

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Highlands County by Damon Utilities, Inc.

DOCKET NO. 080709-WS
ORDER NO. PSC-09-0618-PAA-WS
ISSUED: September 11, 2009

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
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

BY THE COMMISSION:

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

BACKGROUND

Damon Utilities, Inc. (Damon or Utility) is a Class C utility which is currently providing water service to approximately 278 customers and wastewater service to approximately 101 customers. Damon is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2008 annual report, Damon had operating revenues of \$50,214 for water and \$39,143 for wastewater.

The Utility was granted Water Certificate No. 499-W and Wastewater Certificate No. 433-S in 1988.¹ Damon serves three developments which are Casa Del Lago, Village Green, and River Green. The Casa Del Lago development receives water and wastewater service. It consists of triplexes and quadrplexes. The Village Green development also receives water and wastewater service. It consists of 12 single family homes and two general service customers,

¹ See Order No. 19655, issued July 11, 1988, in Docket No. 871026-WS, In re: Application of Damon Utilities, Inc. for original water and sewer certificates in Highlands County.

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both of which are clubhouses. Finally, the River Green development is a golf course community consisting of 197 single family homes and a four unit condominium. This development receives only water service from Damon.

The Utility's current rates and charges were set in 2003.² On January 30, 2009, Damon filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on February 11, 2009.

This Order addresses Damon's request to increase its rates. We have jurisdiction over this matter pursuant to Sections 367.011, 367.081, 367.101, and 367.121, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

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

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

We address each of these three components of the rule below.

Quality of the Product

Highlands County is under the purview of the South District of DEP. According to that office, the water quality meets the standards set forth by DEP, and the Utility is current in all required chemical analyses. Our staff conducted a field inspection of the Utility's facilities on March 26, 2009. In reviewing the data available on the water and wastewater quality, we find that the quality of the product is satisfactory.

Operational Conditions at the Plant

In the last Sanitary Survey conducted by DEP on April 11, 2007, it was suggested that the Utility obtain battery backup for its telemetry system should there be a power failure and the generator fail to start. Damon has upgraded its system to include battery backup so that if the

² See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for a staff assisted rate case in Highlands County by Damon Utilities, Inc.

plant loses power, the plant operator will be notified. The Utility contracts with Short Utility Service, Inc. for plant operation and testing of samples. There were several instances of failed bacteriological samples in summer 2008, about the time the pump at the second well was being replaced. Resampling and retesting showed new samples were in compliance.

For the wastewater plant, Damon will submit an application for renewal of its operating permit in 2009. The plant is about twenty years old and is functioning in accordance with its original design. The site is fenced and has some landscaping to partially obscure the plant from view. Plant effluent runs through a sand filter and then to an on-site drainfield. There were no offensive odors or excessive noise observed at the time of staff's inspection. The plant flows do not exceed the permitted capacity, and there are no outstanding operational issues with DEP.

Utility's Attempt to Address Customer Satisfaction

The Utility received six complaints during 2008. Three of the complaints involved discolored water, one was an odor complaint, one involved low pressure, and the last was a high bill complaint. All complaints have been resolved. No complaints have been filed with this Commission since 2000.

Several customers wrote to this Commission explaining that they could not attend the customer meeting scheduled in June. Two customers objected to paying the base facility charge when they are not in residence. Two others said the amount of the increase was significant, especially to residents living on fixed incomes. Our staff wrote letters to two customers explaining the ratemaking process, noting that we would perform inspections and conduct an audit, disallowing any expenses that are imprudent. Another customer said the noise from the wastewater plant was objectionable, although Damon made some changes, and the noise was lessened.

A customer meeting was held at River Green Clubhouse on June 10, 2009. About 15 customers attended, and several customers spoke to Commission staff about the rate increase. One customer said that he was opposed to a rate increase and thought cost saving measures should be considered, suggesting bi-monthly or quarterly billing as examples. One customer said the rates proposed were reasonable. Another customer said that rates had increased more than 12 percent since 2003. There were no indications of service deficiencies.

We find that monthly billing is a preferred method of billing to customers. Monthly billing helps customers to watch usage more carefully and is an easier way to budget expenses. Rates for service have increased 17.1 percent since September 2001 and 2.4 percent since September 2003. Our rate comparison is calculated for a water and wastewater customer like those who spoke, using 4,000 gallons per month.

Based on the foregoing, we find that service provided to the customers is adequate. Accordingly, customer satisfaction and overall quality of service is satisfactory.

USED AND USEFUL

Water Treatment Plant and Distribution System

In the Utility's two rate cases, the water plant was found to be 100 percent used and useful. Well production quantities have been re-rated since the last rate case. The Utility has two wells rated at a total capacity of 130 gallons per minute (gpm) and a new pump for the second well was installed during the test year. The peak day on May 15, 2008 (67 gpm) exceeds the firm reliable capacity of 40 gpm. Unaccounted for water is less than ten percent, which is an acceptable amount. Therefore, we find that the water plant is 100 percent used and useful.

The service area is essentially built out, although in the last five years Damon has added 18 water customers according to the annual reports filed with this Commission. While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be nine equivalent residential connections (ERCs) per year, and average growth has been less than that per year. The distribution system has not been enlarged since the last rate case, when this Commission found it 95.6 percent used and useful. We find the distribution system 100 percent used and useful because the service area appears to be built out.

Wastewater Treatment Plant

The Utility's wastewater plant is permitted for 50,000 gpd based upon three months average daily flow (TMADF). This Commission found the wastewater plant 22.3 percent used and useful in the last rate case, based upon a TMADF of 9,750 gpd for 71 ERCs, or 137 gpd/ERC.

Current wastewater flows are 9,989 gpd based upon TMADF for 101 ERCs, or 99 gpd/ERC. The Utility calculates flows through the treatment plant using a time clock and pump capacity rating in gallons per minute. We have suggested that Damon recheck the pump capacity to make sure that the correct flow rate is being used when calculations are being made. There does not appear to be excessive infiltration or inflow.

There is some seasonality of flows, with higher flows in January, February, and March. Eleven customers have been added in the last five years comprised of single family homes, duplexes, triplexes, or quadplexes. Only a portion of the service area has a collection system, while the majority of water customers have septic tanks. Customers in Casa del Lago and Village Green are connected to the wastewater system. A few more connections can be added in Casa del Lago and five more connections can be added in Village Green. The plant and collection system were designed to serve the current development, and it appears that nearly all customers that could be served are on line, even though additional capacity is available at the treatment plant.

While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be two ERCs per year. The

collection system has not been enlarged since the last rate case, when this Commission found it to be 86.2 percent used and useful. We find the wastewater treatment plant and collection system 100 percent used and useful because there has been a significant reduction in flows and the service area appears to be built out.

RATE BASE

As stated above, Damon's rate base was last established by Order No. PSC-03-0845-PAA-WS. We selected a test year ending December 31, 2008, for this rate case. Rate base components established in the Utility's last rate case have been updated through December 31, 2008, using information obtained from our audit and engineering reports. A summary of each component and the corresponding adjustments follows.

Utility Plant in Service (UPIS)

The Utility recorded \$143,548 for water and \$232,739 for wastewater UPIS for the test year ended December 31, 2008. We made the following adjustments to UPIS:

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To reflect the correct plant additions and retirements to UPIS	(\$366)	(\$570)
2. Remove office furniture reflected in monthly rental agreement	(1,517)	(1,250)
3. To reflect an averaging adjustment	(500)	0
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>

Our net adjustments to UPIS are decreases of \$2,383 for water and \$1,820 for wastewater. Accordingly, the UPIS balance is \$141,165 for water and \$230,919 for wastewater.

Non-used and Useful Plant

As discussed above, Damon's water and wastewater treatment plants are built out and are considered 100 percent used and useful. Therefore, we find that no adjustments are necessary.

Contribution in Aid of Construction (CIAC)

The Utility recorded CIAC for the test year ending December 31, 2008 of \$67,992 for water and \$65,866 for wastewater. We compiled additions to CIAC from January 1, 2003, through December 31, 2008, to determine Damon's CIAC balance for this rate case proceeding. We decreased CIAC for averaging adjustments of \$229 for water and \$69 for wastewater. Accordingly, we find that CIAC is \$67,764 for water and \$65,797 for wastewater.

Accumulated Depreciation

The Utility recorded test year balances for accumulated depreciation of \$86,089 for water and \$164,303 for wastewater. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account has been decreased by \$1,685 for

water and \$5,140 for wastewater to reflect the appropriate average depreciation balances. These adjustments result in average accumulated depreciation of \$84,404 for water and \$159,163 for wastewater.

Accumulated Amortization of CIAC

Damon recorded amortization of CIAC of \$42,088 for water and \$36,524 for wastewater. We have recalculated amortization of CIAC using composite depreciation rates. This account has been decreased by \$669 for water and \$3,722 for wastewater to reflect the appropriate average amortization balances of CIAC. Our adjustments to this account result in amortization of CIAC balances of \$41,419 for water and \$32,802 for wastewater.

Working Capital Allowance

Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, we find a working capital allowance of \$7,147 for water and \$4,034 for wastewater.

Conclusion

Based on the foregoing, we find that the appropriate test year average rate base is \$37,564 for water and \$42,795 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. Rate base adjustments are shown on Schedule 1-C.

RATE OF RETURN

The Utility's capital structure consists of a negative common equity balance of \$25,451, and a loan from Highlands Independent Bank at a stated interest rate of 5.00 percent. Also, pursuant to Audit Finding No. 7, Damon has a loan of \$87,251 from the owner of the Utility. There is no interest on this loan, no loan documents, and Damon is not making any payments on the principal. Because the loan payments are not being paid and it is from a related party, we find that this loan should be treated as common equity in accordance with Commission practice.³ The Utility's capital structure has been reconciled with our recommended rate base.

Damon's last authorized return on equity (ROE) was 11.10 percent.⁴ We updated the ROE for the Utility using our current leverage graph formula.⁵ Therefore, we approve an ROE

³ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

⁴ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁵ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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), F.S.

of 9.87 percent with a range of 8.87 percent to 10.87 percent, and an overall rate of return of 9.10 percent. The ROE and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

Per Audit Finding No. 4, Damon recorded total revenues of \$50,213 for water and \$39,142 for wastewater for the 12-month period ended December 31, 2008. We analyzed the Utility's reported revenues and determined that water revenues were overstated by \$849 and wastewater rates were understated by \$15. Based on the above, we find that test year revenue is \$49,364 for water and \$39,157 for wastewater. Test year revenue is shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

OPERATING EXPENSE

The Utility recorded operating expenses of \$80,265 for water and \$37,005 for wastewater during the test year ending December 31, 2008. The test year operating and maintenance expenses (O&M) have been reviewed through our examination of invoices, canceled checks, and other supporting documentation. We made several adjustments to Damon's operating expenses, as summarized below:

Salaries and Wages – Employees – (601/701)

The Utility signed a contract with a related party, River Green South Golf Course (River Green) for the following services: reading meters, reporting flow meters, and grounds keeping. The agreement also includes office work, maintenance, manager salary, employee pensions, transportation expenses, office space rental, and supplies. River Green pays its employees an annual salary of \$24,174 for water and \$7,976 for wastewater.

The Utility's wastewater salaries shall be reduced by \$614, which was not supported by invoice. We asked River Green for the monthly invoices in connection with the duties performed by each employee. River Green could not provide any monthly invoices for the test year; however, it did provide a contract that was signed by both parties. Based on the Utility's last rate case, salaries were \$12,912 for water and \$4,304 for wastewater.⁶ We find that the salaries and wages Damon has requested in their current rate case are excessive. Operating circumstances have not changed significantly since the last rate case, nor do we anticipate a substantial change prospectively. In determining appropriate salaries, we believe it is appropriate to escalate the above 2002 salaries by the Commission-approved price indexes from 2003 to 2008. This methodology is consistent with this Commission's decisions in two prior SARCs, Sunshine Utilities of Central Florida, Inc. and Betmar Utilities, Inc.⁷

⁶ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County Damon Utilities, Inc.

⁷ See Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; and PSC-95-0986-FOF-WS, issued August 10, 1995, in Docket No. 941280-WS, In re: Application for rate increase in Pasco County by Betmar Utilities, Inc.

Based on the above, employee salaries shall be decreased by \$9,073 for water and \$2,942 for wastewater.

Salaries and Wages – Officers – (603/703)

Damon recorded \$6,900 for water and \$2,588 for wastewater in this account during the test year. During the last rate case in 2002, the Utility did not record expenses for salaries and wages for officers. Damon entered into a contract dated January 1, 2008, with River Green for various services, including management. The contract provides for two managers—one receives a salary of \$6,000, and the other receives a salary of \$3,000. This results in total officers' salaries of \$9,000.

Based on the salaries recorded by the Utility, the total salary expense for this account is \$9,488, which is \$488 more than the contracted amount. We reviewed Damon's trial balances and determined that the \$488 difference is the result of unsupported expenses of \$300 for water and \$188 for wastewater. As a result, we have reduced salaries accordingly. Further, we were unable to determine Damon's allocation of this expense between the water and wastewater systems. It is this Commission's practice to allocate common cost based on the number of customers.⁸ Therefore, water shall be decreased by \$870 and wastewater shall be increased by \$871.

Accordingly, we approve salaries and wages - officers of \$5,730 for water and \$3,270 for wastewater.

Employee Pensions and Benefits (604/704)

The Utility recorded pension and benefits of \$6,665 for water and \$2,407 for wastewater. We decreased the wastewater account by \$185 for lack of support documentation. Therefore, we approve employee pensions and benefits of \$6,665 for water and \$2,222 for wastewater.

Sludge Removal Expense (711)

Damon recorded \$2,030 in this account. The Utility must regularly pump out and dispose of excess sludge. Based on our review, we find that \$2,030 for sludge removal expense is reasonable.

Purchased Power Expense (615/715)

Damon recorded \$3,024 for water and \$3,274 for wastewater. However, we determined that certain electric expenses recorded in the wastewater account should have been split between

⁸ See Order Nos. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County; and PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works).

water and wastewater. Therefore, we decreased wastewater by \$75 and increased water by \$75. In addition, the Utility shall increase water by \$254 and wastewater by \$360 for 2008 invoices that were paid in 2009 but should have been recorded in 2008.

Fuel for Power Production (616)

Damon recorded \$87 in this account during the test year. We find that this amount is appropriate.

Chemicals (618/718)

The Utility recorded chemical expense of \$3,649 for water and \$1,515 for wastewater. We have decreased wastewater by \$142 for an out of period expense. In addition, we increased chemical expense for wastewater by \$162 to annualize the increase in chemical rates. Finally, we increased water by \$378 to include 2008 expenses that were paid in 2009. Therefore, we approve an increase in test year chemical expenses of \$378 for water and \$20 for wastewater.

Materials and Supplies (620/720)

Damon recorded \$2,024 for water and \$871 for wastewater. We increased water by \$125 to reclassify items previously capitalized to plant. In addition, we increased water by \$63 to reclassify the painting and cleaning material for the water tank. Moreover, we increased wastewater by \$130 to allocate expenses billed to the wrong account. As a result, we approve an increase of \$188 for water and \$130 for wastewater.

Contractual Services – Billing – (630/730)

Damon recorded \$1,125 for water and \$536 for wastewater. We reduced wastewater by \$130 to reclassify an expense billed to the wrong account. In addition, we reduced wastewater by \$31 to remove an unsupported expense. Therefore, the Utility shall reduce contractual expenses – billing for wastewater by \$161.

Contractual Services – Professional – (631/731)

The Utility recorded \$10,080 for water and \$505 for wastewater. We decreased water by \$170 to reclassify the painting and cleaning of the water tank. In addition, we reduced water by \$6,908 to amortize the painting and cleaning over five years. We decreased water by \$213 and increased wastewater by \$213 to reflect the expense for the appropriate system. Therefore, contractual services – professional shall be decreased by \$7,290 for water and increased by \$213 for wastewater.

Contractual Services – Testing – (635/735)

Damon recorded \$3,958 for water and \$3,170 for wastewater. We decreased water by \$1,264 to amortize testing over five years. We also made an adjustment to decrease water by

\$192 and wastewater by \$243 to remove out of period expenses. In addition, we increased water by \$212 and wastewater by \$267 for 2008 expenses paid in 2009. We increased wastewater by \$168 to annualize the new monthly rate for testing. The utility shall reduce contractual services – testing by \$1,244 for water and increase contractual services – testing by \$192 for wastewater.

Contractual Services – Other – (636/736)

The Utility recorded \$5,409 for water and \$4,712 for wastewater. We increased water by \$475 to add invoices that were not recorded in the general ledger. We increased water and wastewater by \$328 to add 2008 expenses paid in 2009. In addition, we increased water and wastewater by \$209 to annualize the new monthly rate for operations. Furthermore, find that wastewater expenses that are not supported by invoices must be removed in the amount of \$100. Therefore, contractual services – other shall be increased by \$1,011 for water and \$436 for wastewater.

Rents (640/740)

Damon recorded \$3,000 for water and \$2,150 for wastewater. We decreased wastewater by \$50 to remove expenses due to lack of support documentation.

Transportation Expense (650,750)

The Utility recorded \$2,138 for water and \$768 for wastewater. We decreased wastewater by \$55 to remove expenses due to lack of support documentation.

Insurance Expense (655/755)

Damon recorded \$1,173 for water and \$456 for wastewater. These amounts reflect the policy charges that the Utility has for blanket liability insurance. We find that this amount is reasonable.

Regulatory Commission Expense (665/765)

The Utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Damon paid filing fees of \$1,000 for water and \$500 for wastewater. The Utility also paid \$1,000 for a consultant for its rate case. We find that this amount is reasonable. Also, Damon is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. We estimated noticing expenses of \$334 for postage expense, \$265 for printing expense, and \$38 for envelopes. The above results in total rate case expense for the filing fee and noticing of \$2,137, and a four-year amortization of \$534. Therefore, we increased this account by \$340 for water and \$194 for wastewater.

Miscellaneous Expense – (675/775)

Damon recorded \$194 for water and \$557 for wastewater for the test year. We increased water by \$107 to reclassify the painting and cleaning expense of the water tank. Therefore, we approve miscellaneous expense for the test year of \$301 for water and \$557 for wastewater.

Operation and Maintenance Expense (O&M) Summary

Based on the above adjustments, we decreased O&M by \$16,423 for water and \$1,240 for wastewater. The O&M expenses of \$57,176 for water and \$32,274 for wastewater that we hereby approve are shown on Schedule Nos. 3-D and 3-E, respectively.

Depreciation Expense (Net of Amortization of CIAC)

Damon recorded depreciation expense of \$5,472 for water and \$4,032 for wastewater during the test year. We calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. We find that depreciation expense is \$6,071 for water and \$4,044 for wastewater. Therefore, we increased this account by \$599 (\$6,071-\$5,472) for water and \$12 (\$4,044-\$4,032) for wastewater to reflect test year depreciation expense. The Utility recorded amortization of CIAC of \$2,508 for water and \$2,736 for wastewater. We calculated amortization of CIAC based on composite rates and find amortization of CIAC of \$2,914 for water and \$1,152 for wastewater. We increased amortization of CIAC by \$406 (\$2,914-\$2,508) for water and decreased amortization of CIAC by \$1,584 (\$2,736-\$1,152) for wastewater. We find net depreciation expense of \$3,157 (\$6,071 - \$2,914) for water and \$2,892 (\$4,044-\$1,152) for wastewater.

Taxes Other Than Income (TOTI)

Damon's records reflect a TOTI balance of \$3,702 for water and \$2,194 for wastewater. Based on our approved test year revenues, regulatory assessment fees (RAFs) shall be reduced by \$39 for water and increased by \$1 for wastewater. Based on our approved salaries, we calculated the appropriate payroll taxes of \$1,594 for water and \$635 for wastewater. Accordingly, TOTI shall be increased by \$1,555 for water and \$636 for wastewater.

Conclusion

Applying our adjustments to the audited test year operating expenses results in operating expenses of \$65,589 for water and \$37,996 for wastewater. Operating expenses are shown on Schedule No. 3. The related adjustments are shown on Schedule Nos. 3-A, 3-B and 3-C.

REVENUE REQUIREMENTS

We hereby approve an annual increase of \$20,569 (41.67%) for water and an annual increase of \$2,862 (7.31%) for wastewater for Damon. This will allow the Utility the opportunity to recover its expenses and earn a 9.10% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$37,564	\$42,795
Rate of Return	9.10%	9.10%
Return on Rate Base	\$3,418	\$3,894
Adjusted O&M Expense	\$57,176	\$32,274
Depreciation expense (Net)	\$3,157	\$2,892
Taxes Other Than Income	\$6,183	\$2,959
Income Taxes	\$0	\$0
Revenue Requirement	\$69,933	\$42,019
Less Adjusted Test Year Revenues	\$49,364	\$39,157
Annual Increase	\$20,569	\$2,862
Percent Increase/(Decrease)	41.67%	7.31%

RATE STRUCTURE

Damon's current rate structure consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure for the water systems' residential and non-residential class. The monthly BFC is \$8.83 and usage charge is \$1.82 per kgal.

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 water system's residential class. The goal of our evaluation was to select rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) set the BFC between 25 percent and 40 percent whenever possible.

Damon is located in a water use caution area in the SFWMD. Over the past few years, the District has requested that an inclining block rate structure be implemented whenever possible. We evaluated the Utility to determine if an inclining block was appropriate. Based on our analysis, the customer base is very seasonal, and the monthly overall average consumption is 3.2 kgal. Also, our analysis indicates high percentage of bills and gallons captured at 5 kgal and under, which indicates little, if any, excessive consumption. We find that an inclining block rate is not appropriate at this time due to the relatively low levels of consumption. Therefore, the Utility shall continue the BFC/uniform gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Water Rates

The rate design we hereby approve for the Utility's water system is shown on Table 1 below.

TABLE 1

DAMON UTILITIES, INC. APPROVED WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 58%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$8.83	BFC	\$10.48
All kgals	\$1.82	All kgals	\$3.20
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.83	0	\$10.48
1	\$10.65	1	\$13.68
3	\$14.29	3	\$20.08
5	\$17.93	5	\$26.48
10	\$27.03	10	\$42.48
20	\$45.23	20	\$74.48

Furthermore, our initial BFC cost recovery of 63.19 percent shall be reduced to 50 percent. We typically set the BFC no greater than 40 percent. In this case, however, the customer base is seasonal, and setting the BFC cost recovery at 40 percent or lower would jeopardize the Utility's cash flow to recover the fixed costs while seasonal customers are not in residence. Therefore, we find that a 50 percent BFC cost recovery allocation is appropriate. We have approved a BFC allocation greater than 40 percent in recent cases.⁹

Based on the foregoing, we find that the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery shall be set at 50 percent.

⁹See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In Re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; Order No. PSC-08-0812-PAA-WS, issued in December 12, 2008, in Docket No. 070695-WS, In Re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

Wastewater Rates

The Utility’s current rate structure consists of a BFC/gallorage rate structure for the wastewater systems’ residential and non-residential class. The monthly BFC is \$16.59 and the usage charge is \$6.77.

BFC cost recovery for the residential class shall be 50 percent. We find that this BFC allocation is appropriate because it falls within our practice of setting the BFC allocation to at least 50 percent due to the capital-intensive nature of wastewater plants.

Furthermore, a review of the billing data indicates that setting the residential monthly wastewater cap at 6 kgal is appropriate. Therefore, the Utility’s current residential monthly wastewater cap of 6 kgal shall remain unchanged. Also, the general service gallorage charge shall be 1.2 times greater than the residential charge.

Our approved rate design for the wastewater system is shown on Table 2 below.

TABLE 2

DAMON UTILITIES, INC.			
APPROVED WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Approved Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC =50%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$16.59	BFC	\$17.49
All kgals	\$6.77	All kgals	\$7.47
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$16.59	0	\$17.49
1	\$23.36	1	\$24.96
3	\$36.90	3	\$39.90
5	\$50.44	5	\$54.84
6	\$57.21	6	\$62.31
8	\$57.21	8	\$62.31

Based on the foregoing, we find that the appropriate rate structure for the wastewater systems’ residential and non-residential classes is a continuation of the monthly BFC/uniform gallorage charge rate structure. Based on billing data, the current wastewater cap of 8 kgals shall be changed to 6 kgals per month. The general service gallorage charge shall be set at 1.2

times greater than the residential charge, and the BFC allocation for the wastewater BFC cost recovery percentage shall be set at 51 percent.

Conclusion

The appropriate rate structure for the water system's residential and non-residential classes is a continuation of the monthly BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery shall be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class shall also be a continuation of the monthly BFC/uniform gallonage charge rate structure. The non-residential gallonage charge shall be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system shall be set at 51 percent. The residential wastewater cap shall be changed to 6,000 gallons (6 kgal).

REPRESSION ADJUSTMENT

Based on our analysis, a repression adjustment is not warranted in this case since there is no significant amount of discretionary usage. The overall average consumption is 3.3 kgal, and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 4.3 kgal. This is an indication that there is very little consumption above 3 kgal. However, monthly reports shall be prepared by the Utility to monitor the effects from changes in revenue to the water and wastewater systems. These reports shall detail the number of bills rendered, the consumption billed and the revenues billed and shall be filed with this Commission on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. In addition, the reports shall be prepared by customer class and meter size. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

RATES

By this Order, the rates approved herein should produce revenues of \$69,933 for the water system and \$42,019 for the wastewater system. There are no miscellaneous service revenues for the water or wastewater systems. The approved rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B, respectively.

Pursuant to Rule 25-30.475(1), F.A.C., the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet. In addition, the approved rates shall not be implemented until we have approved the proposed customer notice and the customers have received the notice. 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 must 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.

FOUR YEAR RATE REDUCTION

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year 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, the associated return included in working capital, and the gross-up for RAFs, which are \$360 for water and \$205 for wastewater. Using Damon's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Damon shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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 the reduction in the rates due to the amortized rate case expense.

TEMPORARY CHARGES

By this Order we are approving an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the recommended rates shall be approved as temporary rates. Accordingly, the rates approved herein shall be collected by the Utility subject to the refund provisions discussed below.

The Utility shall be authorized to collect the temporary rates upon our approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount \$15,657 for Damon. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and must be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

PROOF OF COMPLIANCE

To ensure that the Utility adjusts its books in accordance with our decision, Damon 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 Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Damon Utilities, Inc.'s application for an increase in rates and charges is hereby 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 are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Damon Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth in Schedule Nos. 4-A and 4-B and as approved in the body of this Order. It is further

ORDERED that the Utility shall prepare monthly reports to monitor the effects resulting from changes in revenue to the water system. These reports shall reflect the number of bills rendered, the consumption billed, and the revenues billed. The reports shall be prepared by customer class and meter size. The reports shall be filed with our staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that Damon Utilities, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the customers have received the notice. The Utility shall

provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that 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. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the water and wastewater rates shall be reduced to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. 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 rates due to the amortized rate case expense. 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, Florida Statutes. It is further

ORDERED that prior to implementation of any temporary rates, the Utility shall provide appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$15,657. Alternatively, the utility could establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. It is further

ORDERED that Damon Utilities, Inc. shall maintain a record of the amount of revenues that are subject to refund. In addition, after any temporary rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with our Division of Economic Regulation no later than the 20th of each month indicating the monthly and total

amount of money subject to refund at the end of the preceding month. The reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

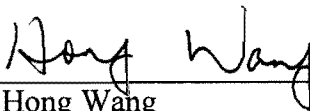
ORDERED that the Utility shall file tariff sheets, which are consistent with our vote. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed administratively once our staff has verified that the revised tariff sheets and customer notice have been filed by the Utility and approved.

By ORDER of the Florida Public Service Commission this 11th day of September, 2009.

ANN COLE
Commission Clerk

By: 

Hong Wang
Management Review Specialist

(S E A L)

ARW

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action approving an increase in rates and charges is preliminary in nature, except for our decision regarding the four year rate reduction, proof of adjustments, and granting temporary rates in the event of a protest. 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 October 2, 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.

DAMON UTILITIES, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 080709-WS	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	COMMISSION APPROVED BALANCE
1. UTILITY PLANT IN SERVICE	\$143,548	(\$2,383)	\$141,165
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(67,992)	229	(67,764)
5. ACCUMULATED DEPRECIATION	(86,089)	1,685	(84,404)
6. AMORTIZATION OF CIAC	42,088	(669)	41,419
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,147</u>	<u>7,147</u>
8. WATER RATE BASE	<u>\$31,555</u>	<u>\$6,009</u>	<u>\$37,564</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 1-B	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	COMMISSION APPROVED BALANCE
1. UTILITY PLANT IN SERVICE	\$232,739	(\$1,820)	\$230,919
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(65,866)	69	(65,797)
5. ACCUMULATED DEPRECIATION	(164,303)	5,140	(159,163)
6. AMORTIZATION OF CIAC	36,524	(3,722)	32,802
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,034</u>	<u>4,034</u>
8. WASTEWATER RATE BASE	<u>\$39,094</u>	<u>\$3,701</u>	<u>\$42,795</u>

DAMON UTILITIES, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/08	DOCKET NO. 080709-WS	
ADJUSTMENTS TO RATE BASE	PAGE 1	
	<u>WATER</u>	<u>WASTEWATER</u>
<u>1. UTILITY PLANT IN SERVICE</u>		
a. To reflect the correct plant additions and retirements to UPIS.	(\$366)	(\$570)
b. Remove office furniture reflected in monthly rental agreement.	(1,517)	(1,250)
c. To reflect an averaging adjustment.	<u>(500)</u>	<u>0</u>
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>
<u>2. CIAC</u>		
To reflect an averaging adjustment.	<u>\$229</u>	<u>\$69</u>
<u>3. ACCUMULATED DEPRECIATION</u>		
a. To reflect accumulated depreciation per Rule 25-30.0140.	\$445	\$3,118
b. To reflect an averaging adjustment.	<u>1,240</u>	<u>2,022</u>
Total	<u>\$1,685</u>	<u>\$5,140</u>
<u>4. AMORTIZATION OF CIAC</u>		
a. To reflect the appropriate amort of CIAC.	\$650	(\$3,145)
b. To reflect an averaging adjustment.	<u>(1,319)</u>	<u>(577)</u>
Total	<u>(\$669)</u>	<u>(\$3,722)</u>
<u>5. WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$7,147</u>	<u>\$4,034</u>

DAMON UTILITIES, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 080709-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	COMMISSION APPROVED BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
RETAINED EARNINGS	(25,451)	25,451	0	0	0			
PAID IN CAPITAL	87,251	0	87,251	(19,598)	67,653			
TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>			
TOTAL COMMON EQUITY	\$61,800	\$25,451	\$87,251	(\$19,598)	\$67,653	84.19%	9.87%	8.31%
LONG TERM DEBT	16,386	0	16,386	(3,681)	12,705	15.81%	5.00%	0.79%
TOTAL LONG TERM DEBT	16,386	0	16,386	(3,681)	12,705	15.81%		
CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
TOTAL	<u>\$78,186</u>	<u>\$25,451</u>	<u>\$103,637</u>	<u>(\$23,278)</u>	<u>\$80,359</u>	<u>100.00%</u>		<u>9.10%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.87%</u>	<u>10.87%</u>	
OVERALL RATE OF RETURN						<u>8.26%</u>	<u>9.94%</u>	

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 080709-WS

	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$50,213</u>	<u>(\$849)</u>	<u>\$49,364</u>	<u>\$20,569</u> 41.67%	<u>\$69,933</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$73,599	(\$16,423)	\$57,176	\$0	\$57,176
3. DEPRECIATION (NET)	2,964	193	3,157	0	3,157
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,702	1,555	5,257	926	6,183
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$80,265</u>	<u>(\$14,676)</u>	<u>\$65,589</u>	<u>\$926</u>	<u>\$66,515</u>
8. OPERATING INCOME/(LOSS)	<u>(\$30,052)</u>		<u>(\$16,225)</u>		<u>\$3,418</u>
9. WATER RATE BASE	<u>\$31,555</u>		<u>\$37,564</u>		<u>\$37,564</u>
10. RATE OF RETURN	<u>-95.24%</u>		<u>-43.19%</u>		<u>9.10%</u>

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08

SCHEDULE OF WASTEWATER OPERATING INCOME

	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$39,142</u>	<u>\$15</u>	<u>\$39,157</u>	<u>\$2,862</u> 7.31%	<u>\$42,019</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$33,515	(\$1,240)	\$32,274	\$0	\$32,274
3. DEPRECIATION (NET)	1,296	1,596	2,892	0	2,892
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,194	636	2,830	129	2,959
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$37,005</u>	<u>\$992</u>	<u>\$37,996</u>	<u>\$129</u>	<u>\$38,125</u>
8. OPERATING INCOME/(LOSS)	<u>\$2,137</u>		<u>\$1,161</u>		<u>\$3,894</u>
9. WASTEWATER RATE BASE	<u>\$39,094</u>		<u>\$42,795</u>		<u>\$42,795</u>
10. RATE OF RETURN	<u>5.47%</u>		<u>2.71%</u>		<u>9.10%</u>

DAMON UTILITIES, INC. TEST YEAR ENDING 12/31/08 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 080709-WS PAGE 1 OF 3	
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
a. To reclassify Wastewater Residential Revenues to General Service.	\$0	(\$175)
b. To reflect correct Wastewater General Service Revenues.	0	175
c. To reflect the appropriate test year revenues.	<u>(849)</u>	<u>15</u>
Subtotal	<u>(\$849)</u>	<u>\$15</u>
OPERATION AND MAINTENANCE EXPENSES		
Salaries and Wages - Employees (601,701)		
a. To remove the difference of the indexed salary expense.	(\$9,073)	(\$2,328)
b. To remove unsupported salary expense.	0	(614)
Subtotal	<u>(\$9,073)</u>	<u>(\$2,942)</u>
Salaries and Wages - Officers (603,703)		
a. To remove unsupported officer expense.	\$0	(\$188)
b. To reflect the appropriate salary for managers.	(300)	0
c. To allocate officer salaries to water and wastewater.	<u>(870)</u>	<u>871</u>
Subtotal	<u>(\$1,170)</u>	<u>\$683</u>
Employee Pensions and Benefits (604,704)		
a. To remove unsupported benefit expense.	\$0	(\$185)
Subtotal	<u>\$0</u>	<u>(\$185)</u>
Purchased Power (615,715)		
a. To allocate expenses related to electric between water and wastewater.	\$75	(\$75)
b. To add 2008 expenses paid in 2009.	<u>254</u>	<u>360</u>
Subtotal	<u>\$329</u>	<u>\$285</u>
Chemicals (618, 718)		
a. To remove out of period expense for Sodium Hypochlorite.	\$0	(\$142)
b. To annualize rates because rates went up.	0	162
c. To add 2008 expenses paid in 2009.	<u>378</u>	<u>0</u>
Subtotal	<u>\$378</u>	<u>\$20</u>
Materials and Supplies (620,720)		
a. To reflect items capitalized.	\$125	\$0
b. To reclassify painting and cleaning.	63	0
c. To reclassify a expense billed to wrong account.	0	130
Subtotal	<u>\$188</u>	<u>\$130</u>
Contractual Services - billing (630, 730)		
a. To reclassify a expense billed to wrong account.	\$0	(\$130)
b. To remove expenses related to 2008 expenses paid in 2009.	0	(31)
Subtotal	<u>\$0</u>	<u>(\$161)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08

ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
Contractual Services - Professional (631, 731)		
a. To reclassify painting and cleaning.	(\$170)	\$0
b. To amortize water tank cleaning & painting over 5 years.	(6,908)	0
c. To allocate accounting fees.	(213)	213
Subtotal	<u>(\$7,290)</u>	<u>\$213</u>
Contractual Services - Testing (635, 735)		
a. To amortize non-reoccurring over 5 years.	(\$1,264)	\$0
b. To remove out of period expenses.	(192)	(243)
c. To add 2008 expenses paid in 2009.	212	267
d. To annualize new monthly rate.	0	168
Subtotal	<u>(\$1,244)</u>	<u>\$192</u>
Contractual Services - Other (636,736)		
a. To add invoices that were not recorded in the general ledger.	\$475	\$0
b. To add 2008 expenses paid in 2009.	328	328
c. To annualize new monthly rate.	209	209
d. To remove unsupported expenses.	0	(100)
Subtotal	<u>\$1,011</u>	<u>\$436</u>
Rents (640,740)		
a. To remove unsupported expenses.	\$0	(\$50)
Subtotal	<u>\$0</u>	<u>(\$50)</u>
Transportation Expense (650,750)		
a. To remove unsupported expenses.	\$0	(\$55)
Subtotal	<u>\$0</u>	<u>(\$55)</u>
Insurance Expense (655,755)		
a. To remove non-utility vehicle insurance coverage.	\$0	\$0
b. To allocate insurance for two trucks.	0	0
Subtotal	<u>\$0</u>	<u>\$0</u>
Regulatory Commission Expense (665,765)		
To reflect the 4 year amortization of rate case expense $(\$1,920.48/4)/(63.67\%)(36.33\%)$.	<u>\$340</u>	<u>\$194</u>
Miscellaneous Expense (675,775)		
a. To reclassify expense.	<u>\$107</u>	<u>\$0</u>
Subtotal	<u>\$107</u>	<u>\$0</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$16,423)</u>	<u>(\$1,240)</u>

		SCHEDULE NO. 3-C	
		DOCKET NO. 080709-WS	
		PAGE 3 OF 3	
DAMON UTILITIES, INC.			
TEST YEAR ENDING 12/31/08			
ADJUSTMENTS TO OPERATING INCOME			
		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.		\$599	\$12
b. To reflect the appropriate the appropriate amortization of CIAC.		(406)	1,584
Subtotal		<u>\$193</u>	<u>\$1,596</u>
TAXES OTHER THAN INCOME			
a. To reflect the appropriate RAFs.		(\$39)	\$1
b. To reflect the appropriate payroll taxes.		1,594	635
c. To reflect the appropriate property taxes per annual report.		0	0
Subtotal		<u>\$1,555</u>	<u>\$636</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	ADJUST- MENT	COMMISSION APPROVED TOTAL
(601) SALARIES AND WAGES - EMPLOYEES	\$24,174	(\$9,073)	\$15,101
(603) SALARIES AND WAGES - OFFICERS	6,900	(1,170)	5,730
(604) EMPLOYEE PENSIONS AND BENEFITS	6,665	0	6,665
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	3,024	329	3,353
(616) FUEL FOR POWER PRODUCTION	87	0	87
(618) CHEMICALS	3,649	378	4,027
(620) MATERIALS AND SUPPLIES	2,024	188	2,212
(630) CONTRACTUAL SERVICES - BILLING	1,125	0	1,125
(631) CONTRACTUAL SERVICES - PROFESSIONAL	10,080	(7,290)	2,790
(635) CONTRACTUAL SERVICES - TESTING	3,958	(1,244)	2,714
(636) CONTRACTUAL SERVICES - OTHER	5,409	1,011	6,420
(640) RENTS	3,000	0	3,000
(650) TRANSPORTATION EXPENSE	2,138	0	2,138
(655) INSURANCE EXPENSE	1,173	0	1,173
(665) REGULATORY COMMISSION EXPENSE	0	340	340
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>194</u>	<u>107</u>	<u>301</u>
	<u>\$73,599</u>	<u>(\$16,423)</u>	<u>\$57,176</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	ADJUST- MENT	COMMISSION APPROVED TOTAL
(701) SALARIES AND WAGES - EMPLOYEES	\$7,976	(\$2,942)	\$5,034
(703) SALARIES AND WAGES - OFFICERS	2,588	683	3,270
(704) EMPLOYEE PENSIONS AND BENEFITS	2,407	(185)	2,222
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,030	0	2,030
(715) PURCHASED POWER	3,274	285	3,559
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,515	20	1,535
(720) MATERIALS AND SUPPLIES	871	130	1,001
(730) CONTRACTUAL SERVICES - BILLING	536	(161)	375
(731) CONTRACTUAL SERVICES - PROFESSIONAL	505	213	718
(735) CONTRACTUAL SERVICES - TESTING	3,170	192	3,362
(736) CONTRACTUAL SERVICES - OTHER	4,712	436	5,149
(740) RENTS	2,150	(50)	2,100
(750) TRANSPORTATION EXPENSE	768	(55)	713
(755) INSURANCE EXPENSE	456	0	456
(765) REGULATORY COMMISSION EXPENSES	0	194	194
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>557</u>	<u>0</u>	<u>557</u>
	<u>\$33,515</u>	<u>(\$1,240)</u>	<u>\$32,274</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	APPROVED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$8.83	\$10.48	\$0.05
3/4"	\$13.24	\$15.72	\$0.08
1"	\$22.09	\$26.20	\$0.13
1-1/2"	\$44.15	\$52.40	\$0.27
2"	\$70.84	\$83.84	\$0.43
3"	\$141.31	\$167.68	\$0.86
4"	\$220.78	\$262.00	\$1.35
6"	\$441.55	\$524.00	\$2.70
Gallage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$3.20	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$8.83	\$10.48	\$0.05
3/4"	\$13.24	\$15.72	\$0.08
1"	\$22.09	\$26.20	\$0.13
1-1/2"	\$44.15	\$52.40	\$0.27
2"	\$70.84	\$83.84	\$0.43
3"	\$141.31	\$167.68	\$0.86
4"	\$220.78	\$262.00	\$1.35
6"	\$441.55	\$524.00	\$2.70
Gallage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$3.20	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$14.29	\$20.08	
5,000 Gallons	\$17.93	\$26.48	
10,000 Gallons	\$27.03	\$42.48	

DAMON UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	APPROVED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
All Meter Size	\$16.59	\$17.49	\$0.09
Gallonage Charge	\$6.77		
(Per 1,000 Gallons; Maximum 8,000 Gallons)			
(Per 1,000 Gallons; Maximum 6,000 Gallons)		\$7.47	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$16.59	\$17.49	\$0.09
3/4"	\$24.89	\$26.24	\$0.13
1"	\$41.48	\$43.73	\$0.21
1-1/2"	\$82.97	\$87.45	\$0.43
2"	\$132.73	\$139.92	\$0.68
3"	\$265.50	\$279.84	\$1.37
4"	\$414.84	\$437.25	\$2.14
6"	\$829.67	\$874.50	\$4.28
Gallonage Charge (all gallons)	\$8.11	\$8.96	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$36.90	\$39.90	
5,000 Gallons	\$50.44	\$54.84	
10,000 Gallons	\$70.75	\$62.31	