

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc. | DOCKET NO. 080597-WS ORDER NO. PSC-09-0116-FOF-WS ISSUED: February 25, 2009 |
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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

ORDER SUSPENDING PROPOSED FINAL RATES
AND APPROVING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

BACKGROUND

Southlake Utilities, Inc. (Southlake or utility) is a Class B utility providing water and wastewater service to approximately 2,321 water and 2,161 wastewater customers in Lake County. The utility has not had a previous rate case before the Commission. Southlake's rates were initially established in 1991.¹

On December 15, 2008, Southlake filed the application for rate increase at issue in this docket. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure, and requested interim rates. The test year established for interim rates is the historical twelve-month period ended December 31, 2007. The utility requested a projected average test year ending December 31, 2008, for final rates.

Southlake requested interim rates designed to generate annual water revenues of \$1,048,544 and wastewater revenues of \$1,168,747. This represents a revenue increase on an annual basis of \$56,905 (5.7 percent) for water and \$372,449 (46.8 percent) for wastewater. Southlake requested final rates designed to generate annual water revenues of \$1,184,327 and wastewater revenues of \$1,293,211. This represents a revenue increase of \$183,853 (18.4 percent) for water and \$487,912 (60.6 percent) for wastewater.

This Order addresses the suspension of the requested permanent rate increase and our consideration of the requested interim rate increase. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

¹ See Order No. 24564, issued May 21, 1991, in Docket 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

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FPSC-COMMISSION CLERK

DECISION

Suspension of Rates

Section 367.081(6), F.S., provides that we may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect secured and subject to refund at the expiration of five months if: (1) we have not acted upon the requested rate increase; or (2) if our PAA action is protested by a party other than the utility.

We have reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. We find that further investigation of this information, including on-site investigations by our accountants and engineers, is necessary to fully and adequately address the requested rate increase. Therefore, we suspend Southlake's proposed rate increase pending further review.

Interim Rates

As explained in detail below, we authorize Southlake to collect the following interim annual water and wastewater revenues:

| | <u>Adjusted Test Year Revenues</u> | <u>\$ Increase</u> | <u>Revenue Requirement</u> | <u>% Increase</u> |
|------------|--|--------------------|--------------------------------|-------------------|
| Water | \$991,639 | \$47,301 | \$1,038,940 | 4.77% |
| Wastewater | \$796,298 | \$238,093 | \$1,034,391 | 29.90% |

Southlake has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases. Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes shall be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. We have reviewed Southlake's interim request, as well as Order No. 24564, in which we originally established rates. Southlake has had no other rate proceeding. Accounting schedules illustrating our approved rate base, capital structure, test year operating income amounts, service rates and used and useful analysis are attached to this Order. The rate base Schedules are labeled as 1-A and 1-B, with the rate base adjustments shown on 1-C. The capital structure is shown on Schedule 2, and the operating income schedules for water and wastewater, respectively, are labeled as 3-A and 3-B, with the operating income adjustments shown on 3-C. Rate schedules are labeled as 4-A and 4-B. Used and useful analysis is shown on Attachments A and B.

Rate Base

The interim rate procedure is a prima facie analysis of the utility's application. This basically means that the application is taken on its face value with the assumption that the utility's reported rate base, operating income, and cost of capital are supported by its books and records. Based on an analysis of the MFRs and Order No. 24564 which set initial rates for the utility, we find that a reduction of (\$41,775) to Southlake's water rate base is necessary to reflect averaging adjustments (see Schedule 1-A). Similarly, a reduction of (\$887,840) to Southlake's wastewater rate base is necessary to reflect averaging and non-used and useful adjustments (see Schedule 1-B). For interim purposes, the utility calculated rate base using year-end 2007 amounts. Based on the information supplied by the utility in the MFRs for 2007 and the amounts reported in the 2006 annual report, we used a simple average to adjust the rate base for the interim rate calculation, consistent our rules.

Used and Useful – water system

The utility did not include a used and useful adjustment to its interim rate base based on its assumption that the water and wastewater systems are built out. We find that, pursuant to Rule 25-30.4325, Florida Administrative Code (F.A.C.), the water treatment plant, ground storage tanks, and water distribution system are 100 percent used and useful as shown on Attachment A. Southlake's wastewater treatment plant is 75 percent used and useful. The used and useful adjustment will be made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. The wastewater collection system shall be considered 100 percent used and useful.

In its application, Southlake asserts that its water treatment plant, ground storage facilities, and water distribution system are 100 percent used and useful. The water treatment system has three wells that are rated at 1,000, 1,200 and 2,777 gallons per minute (gpm). Raw water is treated with aeration and liquid chlorine and then pumped into the water distribution system. The two ground storage tanks have usable capacity of 2,500,000 gallons. The single maximum day in the test year of 2,759,000 gallons occurred on October 14, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The utility's records indicate there is no excessive unaccounted for water. The utility's fire flow requirement is 1,500 gpm for 4 hours or 360,000 gallons.

The utility included a growth allowance of 774,020 gallons based on year end equivalent residential connections (ERCs) of 3,339 and a growth rate of 27.63 percent. We find that a growth allowance of 689,471 gallons shall be added to the used and useful calculation, based on average test year ERCs of 3,867. In addition, pursuant to Rule 25-30.431(2)(a), F.A.C., growth is limited to 5 percent a year or 25 percent over a five-year period.

The utility calculated the firm reliable capacity of the water system at 1,673,333 gallons per day (gpd). However, the sanitary survey indicates that the two smallest wells are 1,000 and 1,200 gpm; therefore, the firm reliable capacity is 2,112,000 gpd, based on a 16 hour day,

pursuant to Rule 25-30.4325(6)(b), F.A.C. We will inquire about the well discrepancy during our review of the permanent rate increase request.

We find that, pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful, as shown on Attachment A. In addition, because the usable storage capacity is less than the peak day demand, the storage tanks should be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C. According to the utility, all single family lots are completely built out with no remaining lots available for construction. All future single family construction will be provided with newly installed main extensions. Therefore, we find that the water distribution system is 100 percent used and useful.

Used and Useful – wastewater system

In its application, the utility asserts that Southlake's wastewater treatment plant and collection system are 100 percent used and useful. According to the Florida Department of Environmental Protection (FDEP) Permit Number FLA010634-006-DW1P, which expires on April 15, 2012, Southlake's wastewater treatment plant has a 1.5 million gallons per day (mgd) annual average daily flow (AADF) design capacity using extended aeration, and activated sludge. The permitted capacity is limited to 1.15 mgd AADF, the capacity of the rapid infiltrations basins.

As required by Rule 25-30.432, F.A.C., the numerator of the equation for calculating the used and useful percentage of a wastewater treatment plant shall be the same basis as the permitted capacity on the most recent operating permit issued by the FDEP. The wastewater plant is permitted on an annual average daily flow basis, but the utility used the maximum month in the numerator to calculate the used and useful percentage. The utility used a growth factor of 27.63 percent, based on 3,281 average test year ERCs; however, according to MFR Schedule F-9 the average test year ERCs were 3,867. In addition, pursuant to Rule 25-30.431(2)(a), F.A.C., growth is limited to 5 percent a year or 25 percent over a five-year period. The utility believes that the wastewater treatment plant should be considered 100 percent used and useful because the system is built out, the treatment plant design criteria builds in a level of excess capacity, and there is an insignificant cost difference between a 1.15 mgd and .950 mgd wastewater treatment plant. The maps provided by the utility indicate additional growth is anticipated.

We find that, pursuant to Rule 25-30.432, F.A.C, the used and useful calculation for the wastewater treatment plant shall be based on the AADF of 691,901 gpd, a growth allowance of 173,020 gpd, and the permitted capacity of the system of 1,150,000 gpd, which results in a used and useful calculation of 75 percent. The used and useful adjustment shall be made to Account 354.4, Structures and Improvements, and Account 380.4, Treatment and Disposal Equipment. According to the utility, all single family lots in the development are built out, with no remaining lots available for construction. All future single family construction will be provided with newly installed main extensions. Therefore, the wastewater collection system is 100 percent used and useful.

Based on a 75 percent used and useful calculation for wastewater plant, wastewater rate base shall be reduced by \$838,893. Accordingly, corresponding adjustments shall be made to decrease depreciation expense and property taxes by \$43,480 and \$4,568, respectively. Therefore, we find that Southlake's interim water rate base shall be \$3,844,181 (Schedule 1-A). Southlake's interim wastewater rate base shall be \$1,417,527 (Schedule 1-B).

Cost of Capital

In its interim request, Southlake requested an overall cost of capital of 8.83 percent. The effect of our rate base adjustments is to lower the interim weighted average cost of capital to 8.81 percent (Schedule 2).

Net Operating Income

We find that the appropriate test year operating income, before any revenue increase, is \$293,678 for water, and the appropriate operating loss, before any revenue increase, is (\$102,429) for wastewater. We have made adjustments to remove utility-requested interim revenue increases, and pro forma salary amounts. We have also made adjustments for non-used and useful depreciation expense, and to adjust for related taxes other than income (Schedules 3A and 3B).

Revenue Requirement

Based on the above adjustments, we find that the utility's revenue requirements are \$1,038,940 for water and \$1,034,391 for wastewater. This represents interim increases in annual revenues of \$47,301 (or 4.77 percent) for water and \$238,093 (or 29.90 percent) for wastewater. This will allow the utility the opportunity to recover its water and wastewater operating expenses, and earn an 8.81 percent return on its water and wastewater rate bases.

Interim Rate Increase and Percentage Increase Factor

We find that the water and wastewater service rates for Southlake in effect as of December 31, 2007, shall be increased by 4.77 percent and 29.90 percent, respectively, to generate the approved revenue increase for the interim period. The approved rates shall be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1) (a), F.A.C. The rates shall not be implemented until our staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

The interim water and wastewater service rates for Southlake are designed to allow the utility the opportunity to generate annual operating revenues of \$1,038,940 for water operations and \$1,034,391 for wastewater operations. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues shall be removed from the test year revenues. The calculation is as follows:

| | <u>Water</u> | <u>Wastewater</u> |
|---|-----------------|-------------------|
| 1 Total 2007 Test Year Revenues | \$991,639 | \$796,297 |
| 2 Less: Miscellaneous Revenues | <u>18,128</u> | <u>0</u> |
| 3 Test Year Revenues from Service Rates | \$973,511 | \$796,297 |
| 4 Revenue Increase | <u>\$47,301</u> | <u>\$238,093</u> |
| 5 % Service Rate Increase (Line 4/Line 3) | <u>4.86%</u> | <u>29.90%</u> |

The interim rate increase of 4.86 percent for water and 29.90 percent for wastewater shall be applied as an across-the-board increase to the service rates in effect as of December 31, 2007. Southlake's proposed interim rates and our approved interim rates are shown on Schedule 4-A for water and Schedule 4-B for wastewater.

Interim Rates Subject to Refund

Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking, subject to refund with interest, at a rate ordered by us. We have determined that the total annual interim increase is \$285,393 for water and wastewater. In accordance with Rule 25-30.360, F.A.C., we have calculated the potential refund of revenues and interest collected under interim conditions to be \$166,742. This amount is based on an estimated seven months of revenue collected from the approved interim rates over the utility's current authorized rates shown on Schedule 4-A and 4-B.

Southlake has requested a corporate undertaking in the amount of \$166,742. The utility has no corporate undertaking amount outstanding. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. We reviewed Southlake's financial statements to determine if it can support a corporate undertaking. We also reviewed Southlake's 2005, 2006, and 2007 annual reports to determine the financial condition of the utility.

The utility's equity ratio has been within acceptable parameters throughout the review period. Southlake's working capital, current ratio, and interest coverage ratio were also within acceptable parameters in 2007, but these measures were deficient in 2005 and 2006. While the utility reported positive net income in 2007, it reported net losses in 2005 and 2006. This contributed to the utility's average net loss during the period of over \$117,000 per year. The utility also reported a negative return on equity (ROE) in 2005 and 2006, and its ROE for 2007 was barely positive at 0.20 percent. For these reasons, we do not believe that Southlake has the financial capability to support a corporate undertaking in the amount of \$166,742. We therefore require Southlake to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refund.

Pursuant to Rule 25-30.360(6), F.A.C., the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund shall be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and shall be borne by, the utility.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Southlake Utilities, Inc.'s requested final rate increase is suspended pending further review. It is further

ORDERED that Southlake Utilities, Inc.'s request to charge interim rates is granted, subject to the modifications set forth in the body of this Order. It is further

ORDERED that all matters contained in the schedules attached to this Order are incorporated by reference herein. It is further

ORDERED that Southlake Utilities, Inc. shall provide notice of the interim rate increase to customers as prescribed in the body of this Order. It is further

ORDERED that the interim rates shall not be implemented until Commission staff verifies that the tariff sheets are consistent with our decision, the proposed customer notice is adequate, and the required security has been filed. It is further

ORDERED that Southlake Utilities, Inc. shall provide proof of the date the notice was given within 10 days after the date of the notice. It is further

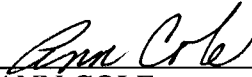
ORDERED that pursuant to Rule 25-30.360(6), F.A.C., Southlake Utilities, Inc. shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. It is further

ORDERED that the revenues shall be collected subject to refund with interest. It is further

ORDERED that all funds collected subject to refund shall be secured by a surety bond, letter of credit, or escrow agreement in the amount of \$166,742. It is further

ORDERED that this docket shall remain open pending final resolution of Southlake Utilities, Inc.'s requested permanent rate increase.

By ORDER of the Florida Public Service Commission this 25th day of February, 2009.



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 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.

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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the 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.

| Southlake Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/07 | | | | Schedule No. 1-A Docket No. 080597-WS | |
|--|-----------------------------|-----------------------------|--------------------------------------|--|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Interim | |
| | | | | Commission Approved Adjust- ments | Commission Approved Adjusted Test Year |
| 1 Plant in Service | \$7,011,442 | \$0 | \$7,011,442 | (\$533,069) | \$6,478,373 |
| 2 Land and Land Rights | 133,286 | 0 | 133,286 | 0 | 133,286 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | 0 | 0 |
| 4 Accumulated Depreciation | (870,163) | 0 | (870,163) | 92,936 | (777,228) |
| 5 CIAC | (3,939,479) | 0 | (3,939,479) | 156,916 | (3,782,563) |
| 6 Amortization of CIAC | 827,836 | 0 | 827,836 | (59,252) | 768,585 |
| 7 Construction Work in Progress | 778,064 | 0 | 778,064 | 301,159 | 1,079,223 |
| 8 Advances for Construction | (123,121) | 0 | (123,121) | 0 | (123,121) |
| 9 Working Capital Allowance | 0 | 68,090 | 68,090 | (464) | 67,626 |
| 10 Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 11 Rate Base | <u>\$3,817,865</u> | <u>\$68,090</u> | <u>\$3,885,955</u> | <u>(\$41,775)</u> | <u>\$3,844,181</u> |

| Southlake Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/07 | | | | Schedule No. 1-B Docket No. 080597-WS | |
|---|-----------------------------|-----------------------------|--------------------------------------|--|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Interim | |
| | | | | Commission Approved Adjust- ments | Commission Approved Adjusted Test Year |
| 1 Plant in Service | \$7,287,302 | \$0 | \$7,287,302 | (\$263,935) | \$7,023,367 |
| 2 Land and Land Rights | 558,446 | 0 | 558,446 | 0 | 558,446 |
| 3 Non-used and Useful Components | 0 | 0 | 0 | (838,893) | (838,893) |
| 4 Accumulated Depreciation | (1,458,018) | 0 | (1,458,018) | 126,626 | (1,331,393) |
| 5 CIAC | (5,341,309) | 0 | (5,341,309) | 197,500 | (5,143,809) |
| 6 Amortization of CIAC | 1,450,736 | 0 | 1,450,736 | (108,834) | 1,341,903 |
| 7 Construction Work in Progress | 0 | 0 | 0 | 0 | 0 |
| 8 Advances for Construction | (295,893) | 0 | (295,893) | 0 | (295,893) |
| 9 Working Capital Allowance | 0 | 104,103 | 104,103 | (304) | 103,799 |
| 10 Other | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 11 Rate Base | <u>\$2,201,264</u> | <u>\$104,103</u> | <u>\$2,305,367</u> | <u>(\$887,840)</u> | <u>\$1,417,527</u> |

| Southlake Utilities, Inc. Commission Adjustments to Rate Base Test Year Ended 12/31/07 | | Schedule No. 1-C Docket No. 080597-WS | |
|--|----------------------|--|--|
| | | Interim | |
| Explanation | Water | Wastewater | |
| <u>Plant In Service</u> To reflect the 2007 simple average balance. | (<u>\$533,069</u>) | (<u>\$263,935</u>) | |
| <u>Land</u> | <u>\$0</u> | <u>\$0</u> | |
| <u>Non-used and Useful</u> To reflect net non-used and useful adjustment. | <u>\$0</u> | (<u>\$838,893</u>) | |
| <u>Accumulated Depreciation</u> To reflect the 2007 simple average balance. | <u>\$92,936</u> | <u>\$126,626</u> | |
| <u>CIAC</u> To reflect the 2007 simple average balance. | <u>\$156,916</u> | <u>\$197,500</u> | |
| <u>Accumulated Amortization of CIAC</u> To reflect the 2007 simple average balance. | (<u>\$59,252</u>) | (<u>\$108,834</u>) | |
| <u>Construction Work in Progress</u> To reflect the 2007 simple average balance. | <u>\$301,159</u> | <u>\$0</u> | |
| <u>Working Capital</u> To reflect the appropriate working capital allowance. | (<u>\$464</u>) | (<u>\$304</u>) | |

| Southlake Utilities, Inc. Capital Structure Test Year Ended 12/31/07 | | Schedule No. 2 Docket No. 080597-WS | | | | | | | |
|--|--------------------|--|---------------------------------|-----------------------------|---------------------------------------|----------------|---------------|------------------|--|
| | | | | | | | | Interim | |
| Description | Total Capital | Specific Adjust- ments | Subtotal Adjusted Capital | Prorata Adjust- ments | Capital Reconciled to Rate Base | Ratio | Cost Rate | Weighted Cost | |
| Per Utility (Year End) | | | | | | | | | |
| 1 Long-term Debt | \$0 | \$0 | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% | |
| 2 Short-term Debt | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 3 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 4 Common Equity | 6,264,583 | 0 | 6,264,583 | 0 | 6,264,583 | 96.73% | 8.93% | 8.64% | |
| 5 Customer Deposits | 212,083 | 0 | 212,083 | 0 | 212,083 | 3.27% | 6.00% | 0.20% | |
| 6 Tax Credits-Zero Cost | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 7 Deferred Income Taxes | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 8 Total Capital | \$6,476,666 | \$0 | \$6,476,666 | \$0 | \$6,476,666 | 100.00% | | 8.83% | |
| Per Commission (Simple Average) | | | | | | | | | |
| 9 Long-term Debt | \$0 | \$0 | \$0 | \$0 | \$0 | 0.00% | 0.00% | 0.00% | |
| 10 Short-term Debt | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 11 Preferred Stock | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 12 Common Equity | 6,264,583 | (44,099) | 6,220,484 | (1,165,973) | 5,054,512 | 96.06% | 8.93% | 8.58% | |
| 13 Customer Deposits | 212,083 | (4,887) | 207,196 | 0 | 207,196 | 3.94% | 6.00% | 0.24% | |
| 14 Tax Credits-Zero Cost | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 15 Deferred Income Taxes | 0 | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | |
| 16 Total Capital | \$6,476,666 | (\$48,986) | \$6,427,680 | (\$1,165,973) | \$5,261,708 | 100.00% | | 8.81% | |
| | | | | | | LOW | HIGH | | |
| RETURN ON EQUITY | | | | | | <u>8.93%</u> | <u>10.93%</u> | | |
| OVERALL RATE OF RETURN | | | | | | <u>8.81%</u> | <u>10.74%</u> | | |

| Southlake Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/07 | | | | Schedule No. 3-A Docket No. 080597-WS | | | |
|--|-----------------------------|-----------------------------|--------------------------------------|--|---|---|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Commission Approved Adjust- ments | Commission Approved Adjusted Test Year | Commission Approved Revenue Increase | Commission Approved Revenue Requirement Interim |
| 1 Operating Revenues: | <u>\$945,518</u> | <u>\$103,026</u> | <u>\$1,048,544</u> | <u>(\$56,905)</u> | <u>\$991,639</u> | <u>\$47,301</u> 4.77% | <u>\$1,038,940</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$550,083 | (\$5,363) | \$544,720 | (\$3,712) | \$541,008 | | \$541,008 |
| 3 Depreciation | 185,867 | 0 | 185,867 | 0 | 185,867 | | 185,867 |
| 4 Amortization | (118,502) | 0 | (118,502) | 0 | (118,502) | | (118,502) |
| 5 Taxes Other Than Income | 87,513 | 5,831 | 93,344 | (\$3,756) | 89,588 | 2,129 | 91,717 |
| 6 Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7 Total Operating Expense | <u>704,961</u> | <u>468</u> | <u>705,429</u> | <u>(7,468)</u> | <u>697,961</u> | <u>2,129</u> | <u>700,090</u> |
| 8 Operating Income | <u>\$240,557</u> | <u>\$102,558</u> | <u>\$343,115</u> | <u>(\$49,437)</u> | <u>\$293,678</u> | <u>\$45,172</u> | <u>\$338,850</u> |
| 9 Rate Base | <u>\$3,817,865</u> | | <u>\$3,885,955</u> | | <u>\$3,844,181</u> | | <u>\$3,844,181</u> |
| 10 Rate of Return | <u>6.30%</u> | | <u>8.83%</u> | | <u>7.64%</u> | | <u>8.81%</u> |

| Southlake Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/07 | | | | Schedule No. 3-B Docket No. 080597-WS | | | |
|---|-----------------------------|-----------------------------|--------------------------------------|--|---|---|---|
| Description | Test Year Per Utility | Utility Adjust- ments | Adjusted Test Year Per Utility | Commission Approved Adjust- ments | Commission Approved Adjusted Test Year | Commission Approved Revenue Increase | Commission Approved Revenue Requirement Interim |
| 1 Operating Revenues: | <u>\$698,113</u> | <u>\$470,634</u> | <u>\$1,168,747</u> | <u>(\$372,449)</u> | <u>\$796,298</u> | <u>\$238,093</u> 29.90% | <u>\$1,034,391</u> |
| Operating Expenses | | | | | | | |
| 2 Operation & Maintenance | \$837,819 | (\$4,992) | \$832,827 | (\$2,433) | \$830,394 | | \$830,394 |
| 3 Depreciation | 253,249 | 0 | 253,249 | (43,480) | 209,769 | | 209,769 |
| 4 Amortization | (\$217,667) | 0 | (217,667) | 0 | (217,667) | | (217,667) |
| 5 Taxes Other Than Income | 76,380 | 20,402 | 96,782 | (20,551) | 76,231 | 10,714 | 86,945 |
| 6 Income Taxes | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7 Total Operating Expense | <u>949,781</u> | <u>15,410</u> | <u>965,191</u> | <u>(66,464)</u> | <u>898,727</u> | <u>10,714</u> | <u>909,441</u> |
| 8 Operating Income | <u>(\$251,668)</u> | <u>\$455,224</u> | <u>\$203,556</u> | <u>(\$305,985)</u> | <u>(\$102,429)</u> | <u>\$227,378</u> | <u>\$124,950</u> |
| 9 Rate Base | <u>\$2,201,264</u> | | <u>\$2,305,367</u> | | <u>\$1,417,527</u> | | <u>\$1,417,527</u> |
| 10 Rate of Return | <u>-11.43%</u> | | <u>8.83%</u> | | <u>-7.23%</u> | | <u>8.81%</u> |

| Southlake Utilities, Inc. | | Schedule 3-C | |
|---|-------------------|-----------------------------|--|
| Commission Adjustments to Operating Income | | Docket No. 080597-WS | |
| Test Year Ended 12/31/07 | | | |
| Explanation | Water | Wastewater | |
| <u>Operating Revenues</u> | | | |
| Remove requested interim revenue increase. | <u>(\$56,905)</u> | <u>(\$372,449)</u> | |
| <u>Operation and Maintenance Expense</u> | | | |
| To remove pro forma salary & wages and benefits. | <u>(\$3,712)</u> | <u>(\$2,433)</u> | |
| <u>Net - Depreciation Expense</u> | | | |
| To adj. for non-used and useful depr. expense. | <u>\$0</u> | <u>(\$43,480)</u> | |
| <u>Taxes Other Than Income</u> | | | |
| 1 RAFs on revenue adjustments above. | (\$2,561) | (\$16,760) | |
| 2 To adjust for non-used and useful property taxes. | \$0 | (\$4,568) | |
| 3 To remove pro forma payroll taxes. | <u>(1,195)</u> | <u>777</u> | |
| Total | <u>(\$3,756)</u> | <u>(\$20,551)</u> | |

| Southlake Utilities, Inc. Water Monthly Service Rates Test Year Ended 12/31/07 | | Schedule 4-A Docket No. 080597-WS | | | |
|---|--------------------------------|--|--|--|--|
| | Test Year Rates | Present Rates | Utility Requested Interim | Utility Requested Final | Commission Approved Interim |
| <u>Residential, General Service and Multi-Family</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" x 3/4" | \$8.98 | \$8.98 | \$9.50 | \$8.82 | \$9.42 |
| 1" | \$22.45 | \$22.45 | \$23.76 | \$22.05 | \$23.54 |
| 1-1/2" | \$44.90 | \$44.90 | \$47.52 | \$44.11 | \$47.08 |
| 2" | \$71.85 | \$71.85 | \$76.05 | \$70.58 | \$75.34 |
| 3" | \$143.70 | \$143.70 | \$152.10 | \$141.17 | \$150.68 |
| 4" | \$224.51 | \$224.51 | \$237.63 | \$220.55 | \$235.42 |
| 6" | \$449.03 | \$449.03 | \$475.28 | \$441.11 | \$470.85 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallage Charge, per 1,000 Gallons | \$0.84 | \$0.84 | \$0.89 | \$0.92 | \$0.88 |
| <u>Irrigation-General Service</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" | \$8.98 | \$8.98 | \$9.50 | \$8.82 | \$9.42 |
| Gallage Charge | \$0.84 | \$0.84 | \$0.89 | \$1.05 | \$0.88 |
| <u>Irrigation-Bulk Rate</u> | | | | | |
| Gallage Charge | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | | |
| 3,000 Gallons | \$11.50 | | \$12.17 | \$11.58 | \$12.06 |
| 5,000 Gallons | \$13.18 | | \$13.95 | \$13.42 | \$13.82 |
| 10,000 Gallons | \$17.38 | | \$18.40 | \$18.02 | \$18.22 |

| Southlake Utilities, Inc. | | Schedule 4-B | | | |
|--|--------------|-----------------------------|------------------|------------------|-------------------|
| Wastewater Monthly Service Rates | | Docket No. 080597-WS | | | |
| Test Year Ended 12/31/07 | | Test | Utility | Utility | Commission |
| | Year | Present | Requested | Requested | Approved |
| | Rates | Rates | Interim | Final | Interim |
| <u>Residential</u> | | | | | |
| Base Facility Charge All Meter Sizes: | \$9.76 | \$9.76 | \$14.33 | \$10.02 | \$12.68 |
| Gallonge Charge - Per 1,000 gallons (20,000 gallon cap) | \$0.86 | \$0.86 | \$1.26 | \$1.76 | \$1.12 |
| <u>General Service</u> | | | | | |
| Base Facility Charge by Meter Size: | | | | | |
| 5/8" x 3/4" | \$9.76 | \$9.76 | \$14.33 | \$54.82 | \$12.68 |
| 1" | \$24.41 | \$24.41 | \$35.83 | \$0.00 | \$31.71 |
| 1-1/2" | \$48.80 | \$48.80 | \$71.63 | \$274.10 | \$63.39 |
| 2" | \$78.08 | \$78.08 | \$114.60 | \$438.56 | \$101.43 |
| 3" | \$156.18 | \$156.18 | \$229.23 | \$877.12 | \$202.88 |
| 4" | \$224.02 | \$224.02 | \$328.80 | \$1,370.50 | \$291.00 |
| 6" | \$448.02 | \$448.02 | \$716.28 | \$2,741.00 | \$581.98 |
| 8" | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Gallonge Charge, per 1,000 Gallons | \$1.02 | \$1.02 | \$1.50 | \$2.11 | \$1.32 |
| <u>Typical Residential Bills 5/8" x 3/4" Meter</u> | | | | | |
| 3,000 Gallons | \$12.34 | | \$18.11 | \$15.30 | \$16.03 |
| 5,000 Gallons | \$14.06 | | \$20.63 | \$18.82 | \$18.26 |
| 10,000 Gallons | \$18.36 | | \$26.93 | \$27.62 | \$23.85 |
| (Wastewater Gallonge Cap - 10,000 Gallons) | | | | | |

Attachment A

Southlake Utilities, Inc.
January 1 – December 31, 2007
Water Treatment Plant and Storage Used and Useful Analysis

| | | | Test Year Gallons | Gallons Per Day |
|----|--|-----------|----------------------|--------------------|
| 1 | Firm Reliable Capacity (1000 gpm, 1200 gpm) | | | 2,112,000 |
| 2 | Usable Storage Capacity | | | 2,500,000 |
| 3 | Single Maximum Day | | | 2,759,000 |
| 4a | Total Test Year Water Produced | 100% | 636,657,000 | |
| 4b | Total Test Year Accounted For Water | 99.5% | 633,455,000 | |
| 4c | Total Test Year Unaccounted for Water | .5% | 3,202,000 | |
| 4d | Excessive Unaccounted for Water (.5%-10%) | | 0 | 0 |
| 5a | Average Test Year Customers | 3867 ERCs | | |
| 5b | Historical Annual Customer Growth | 278 ERCs | | |
| 5c | Statutory Growth Period | 5 Years | | |
| 5d | Gallons per ERC (2,759,000 - 0)/3867 | 713 | | |
| 5e | Growth Allowance (capped @ 25%) | 967 ERCs | | 689,471 |
| 6 | Fire Flow Allowance | | | 360,000 |
| 7 | Used and Useful Water Treatment Plant² | | | 100% |
| 8 | Used and Useful Storage³ | | | 100% |

² (Max Day – EUW + FF + Growth)/FRC = (2,759,000 – 0 + 360,000 + 689,471)/ 2,112,000 = >100%

³ (Max Day – EUW + FF + Growth)/FRC = (2,759,000 – 0 + 360,000 + 689,471)/2,500,000 = >100%

Southlake Utilities, Inc.
 January 1 – December 31, 2007
 Wastewater Treatment System Used and Useful Analysis

| | | | Gallons Per Day |
|----|---|-----------|-----------------|
| 1 | Permitted Capacity (AADF) | | 1,150,000 |
| 2 | Demand (AADF) | | 691,901 |
| 3 | Excessive Infiltration and Inflow | | 0 |
| 3a | Water demand per ERC | 492 gpd | |
| 3b | Wastewater AADF per ERC | 211 gpd | |
| 4a | Average Test Year Customers | 3281 ERCs | |
| 4b | Historical Annual Customer Growth | 268 | |
| 4c | Statutory Growth Period | 5 Years | |
| 4d | Gallons per ERC (691,901 – 0)/3281 | 211 | |
| 4e | Growth Allowance (capped @ 25%) | 820 | 173,020 |
| 5 | Used and Useful Wastewater Treatment Plant⁴ | | 75% |

⁴ (AADF – I&I + Growth)/Permitted Capacity = (691,901 – 0 + 173,020)/ 1,150,000= 75%