

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company. | DOCKET NO. 070695-WS
ORDER NO. PSC-08-0812-PAA-WS
ISSUED: December 16, 2008

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the actions discussed herein, except for the four-year rate reduction and the requirement of proof of adjustments, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Background

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

| <u>Docket No.</u> | <u>Utility Subsidiary</u> |
|-------------------|-------------------------------------|
| 070693-WS | Lake Utility Services, Inc. |
| 070694-WS | Wedgfield Utilities, Inc. |
| 070695-WS | Miles Grant Water and Sewer Company |
| 080247-SU | Utilities Inc. of Eagle Ridge |
| 080248-SU | Tierra Verde Utilities |
| 080249-WS | Labrador Utilities |
| 080250-SU | Mid-County Services |

This Order addresses Docket No. 070695-WS. Miles Grant Water and Sewer Company (Miles Grant or Utility) is a Class B utility providing service to approximately 1,142 water and

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1,058 wastewater customers in Martin County. Miles Grant is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in its 1987 rate case.¹

On February 29, 2008, Miles Grant filed its Application for Rate Increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. Miles Grant had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and April 10, 2008, was established as the official filing date. The test year established for interim and final rates is the simple average period ending June 30, 2007.

Miles Grant requested interim rates for both its water and wastewater systems. By Order No. PSC-08-0338-PCO-WS, issued May 27, 2008, we approved interim rates designed to generate annual water revenues of \$400,750, an increase of \$116,412 or 40.94 percent, and wastewater revenues of \$560,678, an increase of \$219,137 or 64.16 percent. The Utility requested final rates designed to generate annual water revenues of \$502,000, an increase of \$217,662 or 76.55 percent, and annual wastewater revenues of \$642,203, an increase of \$300,568 or 87.98 percent.

The Office of Public Counsel was granted intervention in this docket by Order No. PSC-08-0723-PCO-WS, issued October 31, 2008.

We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

II. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by us from customers are reviewed. We have also considered Miles Grant's current compliance with the Florida Department of Environmental Protection (DEP).

Quality of Utility's Product

In Martin County, the water and wastewater programs are regulated by the DEP Southeast District office in West Palm Beach. Miles Grant is current in all of the required chemical analyses, and the Utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP. Between late 2005 through early 2007, Miles Grant was out of compliance with a newly initiated DEP rule concerning disinfection byproducts. Once the Utility converted from chlorine to chloramines disinfection, compliance was achieved.

¹ See Order No. 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an Increase in Water and Sewer Rates in Martin County.

Operational Conditions of Plants

A field investigation of Miles Grant was conducted on May 22, 2008. We found no apparent problems with the operations of either the water or wastewater treatment facilities. The conditions of these facilities are currently in compliance with the DEP rules and regulations. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, we find that the quality of service for the condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

The Utility provided in its filing copies of customer complaints received during the test year. The water quality complaints dealt with discoloration, residue and sediment, odor, and taste. There were also complaints of low pressure and outages. A review of these complaints found that Miles Grant mainly responded with the flushing of lines to help resolve the water quality problems. During the test year, the Utility began replacing older meters and upgrading fire hydrants. Most of the low pressure and outages concerns were the result of those activities.

Sewage back-ups were the main wastewater complaints. It appears that this type of problem is routine. Miles Grant eliminated obstructions in the collection system to correct the blockages.

We received over three hundred "form" letters detailing concerns over the impact of the proposed rate increases to the customers. The letters go on to say that it appears the Utility is being mismanaged or is seeking to acquire exorbitant profits.

One customer letter refers to quality of service concerns over a needed replacement or repair of a deteriorating bulkhead area located near his residence. This bulkhead surrounds a fire hydrant and storm water catch basin. Also, the customer had a second problem concerning an unfinished driveway repair resulting from a water line replacement. The driveway repair, which was finished in 2005, took over six months to correct. The customer concludes in his letter that the Utility is incompetent and should not be given a rate increase.

Miles Grant supplied us with reasonable explanations to this customer's concerns. For the bulkhead area situation, the Utility believes that this structure is in satisfactory condition and in no need of improvement. Supplied photographs appear to support the Utility's opinion. In reference to the driveway repair situation, Miles Grant agrees that it took longer than expected for repairs to occur. Although the driveway was promptly backfilled with rock and gravel on a temporary basis and the customer always had access to his driveway, the Utility acknowledged that the project took longer than desired to complete. The completion of the project was delayed due to staffing problems with the contractor during that time. Supplied photographs verify a completed project.

A customer meeting was held on July 8, 2008, in the Martin County Administrative Center in Stuart, Florida. There were approximately twenty-five customers who attended the

noticed meeting. An additional forty-five customers attended a less formal afternoon meeting. Although there were quality of service concerns brought up at these meetings, the customers' main focus was about the justification of the proposed rate increases and the personal hardship such rate increases would impose.

Of the seven customers who spoke at the evening meeting, four had quality of service concerns. One customer spoke of a recurring wastewater line backup problem that took over five years to correct. Three customers spoke of billing problems. A customer spoke of deferred maintenance of fire hydrants, water quality and boil water public noticing events, and concern over a billing problem. This customer also commented on the offensive odor of the water. Another customer spoke of the poor drinkability of the water.

In reference to the wastewater backup problem that took 5 years to correct, the Utility determined that the customer service line had a grading problem due to line settling over time that had been difficult to identify. After multiple line clearing events over the years, this recurring problem was finally resolved by the replacement of the service line in question. In reference to the fire hydrant maintenance customer comment, Miles Grant has supplied us with an accounting of its hydrant upgrade program which included 5 of the system's 51 hydrants that were replaced in 2007. The Utility has indicated that all hydrants have been surveyed for proper operation, lubricated, flow tested, painted, and otherwise maintained in the proper fashion. It points out that replacement hydrants are capitalized, not expensed, and therefore have a very small impact on the revenue requirement of the water system.

In reference to water quality and boil water noticing, Miles Grant acknowledged that between late 2005 through early 2007, there was a period of time during which noncompliance with a newly initiated DEP rule concerning disinfection byproducts occurred. Once the Utility converted to chloramines disinfection, compliance was achieved and the public noticing was no longer necessary. In reference to the boil water noticing associated with water outages, low pressure, or construction problems, the Utility believes that there have been minimal occurrences, and therefore this should not be considered a problem.

The Commission Complaint Tracking System was reviewed. During the test year, only one complaint was received. It dealt with improper billing and has since been closed. There are currently no active complaints on file with this Commission.

Based on the above, the Utility's overall quality of service is considered satisfactory. We find that the quality of the product and the condition of the plants are adequate when it comes to regulatory compliance standards.

III. Stipulated Audit Adjustments to Rate Base

In its response to our audit report, Miles Grant agreed to the audit findings and audit adjustment amounts listed below. We find the following adjustments to rate base are appropriate.

| <u>Audit Finding</u> | <u>Water</u> | <u>Wastewater</u> |
|---|--------------|-------------------|
| No. 7 – Increase CIAC | \$46,867 | \$32,734 |
| No. 7 – Increase Accumulated Amortization of CIAC | \$221,492 | \$176,494 |
| No. 9 – Reduce Plant in Service | \$3,120 | - |
| No. 9 – Reduce Accumulated Depreciation | \$282 | - |

IV. Allocated Rate Base Adjustments

In its filing, the Utility reflected Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) allocated rate base of \$66,818 for water and \$73,819 for wastewater. WSC (a subsidiary service company of UI) supplies most of accounting, billing, and other services required by UI’s other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. Our staff performed an affiliate transactions’ (AT) audit of UI, the parent company of Miles Grant and its sister companies.

Subsequent to the issuance of our AT audit, we discovered that several employees from UIF’s division office in Altamonte Springs worked on treatment plants in Louisiana, and allocated the capitalized salaries in current rate cases in Louisiana. We find it appropriate to remove the allocated capitalized salary, and the Utility agrees to the adjustment. This results in a allocated rate base reduction of \$3,642 (Plant Decrease of \$8,932 less Accumulated Depreciation decrease of \$5,290) for water and a reduction of \$3,429 (Plant Decrease of \$8,411 less Accumulated Depreciation decrease of \$4,982) for wastewater. Based on the above, we find that the appropriate net rate base allocation for Miles Grant is \$63,176 for water and \$70,390 for wastewater.

V. Adjustments to Test Year Plant in Service

According to our audit report, the Utility provided only partial responses to our auditors requests for support documentation relating to plant in service. In its response to the audit report, Miles Grant disagreed with the audit findings regarding plant in service, and provided over 2,800 pages of support documentation, along with their calculation of plant in service and accumulated depreciation. However, the Utility’s response contained several discrepancies, including items that were counted twice, unsupported documentation, and items that should have been expensed rather than capitalized. Based on the support documentation provided by the Utility, we recalculated plant in service, accumulated depreciation, Operation and Maintenance (O&M) expense, and depreciation expense. Based on the above, we find that the following adjustments are appropriate:

| | <u>Water</u> | <u>Wastewater</u> |
|--------------------------|--------------|-------------------|
| Plant in Service | (\$110,396) | (\$340,165) |
| Accumulated Depreciation | (\$478,382) | (\$473,073) |
| O&M Expense | \$1,197 | \$0 |
| Depreciation Expense | (\$18,344) | \$6,621 |

VI. Pro Forma Plant and Expense Additions

Miles Grant's filing reflected pro forma plant additions of \$147,520 for water and \$71,780 for wastewater. Of the pro forma plant additions for water, \$76,220 relates to allocated plant and \$71,300 related to non-allocated plant. All of the requested plant additions for wastewater are allocated plant additions.

The water and wastewater pro forma allocated plant additions relates to the Utility's Project Phoenix Financial/Customer Care Billing System (CCBS). Miles Grant asserts that the purpose of the CCBS is to improve the Utility's capabilities and processes in their accounting, customer service, customer billing, and financial and regulatory reporting areas. The allocation of \$76,220 for water and \$71,780 for wastewater was based on equivalent residential connections (ERCs). The allocation of the CCBS costs that were prepared for this case utilized Miles Grant's ERCs at the end of the test year, in comparison to the total ERCs for the Parent Company. Dividing the ERCs of the Utility by the total ERCs resulted in a percentage value, which was then multiplied by the total investment in the CCBS. We performed an allocation audit in connection with all current UI cases. Based on the audit, we find that no adjustment is necessary for the water and wastewater pro forma allocated plant additions relating to the Miles Grant's CCBS.

We reviewed the support documentation and prudence for the non allocated pro forma plant amounts. According to data request responses, all non allocated pro forma plant was completed and in service in 2007. Based on our review, we find that adjustments are necessary to the Utility's requested non-allocated pro forma plant additions.

The Utility installed three new generator fuel tanks. Miles Grant submitted invoices and supporting documentation reflecting a \$38,158 cost for this project. In its MFRs, the Utility estimated \$24,800 for this project. As such, we find that plant shall be increased by \$13,358 and that accumulated depreciation and depreciation expense shall both be increased by \$668.

Miles Grant replaced five fire hydrants. The Utility submitted invoices and supporting documentation reflecting a \$21,490 cost for this project. In its MFRs, the Utility estimated \$15,000 for this project. Thus, we find that that plant shall be increased by \$6,490 and accumulated depreciation and depreciation expense both be increased by \$145.

The Utility also installed HSP Variable Frequency Drives and HSP Check Valves at its Water Treatment Plant. In its MFRs, Miles Grant estimated \$23,000 for the HSP Variable Frequency Drives and \$8,500 for the HSP Check Valves. The Utility submitted invoices and supporting documentation reflecting a \$20,648 cost for the HSP Variable Frequency Drives and a cost of \$2,620 cost for the HSP Check Valves. Therefore, we find that plant shall be decreased by \$2,352 and \$5,871, respectively, and accumulated depreciation and depreciation expense both shall be decreased by \$118 and \$282, respectively.

In summary, we approve pro forma plant additions of \$159,145 for water and \$71,780 for wastewater. As a result, plant shall be increased by \$11,625 for water. Accordingly,

accumulated depreciation shall be increased by \$413 for water and depreciation expense shall be decreased by \$1,107 for water. A breakdown of pro forma plant and expense is as follows:

| Miles Grant Water and Sewer Company Pro Form Plant Water Operation | | | | | |
|---|------------------|--|---------------------------------|--|--|
| Pro Forma Plant Adjs. | Per MFRs | Commission Adjustments to Water Plant | Commission Adjusted Plant | Commission Adjustments to Water Accumulated Depreciation | Commission Adjustments to Water Depreciation Expense |
| HSP Variable Frequency Drives | \$23,000 | (2,352) | \$20,648 | (\$118) | (\$118) |
| Generator Fuel Tanks | 24,800 | 13,358 | 38,158 | 668 | 668 |
| Fire Hydrants | 15,000 | 6,490 | 21,490 | 145 | 145 |
| HSP Check Valves at WTP | 8,500 | (5,871) | 2,629 | (282) | (282) |
| Project Phoenix Financial/Customer Care Billing System | 76,220 | 0 | 76,220 | 0 | 0 |
| Pro forma Retirements* | 0 | 0 | 0 | 0 | (1,520) |
| Adjustment Totals | \$147,520 | \$11,625 | \$159,145 | \$413 | (\$1,107) |
| * Adjustments related to retirements have no effect on rate base because plant and accumulated depreciation are both decreased by the same amount. However, the Utility failed to make a corresponding depreciation expense reduction for retirements in its MFRs. As such, depreciation expense shall be reduced by \$1,520. | | | | | |

| Miles Grant Water and Sewer Company Summary Pro Forma Plant Combined Water & Wastewater Operations | | |
|--|-----------|------------------|
| Total Plant Per MFR - Water | \$147,520 | |
| Total Plant Per MFR - Wastewater | 71,780 | |
| Total Combined Plant | | \$219,300 |
| Commission Adjustments - Water | \$11,625 | |
| Commission Adjustments - Wastewater | 0 | |
| Total Combined Adjustments | | 11,625 |
| Total Adjusted Plant Balances | | \$230,925 |

VII. Used and Useful

In its application, the Utility asserts that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100 percent used and useful because the systems are built out and the service area cannot be expanded. Attachment A

contains a used and useful analysis for the water and wastewater plants, pursuant to Rules 25-30.4325 and 25-30.432, F.A.C.

Water Treatment Plant

The used and useful calculation of the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 16 hours of pumping. Consideration is given to fire flow, unaccounted for water, and growth. In this case, because of the South Florida Water Management District's (SFWMD) concerns over salt water intrusion, pumping restrictions to properly manage the aquifer have been imposed. Only three of the Utility's six wells are considered primary wells. The firm reliable capacity is determined by assuming that one of the three - 150 gpm wells is out of service. As detailed in Attachment A to this Order, unaccounted for water is not considered excessive, and an allowance for growth is not included because the system is at build out. As reflected in Attachment A, the water treatment plant is considered 100 percent used and useful based on a calculation where the peak day demand (April 3, 2007) of 464,000 gallons per day, plus the required fire flow of 60,000 gallons per day, is divided by the firm reliable plant capacity of 288,000 gallons per day. In addition, the water treatment plant shall also be considered 100 percent used and useful because the system is built out, there has been no significant growth over the last five years, there is no apparent potential for expansion, and the system is not considered oversized.

Storage

Storage is 100 percent used and useful because the 90,000 gallons of usable storage (90 percent of 100,000 gallons) is less than the peak day demand of 464,000 gallons. Pursuant to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful.

Wastewater Treatment Plant

The used and useful calculation of the wastewater treatment plant is determined by dividing the annual average daily flow by the permitted plant capacity based on the annual average daily flow. Consideration is given for growth and infiltration and inflow (I&I). In this case, an allowance for growth is not a factor because the system is at build out. As reflected in Attachment A, the used and useful analysis based on the annual average daily flow during the test year reflects a 29.39 percent used and useful determination. However, the Utility believes that this facility should be considered 100 percent used and useful because the plant, which was built in the 1970's, was designed to serve a maximum day demand of 300,000 gpd for 1,036 dwelling units, or 290 gpd per unit. With a test year average daily flow of approximately 74 gpd, the area now served by this facility has approximately 200 more units than considered in the original design and is completely built out. There has been no significant growth in the last five years.

We find that the plant was originally appropriately sized to meet the projected needs of the community that it was intended to serve. Also, Rule 25-30.432, F.A.C., provides allowances

in determining the used and useful amount when the area served by the plant is built out. Therefore, the wastewater treatment plant shall be considered 100 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth; however, in this case, growth is not considered a factor since the systems are built out. The distribution and collection systems were designed to serve the existing customers; therefore, the water distribution and wastewater collection systems shall be considered 100 percent used and useful.

VIII. Working Capital

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of 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 adjustments to Miles Grant's O&M expenses. As a result, we find that working capital of \$34,347 and \$43,720 shall be approved for water and wastewater, respectively. This reflects a decrease of \$1,245 to the Utility's requested working capital allowance of \$35,592 for water and a decrease of \$1,312 to Miles Grant's requested allowance of \$45,032 for wastewater.

IX. Rate Base

Consistent with other adjustments approved herein, the appropriate simple average rate base for the test year ending December 30, 2007, is \$745,532 for water and \$919,029 for wastewater. Our approved schedules for rate base are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

X. Return on Common Equity

The return on equity (ROE) requested in the Utility's filing is 11.78 percent. This return is based on the application of our leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.34 percent.²

Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.34 percent, the appropriate ROE is 11.73 percent. We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

² See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

XI. Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, we find that a weighted average cost of capital of 6.08 percent is appropriate. The weighted average cost of capital included in the Utility's filing is 6.82 percent. Schedule No. 2 details our adjustment.

The test year per book amounts were taken directly from Miles Grant's MFR filing Schedule D-2. We made an adjustment of \$4,680 to increase the balance of deferred income taxes. We determined that the Utility's simple average of deferred income taxes on MFR Schedule D-2 (\$380,029) did not reconcile with the Utility's simple average on MFR Schedule C-6 (\$384,708). As Schedule C-6 reflects the Utility's detailed summary schedule of deferred income taxes, we increased deferred income taxes by \$4,680 to be consistent with this schedule.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, we find that a weighted average cost of capital of 6.08 percent is appropriate. Schedule No. 2 details our adjustment.

XII. Pro Forma Expense Adjustments

On MFR Schedule B-3, the Utility included an adjustment of \$4,981 for water and \$4,691 for wastewater for amortized projected hurricane/storm costs. We requested that Miles Grant supply all support documentation relating to the amortized projected hurricane/storm costs. The Utility was unable to provide the requested documentation. Therefore, we find that O&M expenses shall be reduced by \$4,981 for water and \$4,691 for wastewater to remove the unsupported expenses.

XIII. Rate Case Expense

The Utility included in its MFRs, an estimate of \$175,902 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On June 20, 2008, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$227,642. The components of the estimated rate case expense are as follows:

| | <u>MFR</u> <u>Estimated</u> | <u>Actual</u> | <u>Additional</u> <u>Estimated</u> | <u>Total</u> |
|-------------------------|--------------------------------|------------------|---------------------------------------|------------------|
| Legal and Filing Fees | \$49,240 | \$12,600 | \$38,773 | \$51,373 |
| Consultant Fees - MSA | 49,205 | 51,523 | 3,190 | 54,713 |
| Consultant Fees – M&R | 6,900 | 3,039 | 6,240 | 9,279 |
| WSC In-house Fees | 53,350 | 17,322 | 59,459 | 76,781 |
| Filing Fee | 4,000 | 4,000 | 0 | 4,000 |
| Travel – WSC | 3,200 | 0 | 3,200 | 3,200 |
| Miscellaneous | 12,000 | 12,000 | 12,000 | 24,000 |
| Notices | <u>2,007</u> | <u>3,076</u> | <u>1,200</u> | <u>4,276</u> |
| Total Rate Case Expense | <u>\$175,902</u> | <u>\$103,560</u> | <u>\$124,082</u> | <u>\$227,622</u> |

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

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of invoices and the Utility's consultants, a combined amount of \$2,752 was billed for correcting the MFR deficiencies and revising the Utility's filing. The amount associated with deficiency corrections (\$2,752) was identified in our review of the invoices. According to the invoices, Martin Friedman of Rose, Sundstrom & Bentley, LLP, billed the Utility 5.8 hours related to the correction of MFR deficiencies. Based on Mr. Friedman's hourly rate of \$290 per hour, the total amount billed to Miles Grant was \$1,682 (\$290 X 5.8). Additionally, Deborah Swain and Cynthia Yapp, both of Milian, Swain & Associates, billed the Utility ½ hour and 7 hours, respectively, related to the correction of MFR deficiencies. Based on their respective hourly rates of \$180 and \$140 per hour, the total amount billed to the Utility came to \$1,070 ((.5 X \$180) + (7 X \$140)). We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.³ Accordingly, we find that \$2,752 (\$1,682 + \$1,070) shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Miles Grant estimated 133.7 hours or \$38,773 in fees plus \$1,160 in expenses to complete

³ See 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 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.

the rate case. However, the list of tasks to complete the case provided by the Utility's legal counsel came to 53.5 hours.

As discussed below, it is the Utility's burden to justify its requested costs. We find that 53.5 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review our staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. Therefore, we find that the legal fees shall be decreased by \$23,258 (\$38,773 - \$15,515).

The following breakdown was provided for the \$1,160 in estimated disbursements required for legal counsel to complete the case:

| <u>Estimated Disbursements</u> | |
|---------------------------------------|----------------|
| <u>Description</u> | <u>Fees</u> |
| Telephone and facsimile | \$20 |
| Travel and Accommodations | 1,000 |
| Photocopying | 80 |
| Federal Express | 60 |
| Total Estimated disbursements | <u>\$1,160</u> |

We disagree with the travel and accommodations estimate. We find that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$425. We calculated travel expenses of \$425, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$196), hotel rates from a website (\$149), and a meal allowance (\$80). As such, we find that disbursements shall be decreased by \$575 (\$1,000-\$425). Accordingly, we find that rate case expense for Legal Fees shall be decreased by \$25,515 (\$23,258 + \$575 + \$1,682).

The third adjustment relates to the Utility's estimated consultant fees for Frank Seidman, with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman estimated 44 hours or \$5,940 (44 X \$135) plus \$300 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 40 hours to prepare direct and rebuttal testimony and exhibits, and four hours to prepare for and attend the Agenda Conference. We find that four hours is a reasonable amount of time to prepare for and attend the Agenda for this docket. This is consistent with the hours allowed for completion by us in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.⁴ However, we find that the 40 hours to prepare direct and rebuttal testimony and exhibits are not applicable because this case is being processed by a Proposed Agency Action process; therefore, the hours to prepare direct and rebuttal testimony and exhibits shall be removed. Therefore, we find that rate case expense shall be decreased by \$5,700 (40 hours x \$135), plus \$300 in expenses.

⁴ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and 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.

The fourth adjustment relates to the 1,591 hours and \$59,479 of estimated costs to complete this case by WSC employees. The last General Ledger entry for WSC employees' rate case time was on May 31, 2008. Miles Grant asserts that additional hours were required to respond to our staff's auditors' requests and to the our staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Miles Grant simply stated that the \$59,479 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, we have no basis to determine whether the individual hours estimated were reasonable. We reviewed these requested expenses and find the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. We find that 523 hours is reasonable to allow Miles Grant to respond to data requests, facilitate the audit, review the PAA recommendation, and travel to Agenda. By applying the individual employee rates and the average number of hours worked by WSC employees, we find that the estimated WSC fees to complete the case shall be \$17,826. Thus, the Utility's requested expense of \$76,801 shall be decreased by \$41,633. 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.⁵

It is the Utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to allowance of rate case expense. 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. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. by 529 So. 2d 694 (Fla. 1988).

The fifth adjustment addresses WSC travel expenses. In its MFRs, Miles Grant estimated \$3,200 for travel. We find that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking, and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. In that case, we calculated travel expenses of \$531, using the airfare for October 27, 2008 (\$268), current rental car rates (\$34), hotel rates from a website (\$149) and a meal allowance (\$80), but approve \$750 consistent with the Labrador case.⁶ Therefore, \$750 would be an appropriate travel expense. However, based on several previous UI rates cases, it is our experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore the entire amount of estimated travel expense shall be removed. Accordingly, we find that rate case expense shall be decreased by \$3,200.

⁵ See Order Nos. 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.; 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 PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

⁶ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies, and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. Miles Grant further estimated another \$12,000 in FedEx Corporation (FedEx), copies, and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for the \$12,000 for FedEx. UI has requested, and received authorization from us, to keep its records outside the state in Illinois, 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 of our representatives during the review and audit of the books and records. Further, we have consistently held that these costs are not included in rate case expense nor recovered through rates.⁷ We find that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Then, the documents are submitted to the Commission. 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; therefore, they should bear the related costs. Accordingly, we find that miscellaneous rate case expense shall be decreased by \$12,000.

The seventh adjustment relates to miscellaneous costs. The only invoice provided for miscellaneous costs was from CPH Engineering, Inc. regarding the service area mapping for Miles Grant, Wedgefield Utilities, Inc., and Lake Utility Services, Inc. The invoice was for \$13,051; however, because the invoice related to two other utilities, Miles Grant's share of the invoice should be one-third of the invoice, or \$4,350. Therefore, we find that miscellaneous rate case expense shall be decreased by \$7,650 (\$13,051 - \$4,350).

The eighth adjustment relates to customer notices and postage. The Utility estimated \$2,007 for notices, postage, and stock. Miles Grant stated in its revised analysis of rate case expense that it had already incurred \$3,076, and estimated an additional \$1,200 for postage costs to complete the rate case. The Utility did not provide any support for its postage costs; therefore, we estimated the costs related to notices and postage. Miles Grant is responsible for sending three notices, the interim notice, the combination initial notice and customer meeting notice, and notice of the final rate increase. We estimated the postage cost for the notices to be \$1,395 (1,344 customers x \$0.346 x 3 notices). We find that rate case expense shall be decreased by \$2,881 (\$4,276 - \$1,395) for postage costs.

In summary, we find that the Utility's revised rate case expense shall be decreased by \$99,862 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$127,760. A breakdown of rate case expense is as follows:

⁷See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA, and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County. Order No. PSC-93-1713-FOF-SU, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

| | <u>MFR</u> <u>Estimated</u> | Utility Revised <u>Actual &</u> <u>Estimated</u> | <u>Commission</u> <u>Adjustments</u> | <u>Total</u> |
|-------------------------|--------------------------------|---|---|------------------|
| Legal Fees | \$49,240 | \$51,373 | (\$25,515) | \$25,858 |
| Consultant Fees - MSA | 49,205 | 54,713 | (1,070) | 53,643 |
| Consultant Fees- M&R | 6,900 | 9,279 | (5,700) | 3,579 |
| WSC In-house Fees | 53,350 | 76,781 | (41,633) | 35,148 |
| Filing Fee | 4,000 | 4,000 | 0 | 4,000 |
| WSC Travel | 3,200 | 3,200 | (3,200) | 0 |
| Miscellaneous | 12,000 | 24,000 | (19,650) | 4,350 |
| Notices | <u>2,007</u> | <u>4,276</u> | <u>(2,881)</u> | <u>1,395</u> |
| Total Rate Case Expense | <u>\$175,902</u> | <u>\$227,622</u> | <u>(\$99,649)</u> | <u>\$127,973</u> |
| Annual Amortization | <u>\$43,976</u> | <u>\$56,906</u> | <u>(\$24,912)</u> | <u>\$31,993</u> |

In its MFRs, Miles Grant requested total rate case expense of \$175,902, which amortized over four years would be \$43,975. The Utility included in its MFRs \$22,647 (\$43,975 x .515) and \$21,328 (\$43,975 x .485) for rate case expense in the test year for water and wastewater, respectively. Thus, rate case expense shall be decreased by \$6,171 and \$5,811 for water and wastewater, respectively.

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Miles Grant and our adjustments discussed above, we find that an annual rate case expense of \$31,993, or \$16,476 for water and \$15,517 for wastewater, is appropriate.

XIV. Operating Expense Before Any Increase

As shown on Schedule Nos. 3-A and 3-B, after applying our adjustments, the Utility's net operating losses are \$24,531 for water and \$85,983 for wastewater. Our adjustments to operating income are shown on Schedule No. 3-C.

XV. Revenue Requirement

Miles Grant's requested revenue requirements generate annual revenues of \$502,000 and \$642,203, for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$217,662 or 76.55 percent for water, and \$300,568 or 87.98 percent for wastewater.

Consistent with our findings concerning the underlying rate base, cost of capital, and operating income issues, we approve rates that are designed to generate a water revenue requirement of \$432,213, and a wastewater revenue requirement of \$568,717. The approved water revenue requirement exceeds our adjusted test year revenues by \$117,233, or 37.23 percent, for water. The approved wastewater revenue requirement exceeds our adjusted test year revenues by \$238,124, or 72.03 percent, for wastewater. These approved pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 6.08 percent return on its investment in water and wastewater rate base.

XVI. Rate Structure

The Utility's current rate structure for the water system's residential and non-residential class consists of a bi-monthly base facility charge (BFC)/gallage charge rate structure, in which the BFC is \$21.81 and a gallage charge of \$2.66 per kgal. Also, there is a bulk irrigation class of service in which the gallage charge is \$.54. In prior cases, it has been our practice to convert the Utility's billing cycle to a monthly cycle.⁸ By billing on a monthly basis, customers receive a more timely price signal enabling them to adjust their consumption accordingly. This rate design goal is consistent with our past practice.

On August 25, 1988, Miles Grant entered into an agreement with Miles Grant County Club, wherein the Utility provides supplemental water to the Country Club. This service will enable the Golf Course to maintain its ponds at levels that are required by the DEP and still properly irrigate the golf course. The Country Club only requires the service when there is not enough readily available effluent to keep the area ponds at their levels.

In Order No. PSC-02-1517-TRF-WU, we approved a bulk irrigation class of service for Miles Grant to provide the supplemental water to the Country Club. However, as indicated in its recent MFRs Schedule E-2, the Utility, at the customer's request, has reclassified the bulk customer as a regular 5/8" X 3/4" General Service customer. We find that the Utility's proposal to convert the previous 2" bulk rate customer as a regular 5/8" X 3/4" general service customer is appropriate.

Water Rates

We performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) implements, where appropriate, water conserving rate structures consistent with our Memorandum of Understanding with the state's five Water Management Districts.

⁸ See Order Nos. PSC-03-1440-FOF-WS, issued, December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, and Seminole Counties by Utilities, Inc. of Florida; and PSC-07-1009-PAA-WU, issued December 20, 2007, in Docket No. 070177-WU, In Re: Application for staff-assisted rate case in Pasco County by LWV Utility.

The Utility is located in Martin County, within SFWMD's district. Over the past few years the Water Management Districts have requested, whenever possible, that an inclining block rate structure be implemented.

The overall average residential consumption is 2.5 kgals per month, and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average residential consumption is only 3.3 kgals. Although overall average consumption is low, the billing data indicates that there are a few customers who use more than the average consumption. Therefore, we find that an inclining block rate structure shall be implemented. An inclining block rate structure is effective in reducing average demand. Demand in the higher usage block should be more responsive to price than demand in the first usage block. Customers with low monthly consumption will benefit while customers with high monthly consumption will pay increasingly higher rates.

Our approved rate design for the water system is shown on Table 9-1 set out below.

TABLE 15-1

| MILES GRANT WATER AND SEWER COMPANY COMMISSION'S APPROVED WATER RATE STRUCTURES AND RATES | | | |
|--|----------|---|----------|
| Current Rate Structure and Rates | | Approved Rate Structure and Rates | |
| Bi-Monthly BFC/ uniform kgal charge BFC =60% | | 2-Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.50 BFC = 50% | |
| BFC | \$21.81 | BFC | \$13.60 |
| All kgals | \$2.66 | 0-3 kgals | \$4.30 |
| | | 3+ kgals | \$6.46 |
| | | | |
| | | | |
| 0 | \$21.81 | 0 | \$13.60 |
| 1 | \$27.13 | 1 | \$17.90 |
| 3 | \$37.77 | 3 | \$26.50 |
| 5 | \$48.41 | 5 | \$39.42 |
| 10 | \$75.01 | 10 | \$71.72 |
| 20 | \$128.21 | 20 | \$136.15 |
| | | | |
| | | | |

The Utility proposed a BFC allocation of 77 percent. However, we find it appropriate that the BFC allocation be set at 50 percent. We typically set BFC cost recovery no greater than 40 percent. However, in this case, the customer base is seasonal. The higher allocation will help ensure that the Utility will have sufficient cash flow to cover fixed costs while seasonal

customers are not in residence. In recent cases, we have approved a BFC greater than 40 percent.⁹

Based on the foregoing, we find that the current water system rate structure shall be changed to a two tier inclining block rate structure with usage blocks set at 0-3 kgal and usage in excess of 3 kgal. The appropriate usage rate factors shall be 1.0 and 1.50. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The Utility's bi-monthly billing cycle shall be converted to monthly billing cycle. The BFC cost recovery percentage for the water system shall be set at 50 percent.

Wastewater Rates: The Utility's current rate structure for the wastewater system's residential and non-residential class also consists of a bi-monthly BFC/gallonage charge rate structure, in which the BFC is \$28.79, with a gallonage charge of \$4.06 per kgal.

As mentioned above, the current rate structure consists of a bi-monthly billing cycle. It has been our practice to convert the Utility's billing cycle to a monthly billing cycle. By billing on a monthly basis, customers receive a more timely price signal enabling them to adjust their consumption accordingly. This rate design goal is consistent with our past practice.

We find that the BFC cost recovery allocation shall be increased to 50 percent. It is our practice to set the BFC cost recovery to at least 40 percent due to the capital-intensive nature of wastewater plants. The current wastewater cap is bi-monthly and is set at 20 kgal. We typically set the wastewater monthly cap at 6 kgal. A review of the billing data indicates setting the wastewater cap at 6 kgal is appropriate. Therefore, we find that changing the wastewater bi-monthly cap of 20 kgal to 6 kgal per month is appropriate. Furthermore, we find that the general service gallonage charge shall be set at 1.2 times greater than the residential charge.

⁹ See Order Nos. PSC-07-0609, issued July 30, 2007, in Docket No. 060246-WS, In Re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.; and PSC-08-0262-PAA-WS, issued in April 28, 2008, in Docket No. 070414-WS, In Re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

Our approved rate design for the wastewater system is shown on Table 15-1, set out below.

TABLE 15-2

| MILES GRANT WATER AND SEWER COMPANY COMMISSION'S APPROVED WASTEWATER RATE STRUCTURES AND RATES | | | |
|---|----------|--|---------|
| Current Rate Structure and Rates | | Approved Rate Structure and Rates | |
| Bi-Monthly BFC/ uniform kgal charge BFC =61% | | BFC/uniform kgal charge BFC = 50% | |
| BFC | \$28.79 | BFC | \$18.98 |
| All kgals | \$4.06 | All kgals | \$9.29 |
| Typical Monthly Bills | | Typical Monthly Bills | |
| Cons (kgal) | | Cons (kgal) | |
| 0 | \$28.79 | 0 | \$18.98 |
| 1 | \$36.91 | 1 | \$28.27 |
| 3 | \$53.15 | 3 | \$46.85 |
| 6 | \$77.51 | 6 | \$74.72 |
| 10 | \$109.99 | 10 | \$74.72 |

Based on the foregoing, we find that the appropriate rate structure for the wastewater systems' residential and non-residential is a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap shall be set at 6 kgal per month. The general service gallonage charge shall be set at 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system shall be set at 50 percent.

XVII. Repression/Conservation

Based on our analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 2.5 kgals and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 3.3 kgals. This is an indication that there is very little consumption above 3 kgal. However, we find that monthly reports shall be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports shall be filed with the Commission, on a quarterly basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility is ordered to file a revised monthly report for that month within 30 days of any revision.

XVIII. Water and Wastewater Rates

The recommended rates shall be designed to produce revenues of \$432,213 for the water system and \$568,717 for the wastewater system, excluding miscellaneous service revenues of \$1,609 for the water system and \$6,455 for the wastewater system results in revenues from monthly service of \$430,603 for the water system and \$562,262 for the wastewater system.

We find that the current water system rate structure shall be changed to a two tier inclining block rate structure with usage blocks set at 0-3 kgal and usage in excess of 3 kgal. The appropriate usage rate factors shall be 1.0 and 1.50 for water. The Utility's bi-monthly billing cycle shall be converted to a monthly billing cycle. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system shall be set at 50 percent. We find that the appropriate rate structure for the wastewater systems' residential and non-residential customers shall be changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap shall be set at 6 kgal per month. The general service gallonage charge shall be set at 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system shall be set at 50 percent.

The approved rates shall be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

XIX. Water and Wastewater Miscellaneous Service Charges

The miscellaneous service charges were approved for Miles Grant on August 7, 1989, and have not changed since that date – a period of 19 years. The Utility believes these charges should be updated to reflect current costs. We agree with this update.

Miles Grant provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

| <u>During Business Hours</u> | | <u>After Hours</u> | |
|---------------------------------|----------------|---|----------------|
| Item: | Cost: | Item: | Cost: |
| Labor (\$31.50/hr. X 0.5 hours) | \$15.63 | Labor (\$31.50/hr. X 0.5 hours) ¹⁰ | \$35.16 |
| Transportation | <u>5.00</u> | Transportation | <u>6.00</u> |
| Total | <u>\$20.63</u> | Total | <u>\$41.16</u> |

We find that Miles Grant shall be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the Utility require multiple actions. The current and approved water and wastewater charges are shown below.

Water Miscellaneous Service Charges

| | <u>Current Charges</u> | | <u>Commission Approved</u> | |
|---|------------------------|------------------|----------------------------|------------------|
| | <u>Normal Hrs</u> | <u>After Hrs</u> | <u>Normal Hrs</u> | <u>After Hrs</u> |
| Initial Connection | \$15 | N/A | \$21 | N/A |
| Normal Reconnection | \$15 | N/A | \$21 | \$42 |
| Violation Reconnection | \$15 | N/A | \$21 | \$42 |
| Premises Visit (in lieu of disconnection) | \$10 | N/A | N/A | N/A |
| Premises Visit | N/A | N/A | \$21 | \$42 |

Wastewater Miscellaneous Service Charges

| | <u>Current Charges</u> | | <u>Commission Approved</u> | |
|---|------------------------|------------------|----------------------------|------------------|
| | <u>Normal Hrs</u> | <u>After Hrs</u> | <u>Normal Hrs</u> | <u>After Hrs</u> |
| Initial Connection | \$15 | N/A | \$21 | N/A |
| Normal Reconnection | \$15 | N/A | \$21 | \$42 |
| Violation Reconnection | Actual Cost | N/A | Actual Cost | Actual Cost |
| Premises Visit (in lieu of disconnection) | \$10 | N/A | N/A | N/A |
| Premises Visit | N/A | N/A | \$21 | \$42 |

Miles Grant's miscellaneous service charges have not been updated in over 19 years and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 65 percent in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order

¹⁰ Represents time and a half wage and the longer time it takes an employee to get to the customer's property after hours.

No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc., we expressed “concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs,” and directed our staff to “examine whether miscellaneous service charges should be indexed in the future and included in index applications.”¹¹ Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. We have applied the approved price indices from 1990 through 2008 to Miles Grant’s \$15 miscellaneous service charge, and the result was a charge of \$23.88. Therefore, we find that a \$21 charge is reasonable and is cost-based.

The Utility’s current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. We find that the “Premises Visit In Lieu of Disconnection” charge shall be replaced with what will be called, “Premises Visit.” In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge shall also be levied when a service representative visits a premises at a customer’s request for complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, we approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for a complaint, and the problem is found to be the customer’s responsibility.¹² Based on the foregoing, we find that the Premises Visit (in lieu of disconnection) shall be eliminated and the Premises Visit charge is approved.

In summary, we approve the Utility’s miscellaneous service charge of \$21 and after hours charge of \$42, because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The Utility shall file a proposed customer notice to reflect our 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 be required to provide notice of the tariff changes to all customers. Miles Grant shall provide proof the customers have received notice within ten days after the date the notice was sent.

¹¹ See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

¹² See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

XX. Interim Refund

By Order No. PSC-08-0338-PCO-WS, issued May 27, 2008, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$400,750 for water and \$560,678 for wastewater, which represents an increase of \$116,412 or 40.94 percent for water, and \$219,137 or 64.16 percent for wastewater.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending June 30, 2007. Miles Grant's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, because the \$400,750 water revenue requirement granted in Order No. PSC-08-0338-PCO-WS, for the interim test year is less than the revenue requirement for the interim collection period of \$412,317, we find that no refund is required for water revenues collected under interim rates. However, the \$560,678 wastewater revenue requirement granted in Order No. PSC-08-0338-PCO-WS for the interim test year is greater than the revenue requirement for the interim collection period of \$545,040. This results in a 1.66 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility shall be required to refund 1.66 percent of wastewater revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking shall be released upon Commission staff's verification that the required refunds have been made.

XXI. 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 \$18,287 for water and \$17,222 for wastewater. The decreased revenue will result in the rate reduction approved by us on Schedule Nos. 4-A and 4-B.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect our 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 Commission staff has approved the proposed customer notice. Miles Grant shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

XXII. Proof of Adjustments

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water and wastewater rates of Miles Grant Water and Sewer Company is approved as set forth in the body of this Order. It is further

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

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

ORDERED that Miles Grant Water and Sewer Company is hereby authorized to charge the new rates and charges as set forth herein and as approved in the body of this Order. It is further

ORDERED that Miles Grant Water and Sewer Company shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule 4A and 4B. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

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

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

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

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

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that Miles Grant Water and Sewer Company shall be authorized to revise its miscellaneous service charges as set forth herein. It is further

ORDERED that Miles Grant Water and Sewer Company shall file a proposed customer notice to reflect the approved miscellaneous service 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 Commission staff. It is further

ORDERED that within ten days of the date the order is final, Miles Grant Water and Sewer Company 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 Miles Grant Water and Sewer Company shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as contributions in aid of construction pursuant to Rule 25-30.360(8), F.A.C.

Further, the corporate undertaking shall be released upon Commission staff's verification that the required refunds have been made. It is further

ORDERED that the Utility 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 the provisions of this Order, except for the four-year rate reduction and the requirement of proof of adjustments, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201,F.A.C., is received by the Office of 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." It is further

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

ORDERED, in the event no protest is filed, this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, and that the refund has been completed and verified by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 16th day of December, 2008.



ANN COLE
Commission Clerk

(S E A L)

JEH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our actions except for the four-year rate reduction and the requirement of proof of adjustments are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 6, 2009. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Miles Grant Water and Sewer Company
 Docket No. 070695-WS

Attachment A
 Page 1 of 2

Miles Grant Water and Sewer Company
 Test Year Ended June 30, 2007
 Water Treatment Plant and Storage Used and Useful Analysis

| | | Test Year <u>Gallons</u> | <u>Gallons Per Day</u> |
|----|---|-----------------------------|----------------------------|
| 1 | Firm Reliable Capacity (2 @150 gpm) | | 288,000 |
| 2 | Usable Storage Capacity | | 90,000 |
| 3 | Single Maximum Day | | 464,000 |
| 4a | Total Test Year Water Produced | 100% | 49,168,000 |
| 4b | Total Test Year Accounted For Water | 102.3% | 50,298,000 |
| 4c | Total Test Year Unaccounted for Water | -2.3% | -1,130,000 |
| 4d | Excessive Unaccounted for Water | 0% | 0 |
| 5 | Growth Allowance (none requested) | 0 ERCs | 0 |
| 6 | Fire Flow Allowance | | 60,000 |
| 7 | Used and Useful Water Treatment Plant¹³ | | 100% |
| 8 | Used and Useful Storage¹⁴ | | 100% |

¹³ (Max Day – EUW + FF + Growth)/FRC = (464,000 – 0 + 60,000 + 0)/288,000 = >100%

¹⁴ (Max Day – EUW + FF + Growth)/FRC = (464,000 – 0 + 60,000 + 0)/90,000 = >100%

Miles Grant Water and Sewer Company
 Docket No. 070695-WS

Attachment A
 Page 2 of 2

Miles Grant Water and Sewer Company
 Test Year Ended June 30, 2007
 Wastewater Treatment Plant Used and Useful Analysis

| | | Gallons Per Day |
|----|--|--------------------|
| 1 | Permitted Capacity (AADF) | 300,000 |
| 2 | Average Annual Daily Flow | 88,181 |
| 3a | Wastewater treated | 32,186,000 |
| 3b | RS WW customer water usage @ 80% | 23,695,200 |
| 3c | GS WW customer water usage @ 96% | 1,648,320 |
| 3d | Estimated flows returned | 25,343,520 |
| 3e | Estimated I&I | 6,842,480 |
| 4a | Estimated infiltration @ 500 gpd/inch-dia/mile | 9,621,068 |
| 4b | Estimated inflow @ 10% RS/GS water usage | 2,534,352 |
| 4c | I&I Allowance | 12,155,420 |
| 5 | Excess I&I (6,842,48 – 12,155,420)/365 | 0 |
| 6 | Growth Allowance (none requested) | 0 ERCs |
| 7 | Used and Useful Wastewater Treatment Plant¹⁵ | 100% |

¹⁵ (AADF – I&I + Growth)/AADF Capacity = 88,181 – 0 + 0)/300,000 = 29.39%

| Miles Grant Water and Sewer Company | | | | Schedule No. 1-A | |
|--|--------------------------------------|--------------------------------------|---|------------------------------------|---|
| Schedule of Water Rate Base | | | | Docket No. 070695-WS | |
| Test Year Ended 6/30/07 | | | | | |
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Comm. Adjust- ments | Comm. Adjusted Test Year |
| 1 Plant in Service | \$1,721,034 | \$38,297 | \$1,759,331 | (\$110,823) | \$1,648,508 |
| 2 Land and Land Rights | 33,863 | 0 | 33,863 | 0 | 33,863 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 Accumulated Depreciation | (568,165) | 71,271 | (496,894) | (472,961) | (969,855) |
| 5 CIAC | (457,173) | 0 | (457,173) | 46,867 | (410,306) |
| 6 Amortization of CIAC | 187,483 | 0 | 187,483 | 221,492 | 408,975 |
| 7 Net Debit Deferred Income Taxes | 117,904 | (117,904) | 0 | 0 | 0 |
| 8 Advances for Construction | 0 | 0 | 0 | 0 | 0 |
| 9 Working Capital Allowance | <u>0</u> | <u>35,592</u> | <u>35,592</u> | <u>(1,245)</u> | <u>34,347</u> |
| Rate Base | <u>\$1,034,946</u> | <u>\$27,256</u> | <u>\$1,062,202</u> | <u>(\$316,670)</u> | <u>\$745,532</u> |

| Miles Grant Water and Sewer Company Schedule of Wastewater Rate Base Test Year Ended 6/30/07 | | | | Schedule No. 1-B Docket No. 070695-WS | |
|---|--------------------------------------|--------------------------------------|---|--|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Comm. Adjust- ments | Comm. Adjusted Test Year |
| 1 Plant in Service | \$2,175,149 | \$99,543 | \$2,274,692 | (\$348,576) | \$1,926,116 |
| 2 Land and Land Rights | 35,303 | 0 | 35,303 | 0 | 35,303 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 Accumulated Depreciation | (630,257) | (24,655) | (654,912) | (468,091) | (1,123,003) |
| 5 CIAC | (294,822) | 0 | (294,822) | 32,734 | (262,088) |
| 6 Amortization of CIAC | 122,488 | 0 | 122,488 | 176,494 | 298,982 |
| 7 CWIP | 148,759 | (148,759) | 0 | 0 | 0 |
| 8 Advances for Construction | 0 | 0 | 0 | 0 | 0 |
| 9 Working Capital Allowance | 0 | 45,032 | 45,032 | (1,312) | 43,720 |
| Rate Base | <u>\$1,556,620</u> | <u>(\$28,839)</u> | <u>\$1,527,781</u> | <u>(\$608,752)</u> | <u>\$919,029</u> |

| Miles Grant Water and Sewer Company Adjustments to Rate Base Test Year Ended 6/30/07 | | Schedule No. 1-C Docket No. 070695-WS | |
|--|--------------------|--|--|
| Explanation | Water | Wastewater | |
| <u>Plant In Service</u> | | | |
| 1 To remove item that should have been expensed | (\$3,120) | \$0 | |
| 2 To reflect the appropriate plant allocation from UIF | (8,932) | (8,411) | |
| 3 To reflect Commission's recalculation of plant in service | (110,396) | (340,165) | |
| 4 To reflect the appropriate amount of pro forma plant additions | 11,625 | 0 | |
| Total | <u>(\$110,823)</u> | <u>(\$348,576)</u> | |
| <u>Accumulated Depreciation</u> | | | |
| 1 To reflect Acc. Dep. from item that should have been expensed | \$282 | \$0 | |
| 2 To reflect the appropriate Acc. Dep. allocation from UIF | 5,290 | 4,982 | |
| 3 To reflect Comm. recalculation of accumulated depreciation | (478,382) | (473,073) | |
| 4 To reflect the appropriate amount of pro forma Acc. Dep. | 413 | 0 | |
| Total | <u>(\$472,397)</u> | <u>(\$468,091)</u> | |
| <u>CIAC</u> | | | |
| To reflect Commission's recalculation of CIAC | <u>\$46,867</u> | <u>\$32,734</u> | |
| <u>Accumulated Amortization of CIAC</u> | | | |
| To reflect Comm. recalculation of Accumulated Amortization of CIAC | <u>\$221,492</u> | <u>\$176,494</u> | |
| <u>Working Capital</u> | | | |
| To reflect Commission's recalculation of working Capital | <u>(\$1,245)</u> | <u>(\$1,312)</u> | |

| Miles Grant Water and Sewer Company Capital Structure-Simple Average Test Year Ended 6/30/07 | | | | | | Schedule No. 2 Docket No. 070695-WS | | |
|--|----------------------|-----------------------|---------------------------|------------------------|---------------------------------|--|---------------|---------------|
| Description | Total Capital | Specific Adjust-Ments | Subtotal Adjusted Capital | Prorata Adjust-ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost |
| Per Utility | | | | | | | | |
| 1 Long-term Debt | \$138,637,760 | \$0 | \$138,637,760 | (\$137,628,573) | \$1,009,187 | 38.96% | 6.63% | 2.58% |
| 2 Short-term Debt | 33,158,500 | 0 | 33,158,500 | (32,917,102) | 241,398 | 9.32% | 0.25% | 0.02% |
| 3 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 4 Common Equity | 126,158,164 | 0 | 126,158,164 | (125,239,854) | 918,310 | 35.46% | 11.78% | 4.18% |
| 5 Customer Deposits | 17,763 | 0 | 17,763 | 0 | 17,763 | 0.69% | 6.00% | 0.04% |
| 6 Tax Credits-Zero Cost | 23,297 | 0 | 23,297 | 0 | 23,297 | 0.90% | 0.00% | 0.00% |
| 7 Tax Credits-Weighted Costs | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 8 Deferred Income Taxes | <u>380,029</u> | <u>0</u> | <u>380,029</u> | <u>0</u> | <u>380,029</u> | <u>14.67%</u> | <u>0.00%</u> | <u>0.00%</u> |
| 9 Total Capital | <u>\$298,375,513</u> | <u>\$0</u> | <u>\$298,375,513</u> | <u>(\$295,785,529)</u> | <u>\$2,589,984</u> | <u>100.00%</u> | | <u>6.82%</u> |
| Per Staff | | | | | | | | |
| 10 Long-term Debt | \$138,637,760 | \$0 | \$138,637,760 | (\$138,061,352) | \$576,408 | 34.63% | 6.63% | 2.30% |
| 11 Short-term Debt | 33,158,500 | 0 | 33,158,500 | (33,020,638) | 137,862 | 8.28% | 0.25% | 0.02% |
| 12 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 13 Common Equity | 126,158,164 | 0 | 126,158,164 | (125,633,642) | 524,522 | 31.51% | 11.73% | 3.70% |
| 14 Customer Deposits | 17,763 | 0 | 17,763 | 0 | 17,763 | 1.07% | 6.00% | 0.06% |
| 15 Tax Credits-Zero Cost | 23,297 | 0 | 23,297 | 0 | 23,297 | 1.40% | 0.00% | 0.00% |
| 16 Tax Credits-Weighted Costs | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| 17 Deferred Income Taxes | <u>380,029</u> | <u>4,680</u> | <u>384,709</u> | <u>0</u> | <u>384,709</u> | <u>23.11%</u> | <u>0.00%</u> | <u>0.00%</u> |
| 18 Total Capital | <u>\$298,375,513</u> | <u>\$4,680</u> | <u>\$298,380,193</u> | <u>(\$296,715,632)</u> | <u>\$1,664,561</u> | <u>100.00%</u> | | <u>6.08%</u> |
| | | | | | | <u>LOW</u> | <u>HIGH</u> | |
| RETURN ON EQUITY | | | | | | <u>10.73%</u> | <u>12.73%</u> | |
| OVERALL RATE OF RETURN | | | | | | <u>5.76%</u> | <u>6.39%</u> | |

| Miles Grant Water and Sewer Company Statement of Water Operations Test Year Ended 6/30/07 | | Schedule No. 3-A Docket No. 070695-WS | | | | | |
|---|-----------------------------|--|--------------------------------------|---------------------------|--------------------------------|----------------------------|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Comm. Adjust- ments | Comm. Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$272,800</u> | <u>\$229,200</u> | <u>\$502,000</u> | <u>(\$187,039)</u> | <u>\$314,961</u> | <u>\$117,251</u> 37.23% | <u>\$432,213</u> |
| 2 Operating Expenses | | | | | | | |
| Operation & Maintenance | \$209,477 | \$75,257 | \$284,734 | (\$9,955) | \$274,779 | 0 | \$274,779 |
| 3 Depreciation | 151,703 | (85,333) | 66,370 | (19,451) | 46,919 | 0 | 46,919 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 Taxes Other Than Income | 37,118 | 14,601 | 51,719 | (8,417) | 43,302 | 5,276 | 48,579 |
| 6 Income Taxes | <u>(76,862)</u> | <u>103,597</u> | <u>26,735</u> | <u>(52,243)</u> | <u>(25,508)</u> | <u>42,136</u> | <u>16,628</u> |
| 7 Total Operating Expense | <u>\$321,436</u> | <u>\$108,122</u> | <u>\$429,558</u> | <u>(\$90,066)</u> | <u>\$339,492</u> | <u>\$47,413</u> | <u>\$386,905</u> |
| 8 Operating Income | <u>(\$48,636)</u> | <u>\$121,078</u> | <u>\$72,442</u> | <u>(\$96,973)</u> | <u>(\$24,531)</u> | <u>\$69,839</u> | <u>\$45,308</u> |
| 9 Rate Base | <u>\$1,034,946</u> | | <u>\$1,062,202</u> | | <u>\$745,532</u> | | <u>\$745,532</u> |
| 10 Rate of Return | <u>(4.70%)</u> | | <u>6.82%</u> | | <u>(3.29%)</u> | | <u>6.08%</u> |

| Miles Grant Water and Sewer Company Statement of Wastewater Operations Test Year Ended 6/30/07 | | | | | | Schedule No. 3-B Docket No. 070695-WS | |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|--|------------------------|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Comm. Adjust- ments | Comm. Adjusted Test Year | Revenue Increase | Revenue Requirement |
| 1 Operating Revenues: | <u>\$337,176</u> | <u>\$305,027</u> | <u>\$642,203</u> | <u>(\$311,610)</u> | <u>\$330,593</u> | <u>\$238,124</u> 72.03% | <u>\$568,717</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$289,385 | \$70,873 | \$360,258 | (\$10,501) | \$349,757 | 0 | \$349,757 |
| 3 Depreciation | 56,172 | 20,325 | 76,497 | 6,621 | 83,118 | 0 | 83,118 |
| 4 Amortization | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 Taxes Other Than Income | 45,184 | 17,615 | 62,799 | (14,022) | 48,777 | 10,716 | 59,492 |
| 6 Income Taxes | <u>(51,241)</u> | <u>89,695</u> | <u>38,454</u> | <u>(103,530)</u> | <u>(65,076)</u> | <u>85,574</u> | <u>20,498</u> |
| 7 Total Operating Expense | <u>\$339,500</u> | <u>\$198,508</u> | <u>\$538,008</u> | <u>(\$121,433)</u> | <u>\$416,575</u> | <u>\$96,289</u> | <u>\$512,865</u> |
| 8 Operating Income | <u>(\$2,324)</u> | <u>\$106,519</u> | <u>\$104,195</u> | <u>(\$190,178)</u> | <u>(\$85,983)</u> | <u>\$141,835</u> | <u>\$55,852</u> |
| 9 Rate Base | <u>\$1,556,620</u> | | <u>\$1,527,781</u> | | <u>\$919,029</u> | | <u>\$919,029</u> |
| 10 Rate of Return | <u>(0.15%)</u> | | <u>6.82%</u> | | <u>(9.36%)</u> | | <u>6.08%</u> |

| Miles Grant Water and Sewer Company Adjustment to Operating Income Test Year Ended 6/30/07 | | Schedule 3-C Docket No. 070695-WS | |
|---|--------------------|--|--|
| Explanation | Water | Wastewater | |
| <u>Operating Revenues</u> | | | |
| 1 To remove Utility's requested final revenue increase | (\$217,662) | (\$300,568) | |
| 2 To reflect the appropriate annualized revenues | 30,623 | (11,042) | |
| Total | <u>(\$187,039)</u> | <u>(\$311,610)</u> | |
| <u>Operation and Maintenance Expense</u> | | | |
| 1 To amortize an item that had previously been capitalized | \$1,197 | \$0 | |
| 2 To remove unsupported projected amortized hurricane/storm costs | (4,981) | (4,690) | |
| 3 To reflect the appropriate amount of rate case expense | (6,171) | (5,811) | |
| Total | <u>(\$9,955)</u> | <u>(\$10,501)</u> | |
| <u>Depreciation Expense - Net</u> | | | |
| 1 To reflect Commission's recalculation of Depreciation Expense | (\$18,344) | \$6,621 | |
| 2 To reflect the appropriate amount of pro forma Depreciation Expense | (1,107) | 0 | |
| Total | <u>(\$19,451)</u> | <u>\$6,621</u> | |
| <u>Taxes Other Than Income</u> | | | |
| RAFs on revenue adjustments above | <u>(\$8,417)</u> | <u>(\$14,022)</u> | |

| Miles Grant Water and Sewer Company | | | | Schedule No. 4-A | |
|---|---|--|---|---|--|
| Water Monthly Service Rates | | | | Docket No. 070695-WS | |
| Test Year Ended 6/30/07 | | | | | |
| | Bi-Monthly Rates Prior to Filing | Bi-Monthly Comm. Approved Interim | Bi-Monthly Utility Requested Final | Monthly Comm. Approved Final | Monthly 4-year Rate Reduction |
| <u>Residential Service</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" x 3/4" | \$21.81 | \$30.06 | \$37.49 | \$13.60 | \$0.58 |
| 1" | \$54.28 | \$74.82 | \$93.73 | \$34.00 | \$1.44 |
| 1-1/2" | \$108.40 | \$149.42 | \$187.45 | \$68.00 | \$2.88 |
| 2" | \$173.42 | \$239.04 | \$299.92 | \$108.80 | \$4.60 |
| 3" | \$346.66 | \$477.83 | \$599.84 | \$217.60 | \$9.21 |
| 4" | \$541.59 | \$746.52 | \$937.25 | \$340.00 | \$14.39 |
| 6" | \$1,083.06 | \$1,492.88 | \$1,874.50 | \$680.00 | \$28.77 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallage Charge, per 1,000 Gallons | \$2.66 | \$3.67 | \$4.82 | ---- | ---- |
| Gallage Charge, 0-3,000 Gallons | ---- | ---- | ---- | \$4.30 | \$0.18 |
| Gallage Charge, over 3,000 Gallons | ---- | ---- | ---- | \$6.46 | \$0.27 |
| <u>General Service</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" x 3/4" | \$21.81 | \$30.06 | \$37.49 | \$13.60 | \$0.58 |
| 1" | \$54.28 | \$74.82 | \$93.73 | \$34.00 | \$1.44 |
| 1-1/2" | \$108.40 | \$149.42 | \$187.45 | \$68.00 | \$2.88 |
| 2" | \$173.42 | \$239.04 | \$299.92 | \$108.80 | \$4.60 |
| 3" | \$346.66 | \$477.83 | \$599.84 | \$217.60 | \$9.21 |
| 4" | \$541.59 | \$746.52 | \$937.25 | \$340.00 | \$14.39 |
| 6" | \$1,083.06 | \$1,492.88 | \$1,874.50 | \$680.00 | \$28.77 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallage Charge, per 1,000 Gallons | \$2.66 | \$3.67 | \$4.82 | \$5.05 | \$0.21 |
| <u>Irrigation-General Service</u> | | | | | |
| Base Facility Charge by Meter Size | | | | | |
| 5/8" x 3/4" | ---- | ---- | \$37.49 | \$13.60 | \$0.58 |
| Gallage Charge, per 1,000 Gallons | ---- | ---- | \$4.82 | \$5.05 | \$0.21 |
| <u>Irrigation-Bulk Rate</u> | | | | | |
| Gallage Charge, per 1,000 Gallons | \$0.54 | \$0.54 | ---- | ---- | ---- |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | | |
| 3,000 Gallons | \$37.77 | \$52.08 | \$66.41 | \$26.50 | |
| 5,000 Gallons | \$48.41 | \$66.76 | \$85.69 | \$39.42 | |
| 10,000 Gallons | \$75.01 | \$103.46 | \$133.89 | \$71.72 | |

| Miles Grant Water and Sewer Company | | | | SCHEDULE NO. 4-B | |
|---|---|--|---|---|--|
| Wastewater Monthly Service Rates | | | | Docket No. 070695-WS | |
| Test Year Ended 6/30/07 | | | | | |
| | Bi-Monthly Rates Prior to Filing | Bi-Monthly Comm. Approved Interim | Bi-Monthly Utility Requested Final | Monthly Comm. Approved Final | Monthly 4-year Rate Reduction |
| <u>Residential Service</u> | | | | | |
| Base Facility Charge All Meter Sizes: | \$28.79 | \$46.23 | \$54.82 | \$18.98 | \$0.57 |
| Gallonge Charge, per 1,000 Gallons (10,000 gallon cap) | \$4.06 | \$6.53 | \$7.56 | ---- | ---- |
| (6,000 gallon cap) | ---- | ---- | ---- | \$9.29 | \$0.28 |
| <u>General Service</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" x 3/4" | \$28.79 | \$46.28 | \$54.82 | \$18.98 | \$0.57 |
| 1" | \$72.02 | \$115.78 | \$0.00 | \$47.45 | \$1.44 |
| 1-1/2" | \$144.00 | \$231.49 | \$274.10 | \$94.90 | \$2.87 |
| 2" | \$230.41 | \$370.39 | \$438.56 | \$151.84 | \$4.60 |
| 3" | \$460.89 | \$740.88 | \$877.12 | \$303.68 | \$9.20 |
| 4" | \$720.11 | \$1,157.58 | \$1,370.50 | \$474.50 | \$14.37 |
| 6" | \$1,440.18 | \$2,315.11 | \$2,741.00 | \$949.00 | \$28.74 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallonge Charge, per 1,000 Gallons | \$4.06 | \$6.53 | \$7.56 | \$11.15 | \$0.34 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | | |
| 3,000 Gallons | \$53.15 | \$85.41 | \$100.18 | \$46.85 | |
| 5,000 Gallons | \$69.39 | \$111.53 | \$130.42 | \$65.43 | |
| 6,000 Gallons | \$77.51 | \$124.59 | \$145.54 | \$74.72 | |
| 10,000 Gallons | \$109.99 | \$176.83 | \$206.02 | \$74.72 | |
| (Current Wastewater Gallonge Cap 10,000 Gallons) | | | | | |
| (Recommended Wastewater Gallonge Cap 6,000 Gallons) | | | | | |