>(\$73,089)</u>
<u>Non-used and Useful</u>		
1	Reflect net non-used & useful adjustment for Impact Fees to EWD. (Issue 5)	(\$1,800,560)
2	Reflect net non-used & useful adjustment for Interconnection Costs. (Issue 5)	<u>(1,092,319)</u>
	Total	<u>(\$2,892,879)</u>
<u>Accumulated Depreciation</u>		
1	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	\$310
2	Reflect appropriate projected test year balance for franchises. (Issue 3)	1,116
3	Reflect appropriate UIF allocated plant. (Issue 4)	224
4	Reflect appropriate projected 2007 accum. depreciation balance. (Issue 8)	<u>(182,083)</u>
	Total	<u>(\$180,433)</u>
<u>CIAC</u>		
1	To remove retirement adjustment. (Issue 5)	(\$467,867)
2	To correct utility's averaging error for projected 2007 test year. (Issue 9)	(577,844)
3	Reflect appropriate amount of CIAC for projected 2007 test year. (Issue 9)	<u>2,294,101</u>
	Total	<u>\$1,248,391</u>
<u>Accumulated Amortization of CIAC</u>		
1	To correct utility's averaging error for projected 2007 test year. (Issue 9)	\$29,975
2	Reflect the appropriate amount of projected Acc. Amort. of CIAC. (Issue 9)	<u>283,179</u>
	Total	<u>\$313,153</u>
<u>WSC Rate Base</u>		
	To reflect the appropriate WSC rate base allocation. (Issue 4)	<u>\$103</u>
<u>Working Capital</u>		
	To reflect the appropriate working capital allowance. (Issue 10)	<u>\$4,817</u>

Utilities Inc. of Sandalhaven		Schedule No. 1-D
Adjustments to Rate Base		Docket No. 060285-SU
Test Year Ended 6/30/10 - Phase two 80% Buildout		
Explanation	Wastewater	
<u>Plant In Service</u>		
1	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(\$12,941)
2	Reflect appropriate projected test year balance for franchises. (Issue 3)	(9,826)
3	Reflect appropriate projected plant additions. (Issue 5)	(724,353)
4	Reflect appropriate full retirement of the wastewater treatment plant. (Issue 5)	(579,631)
	Total	<u>(\$1,326,751)</u>
<u>Land</u>		
	To reflect non-used and useful adjustment to land. (Issue 6)	<u>(\$73,089)</u>
<u>Accumulated Depreciation</u>		
1	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	\$310
2	Reflect appropriate projected test year balance for franchises. (Issue 3)	1,116
3	To reflect the appropriate amount of Acc. Depr for 80% Buildout. (Issue 8)	<u>273,528</u>
	Total	<u>\$274,953</u>
<u>CIAC</u>		
1	Reflect appropriate full retirement of the wastewater treatment plant. (Issue 5)	\$584,577
2	To reflect the appropriate amount of CIAC for 80% Buildout. (Issue 9)	<u>759,017</u>
	Total	<u>\$1,343,594</u>
<u>Accumulated Amortization of CIAC</u>		
	Reflect appropriate amount of Acc. Amort. of CIAC for 80% Buildout. (Issue 9)	<u>(\$47,818)</u>
<u>WSC and UIF Rate Base</u>		
	To reflect the appropriate WSC and UIF rate base allocation. (Issue 4)	<u>(\$2,040)</u>
<u>Deferred Tax Asset</u>		
	To remove utility's net debit ADITs balance in rate base. (Issue 13)	<u>(\$88,867)</u>
<u>Working Capital</u>		
	To reflect the appropriate working capital allowance. (Issue 10)	<u>\$6,482</u>

Utilities Inc. of Sandalhaven Capital Structure-Simple Average Test Year Ended 12/31/07 - Phase One						Schedule No. 2-A Docket No. 060285-SU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$122,490,425)	\$1,553,778	51.87%	6.81%	3.53%	
2 Short-term Debt	11,347,000	0	11,347,000	(11,204,867)	142,133	4.74%	2.00%	0.09%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	90,787,422	0	90,787,422	(89,650,219)	1,137,203	37.96%	11.77%	4.47%	
5 Customer Deposits	16,500	0	16,500	0	16,500	0.55%	6.00%	0.03%	
6 Deferred Income Taxes	<u>145,878</u>	<u>0</u>	<u>145,878</u>	<u>0</u>	<u>145,878</u>	<u>4.87%</u>	0.00%	<u>0.00%</u>	
7 <b>Total Capital</b>	<u>\$226,341,003</u>	<u>\$0</u>	<u>\$226,341,003</u>	<u>(\$223,345,511)</u>	<u>\$2,995,492</u>	<u>100.00%</u>		<u>8.13%</u>	
<b>Per Staff</b>									
8 Long-term Debt	\$124,044,203	\$55,955,797	\$180,000,000	(\$180,000,000)	\$0	0.00%	6.60%	0.00%	
9 Short-term Debt	11,347,000	(11,347,000)	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	90,787,422	17,464,864	108,252,286	(108,252,286)	0	0.00%	12.00%	0.00%	
12 Customer Deposits	16,500	263	16,763	0	16,763	28.58%	6.00%	1.71%	
13 Deferred Income Taxes	<u>145,878</u>	<u>30,633</u>	<u>176,511</u>	<u>(134,615)</u>	<u>41,896</u>	<u>71.42%</u>	0.00%	<u>0.00%</u>	
14 <b>Total Capital</b>	<u>\$226,341,003</u>	<u>\$62,104,556</u>	<u>\$288,445,559</u>	<u>(\$288,386,900)</u>	<u>\$58,659</u>	<u>100.00%</u>		<u>1.71%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>11.00%</u>	<u>13.00%</u>		
OVERALL RATE OF RETURN						<u>1.71%</u>	<u>1.71%</u>		

Utilities Inc. of Sandalhaven Capital Structure-Simple Average Test Year Ended 6/30/10 - Phase two 80% Buildout						Schedule No. 2-B Docket No. 060285-SU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$122,820,677)	\$1,223,526	54.44%	6.81%	3.71%	
2 Short-term Debt	11,347,000	0	11,347,000	(11,235,077)	111,923	4.98%	2.00%	0.10%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	90,787,422	0	90,787,422	(89,891,928)	895,494	39.85%	11.99%	4.78%	
5 Customer Deposits	16,500	0	16,500	0	16,500	0.73%	6.00%	0.04%	
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7 <b>Total Capital</b>	<u>\$226,195,125</u>	<u>\$0</u>	<u>\$226,195,125</u>	<u>(\$223,947,682)</u>	<u>\$2,247,443</u>	<u>100.00%</u>		<u>8.63%</u>	
<b>Per Staff</b>									
8 Long-term Debt	\$124,044,203	\$55,955,797	\$180,000,000	(\$178,664,762)	\$1,335,238	57.21%	6.60%	3.78%	
9 Short-term Debt	11,347,000	(11,347,000)	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	90,787,422	17,464,864	108,252,286	(107,449,271)	803,014	34.41%	12.00%	4.13%	
12 Customer Deposits	16,500	263	16,763	0	16,763	0.72%	6.00%	0.04%	
13 Deferred Income Taxes	0	178,894	178,894	0	178,894	7.66%	0.00%	0.00%	
14 <b>Total Capital</b>	<u>\$226,195,125</u>	<u>\$62,252,817</u>	<u>\$288,447,942</u>	<u>(\$286,114,033)</u>	<u>\$2,333,909</u>	<u>100.00%</u>		<u>7.95%</u>	
						<b>LOW</b>	<b>HIGH</b>		
RETURN ON EQUITY						<u>11.00%</u>	<u>13.00%</u>		
OVERALL RATE OF RETURN						<u>7.60%</u>	<u>8.29%</u>		

Utilities Inc. of Sandalhaven Statement of Wastewater Operations Test Year Ended 12/31/07 - Phase One						Schedule No. 3-A Docket No. 060285-SU	
Description	Test Year Per Utility 12/31/2005	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$270,518</u>	<u>\$847,616</u>	<u>\$1,118,134</u>	<u>-\$740,531</u>	<u>\$377,603</u>	<u>\$197,496</u> 52.30%	<u>\$575,099</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$313,247	\$209,214	\$522,461	-\$10,878	\$511,583		\$511,583
3 Depreciation	-32,297	96,706	64,409	-64,409	0		0
4 Amortization	529	-529	0	0	0		0
5 Taxes Other Than Income	43,260	178,625	221,885	-168,261	53,624	8,887	62,511
6 Income Taxes	<u>-44,051</u>	<u>97,109</u>	<u>53,058</u>	<u>-124,031</u>	<u>-70,973</u>	<u>70,973</u>	<u>0</u>
7 <b>Total Operating Expense</b>	<u>280,688</u>	<u>581,125</u>	<u>861,813</u>	<u>-367,580</u>	<u>494,233</u>	<u>79,861</u>	<u>574,094</u>
8 <b>Operating Income</b>	<u>-\$10,170</u>	<u>\$266,491</u>	<u>\$256,321</u>	<u>-\$372,950</u>	<u>-\$116,629</u>	<u>\$117,635</u>	<u>\$1,006</u>
9 <b>Rate Base</b>	<u>-\$68,529</u>		<u>\$3,034,940</u>		<u>\$58,659</u>		<u>\$58,659</u>
10 <b>Rate of Return</b>	<u>14.84%</u>		<u>8.45%</u>		<u>-198.83%</u>		<u>1.71%</u>

Utilities Inc. of Sandalhaven Statement of Wastewater Operations Test Year Ended 6/30/10 - Phase two 80% Buildout						Schedule No. 3-B Docket No. 060285-SU	
Description	Test Year Per Utility 12/31/2005	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$270,518</u>	<u>\$855,163</u>	<u>\$1,125,681</u>	<u>-\$673,120</u>	<u>\$452,561</u>	<u>\$594,361</u> 131.33%	<u>\$1,046,922</u>
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$313,247	\$330,679	\$643,926	\$2,441	\$646,367		\$646,367
3 Depreciation	-32,297	77,691	45,394	-4,880	40,514		40,514
4 Amortization	529	50,342	50,871	-50,871	0		0
5 Taxes Other Than Income	43,260	107,428	150,688	-61,056	89,632	26,746	116,378
6 Income Taxes	<u>-44,051</u>	<u>84,560</u>	<u>40,509</u>	<u>-195,952</u>	<u>-155,443</u>	<u>213,593</u>	<u>58,150</u>
7 <b>Total Operating Expense</b>	<u>280,688</u>	<u>650,700</u>	<u>931,388</u>	<u>-310,319</u>	<u>621,069</u>	<u>240,340</u>	<u>861,409</u>
8 <b>Operating Income</b>	<u>-\$10,170</u>	<u>\$204,463</u>	<u>\$194,293</u>	<u>-\$362,801</u>	<u>-\$168,508</u>	<u>\$354,021</u>	<u>\$185,513</u>
9 <b>Rate Base</b>	<u>\$39,229</u>		<u>\$2,247,444</u>		<u>\$2,333,909</u>		<u>\$2,333,909</u>
10 <b>Rate of Return</b>	<u>-25.92%</u>		<u>8.65%</u>		<u>-7.22%</u>		<u>7.95%</u>

Utilities Inc. of Sandalhaven Adjustment to Operating Income Test Year Ended 12/31/07 - Phase One		Schedule No. 3-C Docket No. 060285-SU
Explanation	Wastewater	
<u>Operating Revenues</u>		
1 Remove requested final revenue increase		(\$846,434)
2 Reflect audit adjustments agreed to by the utility and staff. (Issue 2)		10,663
3 To reflect utility's 2007 projected revenues. (Issue 15)		91,942
4 Reflect appropriate projected miscellaneous service revenues. (Issue 16)		3,298
Total		<u>(\$740,531)</u>
<u>Operation and Maintenance Expense</u>		
1 To amortize legal fees over a 5-year period. (Issue 3)		\$1,983
2 To appropriate amortize PSI costs over 15 years. (Issue 5)		21,796
3 To reflect the appropriate WSC allocated expenses. (Issue 17)		(5,410)
4 To reflect the appropriate UIF allocated expenses. (Issue 17)		(842)
5 To reflect the amortization of hurricane costs. (Issue 18)		5,373
6 To reflect the appropriate 2007 projected O&M expenses. (Issue 19)		(20,014)
7 To reflect the appropriate rate case expense. (Issue 20)		(13,765)
Total		<u>(\$10,878)</u>
<u>Depreciation Expense - Net</u>		
1 Reflect audit adjustments agreed to by the utility and staff. (Issue 2)		\$34,921
2 To reflect the appropriate WSC rate base allocation. (Issue 4)		4
3 Reflect appropriate UIF allocated plant. (Issue 4)		(417)
4 Reflect net non-used & useful adjustment for Impact Fees to the EWD. (Issue 5)		(58,083)
5 Reflect net non-used & useful adjustment for Interconnection facilities. (Issue 5)		(36,662)
6 To remove the amortization of hurricane costs. (Issue 18)		(\$4,273)
7 To reflect the appropriate projected net depreciation expense. (Issue 21)		(21,769)
8 To set a resulting negative net depreciation expense to zero. (Issue 21)		21,871
Total		<u>(\$64,409)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above		(\$33,324)
2 Reflect audit adjustments agreed to by the utility and staff. (Issue 2)		(1,715)
3 Reflect net non-used & useful adjustment for Impact Fees to the EWD. (Issue 5)		(23,303)
4 Reflect net non-used & useful adjustment for Interconnection facilities. (Issue 5)		(27,535)
5 To the appropriate WSC allocated property taxes. (Issue 17)		(332)
6 To reflect appropriate pro forma property taxes. (Issue 23)		(82,052)
Total		<u>(\$168,261)</u>
<u>Income Taxes</u>		
To reflect the appropriate test year income taxes.		<u>(\$124,031)</u>

Utilities Inc. of Sandalhaven		Schedule No. 3-D
Adjustment to Operating Income		Docket No. 060285-SU
Test Year Ended 6/30/10 - Phase two 80% Buildout		
Explanation		Wastewater
<u>Operating Revenues</u>		
1	Remove requested final revenue increase	(\$849,119)
2	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	5,801
3	To reflect appropriate projected revenues. (Issue 15)	170,698
4	To remove all reuse revenues. (Issue 15)	(3,798)
5	Reflect appropriate projected miscellaneous service revenues. (Issue 16)	3,298
	Total	<u>(\$673,120)</u>
<u>Operation and Maintenance Expense</u>		
1	To amortize legal fees over a 5-year period. (Issue 3)	\$1,983
2	To appropriate amortize PSI costs over 15 years. (Issue 5)	21,796
3	To reflect the appropriate WSC allocated expenses. (Issue 17)	(5,410)
4	To reflect the appropriate UIF allocated expenses. (Issue 17)	(842)
5	To reflect the amortization of hurricane costs. (Issue 18)	1,100
6	To reflect the appropriate 2007 projected O&M expenses. (Issue 19)	(2,421)
7	To reflect the appropriate rate case expense. (Issue 20)	<u>(13,765)</u>
	Total	<u>\$2,441</u>
<u>Depreciation Expense - Net</u>		
1	To reflect the appropriate WSC rate base allocation. (Issue 4)	\$4
2	Reflect appropriate UIF allocated plant. (Issue 4)	(417)
3	To remove the amortization of hurricane costs. (Issue 18)	(4,273)
4	To reflect the appropriate net depreciation expense. (Issue 21)	<u>(193)</u>
	Total	<u>(\$4,880)</u>
<u>Amortization Expense</u>		
	To reflect the appropriate amortization loss on retired plant. (Issue 22)	<u>(\$50,871)</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above	(\$30,290)
2	Reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(1,715)
3	To the appropriate WSC allocated property taxes. (Issue 17)	(332)
4	To reflect appropriate pro forma property taxes. (Issue 23)	<u>(28,718)</u>
	Total	<u>(\$61,056)</u>
<u>Income Taxes</u>		
	To reflect the appropriate test year income taxes.	<u>(\$195,952)</u>

Utilities Inc. of Sandalhaven						SCHEDULE NO. 4	
Wastewater Monthly Service Rates						Docket No. 060285-SU	
Test Year Ended 6/30/10 - Phase two 80% Buildout						Page 1 of 2	
	Rates Prior to Filing	Utility MFR Requested Rates	Phase one Requested Rates	Phase two Requested Rates	Commission Phase one Approved Rates	Commission Phase two Approved Rates	Phase two Four-year Rate Reduction
<b><u>Residential Service</u></b>							
Base Facility Charge All Meter Sizes:	\$13.13	\$49.43	\$27.74	\$31.40	\$19.48	\$24.04	\$0.85
Gallonge Charge - Per 1,000 gallons (8,000 gallon cap)	\$3.70	\$11.50	\$5.32	\$5.73	\$4.37	\$5.36	\$0.19
<b><u>Multi-Residential Service</u></b>							
Base Facility Charge All Meter Sizes:	\$13.13	\$49.43	\$27.74	\$31.40			
Base Facility Charge by Meter Size:							
5/8" x 3/4"					\$19.48	\$24.04	\$0.85
1"					\$48.69	\$60.11	\$2.12
1-1/2"					\$97.39	\$120.22	\$4.24
2"					\$155.82	\$192.34	\$6.78
3"					\$311.65	\$384.69	\$13.56
4"					\$486.95	\$601.08	\$21.19
6"					\$973.89	\$1,202.15	\$42.39
Gallonge Charge, per 1,000 Gallons	\$4.43	\$13.80	\$6.39	\$6.88	\$5.25	\$6.44	\$0.23

<b>Utilities Inc. of Sandalhaven</b>							<b>SCHEDULE NO. 4</b>	
<b>Wastewater Monthly Service Rates</b>							<b>Docket No. 060285-SU</b>	
<b>Test Year Ended 6/30/10 - Phase two 80% Buildout</b>							<b>Page 2 of 2</b>	
	<b>Rates Prior to Filing</b>	<b>Utility MFR Requested Rates</b>	<b>Phase one Requested Rates</b>	<b>Phase two Requested Rates</b>	<b>Commission Phase one Approved Rates</b>	<b>Commission Phase two Approved Rates</b>	<b>Phase two Four-year Rate Reduction</b>	
<b><u>General Service</u></b>								
Base Facility Charge by Meter Size:								
5/8" x 3/4"	\$13.13	\$49.43	\$27.74	\$31.40	\$19.48	\$24.04	\$0.85	
1"	\$32.85	\$123.66	\$69.41	\$78.55	\$48.69	\$60.11	\$2.12	
1-1/2"	\$65.69	\$247.29	\$138.80	\$157.08	\$97.39	\$120.22	\$4.24	
2"	\$105.10	\$395.65	\$222.07	\$251.32	\$155.82	\$192.34	\$6.78	
3"	\$197.06	\$741.83	\$531.02	\$471.21	\$311.65	\$384.69	\$13.56	
4"	\$328.42	\$1,236.33	\$1,269.78	\$785.32	\$486.95	\$601.08	\$21.19	
6"	\$656.85	\$2,472.70	\$3,036.30	\$1,570.66	\$973.89	\$1,202.15	\$42.39	
Gallonge Charge, per 1,000 Gallons	\$4.43	\$13.80	\$6.39	\$6.88	\$5.25	\$6.44	\$0.23	
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>								
3,000 Gallons	\$24.23	\$83.93	\$43.70	\$48.59	\$32.60	\$40.13		
5,000 Gallons	\$31.63	\$106.93	\$54.34	\$60.05	\$41.35	\$50.86		
8,000 Gallons	\$42.73	\$141.43	\$70.30	\$77.24	\$54.48	\$66.95		
10,000 Gallons	\$42.73	\$141.43	\$70.30	\$77.24	\$54.48	\$66.95		
(Wastewater Gallonge Cap - 8,000 Gallons)								

<b>UTILTIY CO.:</b>	<b>Utilities Inc. of Sandalhaven</b>	<b>SCHEDULE NO. 5</b>			
<b>Docket No.:</b>	<b>060285-SU</b>				
<b>Wastewater Operation</b>					
<b><u>Commissaion approved</u></b>					
<b>Plant Capacity Charge:</b>		<b>\$2,628</b>			
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
Utility Plant	\$5,635,806	\$5,635,806	\$5,835,806	\$5,835,806	
Accumulated Depreciation	<u>(504,575)</u>	<u>(642,795)</u>	<u>(784,349)</u>	<u>(929,237)</u>	
Net Plant	<u>\$5,131,232</u>	<u>\$4,993,011</u>	<u>\$5,051,457</u>	<u>\$4,906,570</u>	
CIAC	\$2,117,836	\$2,881,556	\$3,645,276	\$4,408,996	
Accumulated Amortization	<u>(459,157)</u>	<u>(548,963)</u>	<u>(666,207)</u>	<u>(810,889)</u>	
Net CIAC	<u>\$1,658,679</u>	<u>\$2,332,593</u>	<u>\$2,979,069</u>	<u>\$3,598,107</u>	
Net Investment	<u>\$3,472,553</u>	<u>\$2,660,418</u>	<u>\$2,072,388</u>	<u>\$1,308,462</u>	
<b>CIAC Ratio:</b>	<b>32.33%</b>	<b>46.72%</b>	<b>58.97%</b>	<b>73.33%</b>	