FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center, 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

APRIL 2, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (AUSTIN, LINGO, MUNROE, XANDERS, ZHANG)
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. 960444-WU - APPLICATION FOR INCREASED WATER RATES AND SERVICE AVAILABILITY CHARGES BY LAKE UTILITY SERVICES, INC.
COUNTY: LAKE

AGENDA: APRIL 14, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE WAIVED

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\960444WU.RCM

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CASE BACKGROUND

Lake Utility Services, Inc., (LUSI or utility) is a Class B utility located in Lake County. LUSI is a wholly-owned subsidiary of Utilities, Inc. and provides no wastewater service. The service area is composed of eighteen subdivisions, which are served by twelve water plants. All of the plants are basically pump and chlorinate with hydropneumatic tanks. There are ten plants in the South Clermont Region. In this region there are groups of two (Oranges-Vistas), three (Clermont I-Amber Hill-Lake Ridge Club) and four (Highland Point-Crescent Bay-Crescent West- Lake Crescent Hills) interconnected plants with one stand alone plant (Clermont II). The other two plants (Lake Saunders & Four Lakes) are outside this area. The minimum filing requirements (MFRs) filed in this docket indicate that the service area contained a total of 915 customers at the end of 1995. According to the St. Johns River Water Management District (SJRWMD), LUSI is in a water conservation area.

On December 24, 1987, LUSI was granted Original Certificate No. 496-W by Order No. 18605 in Docket No. 871080. On February 20, 1991, by Order No. 24139, in Docket No. 900906-WU, the Commission transferred all Utilities, Inc. of Florida systems in Lake County to LUSI.

By Proposed Agency Action in Docket No. 950232-WU, Order No. PSC-95-1228-FOF-WU, issued on October 5, 1995, the Commission approved a limited proceeding to restructure rates and ordered the utility to supply necessary information regarding its service availability policy within 90 days. However, on October 26, 1995, LUSI protested the Commission's order. On March 4, 1996, LUSI filed an offer of settlement.

By Order No. PSC-96-0504-AS-WU, the Commission accepted the settlement proposal. In the settlement, LUSI agreed to file this current rate case (Docket No. 960444-WU) and propose uniform rates and uniform service availability charges for all of its operations in Lake County, except for Four Lakes and Lake Saunders Acres. As part of the settlement, the utility stipulated to the use of "Staff's Proposed Rate Structure (Revised)" in Docket No. 950232-WU, for the purpose of calculating interim rates. Therefore, the rates included in "Staff Proposed Rate Structure (Revised)", pursuant to Order No. PSC-96-0504-AS-WU, became LUSI's current Commission approved rates immediately prior to any interim adjustment in this rate case.

The utility reported adjusted test year operating revenues of $313,946 for its water operations for 1995. The utility has never had a full rate case before the Commission; therefore, there is no previously established rate of return on equity.

The utility filed this application for a rate increase on June 3, 1996. The utility was notified of several deficiencies in the filing by staff. Those deficiencies were corrected and the official filing date was established as July 9, 1996. The utility's requested test year for both interim and final rates is the historical period ended December 31, 1995. Also, the utility requested that this case be processed using the PAA procedure pursuant to Section 367.081(8), Florida Statutes.

During the course of this rate case staff identified a large number of errors in both the MFRs and the company books. The attempts to correct these errors resulted in several staff information requests and two 5-month statutory time extensions. The responses from the company contained more errors. The first numbers resulted in a negative rate base. Although current numbers indicate a relatively small rate base, it is staff's opinion that this rate case should proceed without further delays.

DISCUSSION OF ISSUES

ISSUE 1: Is the quality of service satisfactory?

RECOMMENDATION: The quality of service is marginal at best, and should be monitored to insure improvement. (MUNROE)

STAFF ANALYSIS: The Commission staff, in order to determine the overall quality of service provided by a utility, shall evaluate three separate components of water and wastewater operations. These are (1) the quality of the utility's product, (2) the operating conditions of the utility's plants and facilities, and (3) customer satisfaction. The rule also states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and County Health Department over the preceding three year period shall be considered. DEP and health department officials' input as well as customer comments shall also be considered.

LUSI's water treatment facilities consist of twelve plants. The plants are all the same type (pump & chlorinate with hydropneumatic tanks) with the exception of the Oranges, Clermont II and Lake Saunders which also add polyphosphate.

Quality of the Product

The quality of the product is marginal at best. At the customer meeting held on September 4, 1996 in Jenkins Auditorium, there was a relatively large turnout of approximately 120 customers. A large percentage of these customers indicated that the water quality varied, and health concerns were expressed. Although the product has met standards, both staff and DEP engineering concur that due to the layout of the distribution system both high and low chlorine levels are occurring in the system.

After reviewing the MFR complaint logs, staff requested more current complaint logs. Staff reviewed the system maps and surveyed a number of customers, as a result the staff also requested the service area flushing schedule. LUSI indicated there was no regular flushing, and it was done as needed. Although the product as tested met standards, DEP engineering agreed with staff that a scheduled flushing program was needed to insure the water quality.

The company submitted a flushing program to staff engineering on November 20, 1996. Staff and DEP engineers agree this program should result in a higher quality and more consistent product.

Operating Conditions

The staff engineer conducted a field inspection of all LUSI facilities on September 3 and 4, 1996. In addition, DEP inspected the facilities on October 22 and November 7 of 1996. A number of minor deficiencies were noted. Staff is confident that company changes in management and maintenance practices will eliminate these deficiencies and minimize such occurrences in the future.

Customer Satisfaction

It is obvious from testimony given at the customer service hearing and numerous calls made to customers throughout the system that customer satisfaction is lacking. The service hearing attendance was approximately 120 customers. Of these customers, twenty testified during the course of the three hour meeting. Ten of the twenty indicated problems with water and service. Customers Bob Mahaffey, Thomas Swartwout, Mark Campbell, Brian Sullivan, Durwood Shadduck, Gene Brown, Roxanne Holtz, Carl Minear, Brian Wells and Bill Yeager indicating problems with chlorine content (low and high), sediment and service problems. A number of customers spoke to staff engineers during the recess and after the meeting, expressing product and service problems. In addition the staff engineer has polled approximately forty customers with a large majority expressing product and/or service problems.

Staff has suggested a number of actions to improve this area: (1) company presentations for home owner associations, if requested; (2) company monitoring of new construction in the service area; and (3) company initiating a proactive system flushing program.

Summary

The quality of the product is found to be marginal at best, the operating conditions of the plants have no major deficiencies, and the customer satisfaction is poor. Staff would add that the company has cooperated with staff 100% in seeking workable solutions to all the aforementioned problems. Changes made by the company should improve all of these areas. Staff should monitor the utility's performance over the remainder of 1997.

RATE BASE

ISSUE 2: Should an adjustment be made to utility plant in service?

RECOMMENDATION: Yes. LUSI's water utility plant in service should be reduced by $103,440 due to misclassification and lack of documentation support. (ZHANG)

STAFF ANALYSIS: The utility's MFRs indicate average utility plant in service, average accumulated depreciation and depreciation expense for the test year are $1,946,058, $131,754 and $62,453, respectively. In Audit Exception No. 3 of the Commission Staff Audit Report, the staff auditor proposed numerous adjustments to reduce LUSI's utility plant in service for lack of documentation support, misclassified organization costs and capitalized expenses. For the purposes of discussion, staff has addressed these topics separately.

Lack of Supporting Documentation

The utility recorded capitalized time of $273 for wells and springs for Preston Cove Water Plant and capitalized time of $898 for wells and treatment equipment for South Clermont Water Plant. The staff auditor found that there were no such physical assets in these two water plants, therefore, he proposed that utility plant in service should be reduced by $1,171.

The utility recorded a total of $16,923 to several plant accounts for Highland Point Water Plant without providing any supporting documentation. The utility also did not record plant equipment and meters for $9,920. Therefore, a net adjustment should be made to reduce utility plant in service by $7,003.

The utility recorded a total of $50,000 to its plant accounts for Orange Water Plant, but it only has support for $42,254 of that amount. Therefore, an adjustment should be made to reduce utility plant in service by $7,746.

The utility recorded a total of $4,918 to its plant accounts for Amber Hill Water Plant without providing any supporting documentation. Plant equipment which had an original cost of $12,614 was recorded at $9,903. The staff auditor also discovered that plant assets of $1,720 were not recorded on the utility's books. Therefore, a net adjustment should be made to reduce utility plant in service by $487.

The utility recorded a total of $86,406 to its plant accounts for the Lake Saunders Acres Water Plant. However, only $58,463 was supported by the original documentation. Therefore, $27,943 should be removed from utility plant in service.

The Four Lakes Water Plant was originally certificated under the name of L. Neal Smith Utilities and then sold to LUSI in 1990. In Order No. 23839, issued on December 7, 1990, in Docket No. 900645-WU, the Commission approved this transfer of facilities from L. Neal Smith Utilities to LUSI. The order stated that rate base could not be established at the time of sale because there was not sufficient information and no original cost study was conducted. Further, the order indicated that an original cost study was necessary when LUSI's rate base was established in an up-coming rate case. The current docket is LUSI's first rate case, and the utility did not perform an original cost study for this case. Furthermore, LUSI has no records to establish the original cost of the Four Lakes Water System as of April of 1990. In Order No. 10994, issued on July 14, 1982, in Docket No. 810063-WS (AP), the Commission granted a certificate, set rate base and approved rates and service availability charge for L. Neal Smith Utilities. The staff auditor has determined that plant in service for Four Lakes Water Plant should be the same as it was in December 31, 1981, when L. Neal Smith Utilities' rate base was established by the Commission in Order No. 10994. Based on the above, the staff auditor proposed that utility plant in service should be increased by $48,732.

Accounting Instruction 2(A), Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners (NARUC) states that it is the utility's responsibility to furnish its accounting records in such a manner to allow staff's ready identification, analysis and verification of all facts relevant thereto. Staff believes that it is appropriate to make the above adjustments to disallow the unsupported amount of utility plant in service and to recognize $48,732 in Four Lakes' plant in service. Accordingly, accumulated depreciation and test year depreciation expense should be adjusted. These adjustments are discussed in detail in Issue No. 10.

Misclassified Organization Costs

The utility recorded a total of $12,171 as organization costs from 1989 to 1991. These expenses included legal fees of $1,573 for the sale and transfer of LUSI's stock to Utilities, Inc., legal fees of $9,453 for the subsequent consolidation of Utilities Inc. of Florida and LUSI's operation in Lake County and capitalized executive time of $1,144 for the consolidation.

In its response to the Audit Report, the utility argued that the $12,171 associated with the sale of stock and the transfer of certificate was the cost of forming the corporation, namely, LUSI, which was approved by the Commission in Order No. 24139. The Commission issued two orders related to the sale of stock and transfer of certificate.

By Order No. 21304, issued on June 1, 1989, in Docket No. 890334-WU, the Commission approved the sale and transfer of majority stock ownership of LUSI to Utilities, Inc. The Order stated that the sale of common stock to Utilities, Inc. would not alter LUSI's assets and liability accounts, and the rate base balance.

By Order No. 24139, issued on February 20, 1991, in Docket No. 900906-WU, the Commission did not approve, but acknowledged the corporate reorganization of LUSI's operations in Lake County. The Commission's decision was based on the fact that the reorganization would not affect either the rates and charges, or the management, operations or customer service provided by the utilities.

Per NARUC Uniform System of Accounts, the organization account shall include all fees paid to federal or state government for the privilege of incorporation and expenditures incident to organizing the corporation and putting it into readiness to do business. Note A to the Organization Account clearly states that this account shall not include expenses in connection with the authorization, issuance and sale of capital stock. Note B to the Organization Account further indicates that where charges are made to this account for expenses incurred in mergers, consolidations or reorganizations, the amounts previously included herein or in similar accounts in the books of the companies concerned shall be excluded from this account.

Staff believes expenses discussed above should not be recorded as organization costs for these reasons: (1) It was not appropriate to treat these expenses as organization cost, because LUSI was already incorporated and in business when the sale of stock took place; (2) No expenses previously included in LUSI's organization account have been removed; (3) The expenses should be borne by the stockholders of LUSI's parent company because the purchase of LUSI through the transfer of stock is not the ratepayers' decision, nor has LUSI demonstrated how the customers have benefited from this transaction. Because these expenses are directly associated with the change of ownership of LUSI to Utilities, Inc., they should be recorded on Utilities, Inc.'s books rather than on LUSI's books.

When LUSI applied for an amendment to extend its certificated territory in February, 1992, an objection to the application was filed by the City of Clermont based on the city's belief that the requested extension of territory was in conflict with the City's approved comprehensive plan. In September, 1992, the City of Clermont informed the Commission that its City Council had voted to withdraw its objection to LUSI's application. The total legal fees and regulatory commission expenses incurred by the utility to defend its position during 1992 amounted to $57,369. The utility recorded these expenses in the organization account as they were incurred. Although these expenses are non-recurring, it is clear that they were not incurred for organizing the corporation and putting it into readiness to do business. Therefore, these expenses should be appropriately accounted for as regulatory commission expense and amortized over five years starting December of 1992. Accordingly, utility plant in service should be reduced by $57,369 and test year operation and maintenance expense should be increased by $11,474. The related adjustment to accumulated depreciation is addressed later in Issue No. 10.

The utility recorded capitalized executive time of $7,007 to organization account in 1994. Because LUSI was already incorporated and in business prior to 1994, and there was no on-going construction for which the utility could capitalize executive time, organization cost should be reduced by $7,007.

The utility made a payment of $1,000 to a developer in 1988, and transferred this amount to the organization account in 1995. The utility did not support as to why this payment should be recorded as organization cost, therefore, this payment should be removed.

The utility received a $5,000 advance from Utilities, Inc. of Florida in 1988 and recorded it as Undistributed Water Plant in the same year. In 1995, this balance was transferred to the organization account. Because the utility did not provide any support as to why this amount should be booked as organization cost, it should be removed.

As such, staff believes that the adjustments totaling $82,547 should be made to utility plant in service due to the utility's misclassification of expenses as organization cost. Accordingly, accumulated depreciation and test year depreciation expense should be adjusted. These adjustments are discussed in detail in Issue No. 10.

Capitalized O & M Expenses

The utility capitalized an expense of $1,170 associated with repairing a starter for its pumping equipment in 1988. The utility also capitalized total expenses of $1,786 associated with repairing a generator in 1992. The repairing neither increased the efficiency nor extended the useful life of the generator. Because these expenses were normal and recurring, they should be expensed as incurred. Therefore, utility plant in service should be reduced by $2,956.

In 1987, the utility capitalized total expenses of $4,995 to the plant accounts of its Crescent Bay Water Plant. This included $341 for repairing a pump gear drive, $4,200 was paid by the utility for the construction of an irrigation system located at the entrance of the Crescent Bay Subdivision, and $454 (10% of $341 and $4,200) was charged by Mr. R. E. Oswalt, the developer of the Crescent Bay Subdivision, for his supervision of these two projects. The repair cost of the gear drive and Mr. Oswalt's labor cost were normal recurring maintenance expenses to LUSI, and, therefore, should be expensed as incurred. The Crescent Bay Subdivision's irrigation system was not part of the utility's water system and, therefore, any costs related to the construction should be appropriately treated as non-utility expenses. Based on the above, the utility's plant in service should be reduced by $4,995.

The utility capitalized total expenses of $2,198 incurred by its employee, Mr. Harry Zimmer, for a Florida trip in 1989. There was no indication of what this trip was related to, and the utility did not provide any support to justify the capitalization of this amount. Therefore, the utility's plant in service should be reduced by $2,198.

As such, staff believes that the above adjustments totaling $10,148 should be made to utility plant in service due to the utility's incorrect capitalization of operation and maintenance expenses. Accordingly, accumulated depreciation and test year depreciation expense should be adjusted. These adjustments are discussed in detail in Issue No. 10.

Conclusion

Based on the reasons discussed above, staff recommends the average utility plant in service should be reduced by $103,440 for water due to misclassification and lack of supporting documentation. The related adjustments to accumulated depreciation and depreciation are discussed separately later in Issue No. 10.

ISSUE 3: Should an adjustment be made to the utility land?

RECOMMENDATION: Yes. Land should be increased by $357 to reflect the correct amount of land and land rights of $4,087. (ZHANG)

STAFF ANALYSIS: LUSI's MFRs show land and land rights of $3,730. In Audit Exception No. 2, the staff auditor revealed that the utility recorded land for only one of its twelve water treatment plants. The staff auditor obtained from Lake County Courthouse the original warranty deed for each system at the time the land was first devoted to utility service. Based on the documentary stamp tax on each deed as filed with the Lake County Property Appraiser's Office, the staff auditor calculated the original costs for all utility land to be $4,087. Accounting Instruction No. 13A of the NARUC Uniform System of Accounts requires that all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.

Based on the above discussion, staff believes that the total cost of utility land when first devoted to public use was $4,078 and, therefore, recommends that the utility's land and land rights should be increased by $357.

ISSUE 4: Should a margin reserve be included in the used and useful determination?

RECOMMENDATION: Yes, a total margin reserve of 70,264 GPD should be included in the plant used and useful. Margin Reserve for the distribution system is 101 ERCs. (MUNROE)

STAFF ANALYSIS: Margin Reserve is a proportionate share of existing treatment facilities that is intended to afford the utility the ability to accept additional connections in the near future. The amount is based on two factors: (1)construction time and (2) growth. Commission policy in past cases is that Margin Reserve should not exceed 20% of plant serving existing customers.

In reviewing the schedules filed by the utility, it was noted that all Margin Reserve requests were exactly 20% of existing plant (240,000 GPD), and there was no documentation to support these values. When staff requested work papers, the company submitted a new Margin Reserve request for 70,264 GPD with supporting documentation.

Plant Margin Reserve:

Construction time X Growth per year X Av. daily consumption = Margin Reserve

System Plant(s)	Construction Time	Growth Per Year	Av. Daily Consumption	Margin Reserve
Clermont I, Amber Hill & Lake Ridge	1.5	5	1,053	7,897
Clermont II	1.5	0.00	853	0.00
Oranges & Vistas	1.5	8	792	9,504
Highland Pt, Crescent Bay, Crescent West & L. Crescent Hills	1.5	69	431	44,608
South Clermont Total				**62,009**
Lake Saunders	1.5	5	174	1,305
Four Lakes	1.5	14	331	6,950
Total				**70,264**

The utility was notified as to reduction in the distribution system from the requested 100% used and useful. No Margin Reserve for the distribution system was requested by the utility, however the calculation below supports a Margin Reserve value of 101 ERCs estimated yearly growth as shown in schedule F-9 of the MFRs.

Distribution System Margin Reserve:

Construction time X Growth per year = Margin Reserve

System Plant(s)	**Construction Time**	**Growth**	**Margin Reserve**
Clermont I, Amber Hill & Lake Ridge Club	1.0	5	5
Clermont I	1.0	0.00	0.00
Oranges & Vistas	1.0	8	8
Highland Pt., Crescent Bay, Crescent West & Lake Crescent Hills	1.0	69	69
South Clermont Total			**82**
Lake Saunders	1.0	5	5
Four Lakes	1.0	14	14
Total			**101**

ISSUE 5: Is there excessive unaccounted for water, and if so what adjustments should be made to purchased power and chemical costs?

RECOMMENDATION: Yes, there is a total excessive unaccounted for water in the amount of 23,378 GPD. The resulting adjustments should be $2,587 for purchased power cost and $461 for chemical cost. (MUNROE)

STAFF ANALYSIS: Unaccounted for water is the difference between water pumped and treated and the amount of water sold (revenue producing). Some unaccounted for water is acceptable for line flushing, plant use, etc. Commission policy allows an acceptable level of unaccounted for water as 10% of the total pumped. Any amount of unaccounted for water above that level is considered excessive. This standard was applied to each system or interconnected system on a case by case basis (three stand alone plants and three interconnected groups). One plant (Clermont I) and one Group (Clermont I-Amber Hill-Lake Ridge Club) had no unaccounted for water. The excessive amounts of unaccounted for water by system are (1)Oranges-Vistas/ 2,057 GPD, (2)Highland Point-Crescent Bay-Crescent West-Lake Crescent Hills/ 16,744 GPD, (3)Lake Saunders/ 782 GPD and (4)Four Lakes/ 3,795 GPD. When the total amount, 23,378 GPD, is divided by the average daily consumption, 361,981 GPD, the resultant is an adjustment factor of 0.06458 or 6.458%.

System No. From Analysis	Av. Daily Water Pumped	Av. Daily Consumption	Unaccounted For Water	Exc. Unacc. For Water
(1)	79,121	69,151	9,970	2,057
(2)	316,507	268,112	48,395	16,744
(3)	9,825	8,060	1,764	782
(4)	22,726	16,658	6,068	3,795
Total	**428,179**	**361,981**	**66,197**	**23,378**

Adjustment calculations:

(1)Test year purchase power cost X 0.06458 = adjustment amount

$40,057 X 0.06458 = $2,587

(2)Test year chemical cost X 0.06458 = adjustment amount

$7,131 X 0.06458 = $461

ISSUE 6: What used and useful percentages are appropriate for this proceeding?

RECOMMENDATION: The water plant used and useful (NARUC Acct. 320.3)and the distribution system used and useful (NARUC Acct. 331.4) are shown in the charts for each system in the staff analysis. The distribution storage (hydropneumatic tanks) percentage is 100% (NARUC Acct. 330.4). (MUNROE)

STAFF ANALYSIS: Staff found a number of errors in the original used and useful values provided in the MFRs. The following errors were discovered: (1) the flow data used to calculate the max daily flow for interconnected plants was not from the same day; (2) fire flow allowances for interconnected plants were incorrect; (3)Margin Reserve value was not supported (Issue 4); (4) excessive unaccounted for water was not in the calculation; and (5)there was no lot count information for the distribution system.

The utility requested an extension of time in order to provide more accurate flow data, a more detailed set of maps and support for the margin reserve values. During this extension and a second that followed, the company was told that the transmission mains which served to interconnect plants would be considered 100% used and useful if the dollar value with supporting documents were provided. This was never done.

At the end of the second extension, the company submitted revised plant used and useful calculations. This calculation contained changes in plant capacities. At this point staff contacted DEP for the plant permit capacities. The following plant used and useful calculations were made using those DEP permitted capacities along with all other corrected data.

Water plant: (10 South Clermont plants + two remote plants)

$$\frac{\text{Max.Day + Margin Res.+ Fire Fl.- Excess Unacc.Water}}{\text{Capacity}} \times 100\%$$

PLANT USED AND USEFUL PERCENTAGES FOR LUSI						
System Plant(s)	**Capacity (GPD)**	**Max. Day (GPD)**	**Fire Flow (GPD)**	**Marg. Res. (GPD)**	**Excess Unacc. Water (GPD)**	**Used & Useful (%)**
Clermont I, Amber Hill & Lake Ridge Club	1,216,800	699,000	120,000	6,319	0.00	67.83%
Clermont II	50,400	53,000	0.00	0.00	0.00	100%
Oranges & Vistas	1,101,600	290,000	120,000	10,296	2,057	37.97%
Highland Point, Crescent Bay, Crescent West & Lake Crescent Hills	1,764,000	817,000	120,000	45,660	16,744	54.76%
Four Lakes	151,200	52,000	0.00	6,947	3,795	36.48%
Lake Saunders	432,000	57,000	120,000	1,042	782	41.03%

Storage:

The hydro tanks are the smallest possible to adequately do the job and therefore are 100% used and useful.

Distribution System: (10 South Clermont + two remote systems)

The distribution system calculation was derived from actual lot counts of the entire service area.

$$\frac{\text{Lots Connected + Margin Reserve}}{\text{Total No. Lots}} \times 100\% = \text{Used \& Useful}$$

DISTRIBUTION SYSTEM(S) USED AND USEFUL FOR LUSI				
Plant(s) Area	**No. Lots Served**	**Margin Reserve**	**Total No. Lots**	**Used & Useful (%)**
Clermont I, Amber Hill & Lake Ridge Club	219	5	308	0.73
Clermont II	70	0.00	121	0.58
Oranges & Vistas	89	8	261	0.37
Highland Point, Crescent Bay, Crescent West & Lake Crescent Hills	314	69	945	0.41
Lake Saunders	37	5	46	0.91
Four Lakes	51	14	76	0.86

<u>ISSUE 7</u>: Should an adjustment be made to impute CIAC for Vistas' water supply and storage system?

<u>RECOMMENDATION</u>: Yes. CIAC should be imputed for $16,500 for Vistas' water and storage system due to the lack of proof of the actual payment by LUSI. (ZHANG)

<u>STAFF ANALYSIS</u>: In 1987, the utility entered into a Water System Construction Agreement with the developer of the Vistas Subdivision. The term of this agreement stated that Utilities, Inc. of Florida agrees to "an initial cash payment of $16,500 at such time as the water supply and storage system as described herein is complete and operational and providing service thereby". The utility recorded $16,500 as Undistributed Water Plant in 1987 and transferred this amount to Transmission and Distribution Mains in 1995. In Audit Exception No. 3, the staff auditor indicated that no proof of payment by the utility was provided to support this entry on the utility's books. The utility, in its response to the Audit Report, argued that the purchase agreement, which acted as an invoice, stated that LUSI was purchasing the water supply and storage system for $16,500. Although the purchase agreement specifies the duties and obligations of the two parties, it can not be solely relied on as a proof of payment without other collaborating evidence. From merely looking at the purchase agreement, staff can not determine the date of payment or even if a payment was made. Nonetheless, the staff engineer confirmed that $16,500 was a reasonable price for the water supply and storage system which is currently being used by Vistas Water Plant.

In conclusion, staff does not believe that the utility has provided documentation sufficient to determine the price, if any, the utility had paid for this system in 1987. Based on the above, staff recommends that CIAC should be imputed for the agreement price of $16,500 for the Vistas' water supply and storage system. Accordingly, accumulated amortization of CIAC and CIAC amortization expenses should be increased by $3,506 and $413, respectively.

ISSUE 8: What additional adjustments are necessary to CIAC?

RECOMMENDATION: An additional adjustment should be made to correct recording errors and misclassifications on the utility's books. Based on a simple average, CIAC should be increased by $168,449. (ZHANG)

STAFF ANALYSIS: The utility's MFRs show a CIAC balance of $881,203, based on a simple average. Audit Exception No. 12 of the Audit Report revealed that the utility's books contained numerous recording errors due to misclassifications and unrecorded advances made by developers. Based on his review of the utility's general ledgers, CIAC ledgers, Developer/Purchase Agreements and Billing Registers for CIAC additions, the staff auditor proposed that the proper balance of CIAC should be $1,049,652 based on a simple average. Therefore, an adjustment should be made to increase CIAC by $168,449.

In its response to the Audit Report, the utility did not disagree with the method and procedures the staff auditor used to reestablish the CIAC balance for the utility. However, the utility provided two arguments regarding the auditor's adjustments to CIAC. LUSI's first argument was that if an adjustment is made to increase CIAC by $48,363 for Lake Saunders water plant, the utility's plant acquisition adjustment should be removed to avoid double accounting. Staff has addressed this argument in Issue 10 regarding the accounting treatment for the negative acquisition adjustment.

LUSI's second disagreement with the auditor's CIAC adjustment is that it is improper to increase CIAC by $65,050 for the Crescent West water plant based on Commission Order No. 22303, issued on December 12, 1989, in Docket No. 890335-WU. In order to fully discuss this, staff believes that additional background information regarding the purchase of the Crescent West facilities is necessary.

On January 25, 1989, Utilities, Inc. of Florida (UIF), (the predecessor of LUSI), filed an application with this Commission for amendment of Certificate No. 383-W to include 70 acres of territory in the Crescent West Subdivision (CWS), which was a new subdivision in Lake County. The Commission issued Order No. 21555 on June 17, 1989, in Docket No. 890335-WU, which granted UIF's amendment of certificate and required the uniform application of rates and charges previously authorized in UIF's Lake County tariff.

UIF filed a Motion for Reconsideration of Order No. 21555. UIF stated, in its Motion, that Order No. 21555 incorrectly stated the money transactions between UIF and CWS. In Order No. 22303, issued on December 12, 1989, the Commission corrected the dollar amount of the transactions and established the original cost of the water facilities purchased by UIF from the developer of CWS to be $109,300. The Order also reflected the purchase price paid by UIF to the developer as $44,250, and CIAC as $65,050. UIF did not appeal that order.

In this current case, LUSI argued that the CIAC reported in Order No. 22303 may not have been attributed to the plant in question. Further, the company should not be penalized for the CIAC collected by another entity that previously owned similar assets. The utility concluded that an adjustment to CIAC for Order No. 22303 is not proper.

The utility has not indicated which entity, it believes, collected the CIAC before UIF purchased the Crescent West water plant. Further, the utility has not provided any evidence that shows that the Commission erred in its prior order. Regardless, the time for any such appeal of that order has long since expired.

Staff believes that the language regarding the amount of CIAC in Order No. 22303 is clear and unambiguous. As such, we believe the auditor's adjustment for the Crescent West facilities are appropriate. Further, the other adjustments proposed by the staff auditor to CIAC are appropriate and reasonable. Accordingly, CIAC should be increased by $168,449 based on a simple average. The related adjustments to accumulated amortization of CIAC and CIAC amortization expense are discussed separately in Issue No. 10.

ISSUE 9: If a margin reserve is approved, should CIAC be imputed on the ERCs included in the margin reserve?

RECOMMENDATION: Yes. Consistent with Commission practice, CIAC should be imputed as a matching provision to the margin reserve calculation. However, staff believes it is appropriate to make the adjustment for 50% of the imputed amount as an averaging method to recognize that the imputed amount will be collected over the life of the margin reserve period, not all at the beginning of the period. Accordingly, CIAC should be increased by $12,480 and accumulated amortization of CIAC should be increased by $168. Additionally, test year amortization expense should be increased by $334. (ZHANG)

STAFF ANALYSIS: Staff's determination of used and useful plant includes a margin reserve for anticipated customer growth patterns. This margin reserve represents the number of customer ERCs expected to be connected during the eighteen months following the test year. It has been the Commission's practice that only the utility's net investment in the margin reserve should be recognized in rate base and that CIAC should be imputed for the additional ERCs included in the margin reserve.

However, per Order No. PSC-96-1320-FOF-WS (the Southern States Utilities, Inc. final rate case order in Docket No. 950495-WS, issued on October 30, 1996), the Commission decided to impute only 50% of the amount of CIAC attributed to the margin reserve. The Commission found that the total amount imputed would not be collected at the beginning of the margin reserve period, rather that it would be averaged over the life of such period. Staff believes that for this case, it is appropriate to make the adjustment for 50% of the imputed amount. This is consistent with other recent Commission decisions. (See also Order No. PSC-96-1338-FOF-WS, issued on November 7, 1996, in Docket No. 931036-WS, and Order No. PSC-97-0223-FOF-WS, issued on February 25, 1997, in Docket No. 951258-WS.)

For the water treatment plant, the number of ERCs included in staff's recommended margin reserve is 131. For the water distribution system, the staff recommended number of ERCs is 101 as discussed in Issue No. 4. In this case, the utility is proposing to change its plant capacity charges; therefore, the Commission should use the new capacity charges in calculating the imputation. In Issue No. 31, staff is recommending that the plant capacity and main extension fees are zero and $223, respectively. As such, an imputation of CIAC on the margin reserve is only necessary for the distribution system.

Based on 50% of the imputed CIAC on the margin reserve, staff recommends that CIAC and accumulated amortization of CIAC should be increased by $12,480 and $168, respectively, for water. Additionally, test year amortization expense should be increased by $334 for water.

ISSUE 10: Are adjustments necessary to accumulated depreciation, depreciation expense, accumulated amortization of CIAC and CIAC amortization expense?

RECOMMENDATION: Yes. Due to the unreliability of the utility's balances of accumulated depreciation and accumulated amortization of CIAC, staff has completely restated each reserve account. Accumulated depreciation should be increased by $56,123 to reflect a simple average balance of $187,877. Accumulated amortization of CIAC should be increased by $15,309 to reflect a simple average balance of $124,739. Based on staff's recommended balances of plant and CIAC and the guideline depreciation rates, test year depreciation expense should be reduced by $12,128, and CIAC amortization expense should be decreased by $6,258. (ZHANG)

STAFF ANALYSIS: In its MFRs, the utility indicated that accumulated depreciation and depreciation expense were $131,754 and $62,453, respectively. The staff auditor revealed, in Audit Exception No. 1, that accumulated depreciation at December 31, 1994, as shown in Schedule A-9 of the MFRs, was not in agreement with the general ledger. The utility also stated, in its MFRs, that depreciation expense and accumulated depreciation were calculated on a consolidated basis. Schedule A-9 of the MFRs did not show accumulated depreciation for utility plant by primary account.

Staff's review of the utility provided depreciation schedules indicated that depreciation was not recorded correctly. The schedules showed that during some years, the annual amount of depreciation expense would decrease even when net plant increased. Also, there were years in which more accumulated depreciation was removed than the original book cost of the plant retired. Staff believes that the depreciation methodology was not systematic and did not follow any clear pattern, including a consistent application of depreciation rates. These inconsistencies indicated to staff that the balance of accumulated depreciation in the MFRs or the general ledger balances were not reliable and that determining accumulated depreciation associated with unsupported or misclassified plant was impossible based on the utility's books.

Therefore, the staff auditor's only option available was to completely recalculate accumulated depreciation by primary account based on the auditor's adjusted plant balances for all the years prior to and including the test year. The auditor used a composite rate of 2.50% for depreciation prior to the test year, which was commonly used before the guideline rates took effect in 1984. For the test year, the auditor applied the guideline rates according to Rule 25-30.140, Florida Administrative Code. Since staff was unable to determine exactly what rates the utility used and rate base has not been previously established by the Commission, staff believes these depreciation rates are reasonable to apply in this situation. The utility should, however, use the guideline depreciation rates on a going-forward basis.

Based on the above, staff recommends that the appropriate balance of accumulated depreciation, on a simple average basis, should be $187,877. This results in an increase of $56,123 to the utility's balance per the MFRs. Accordingly, the proper depreciation expense is $50,325, which results in a reduction of $12,128 to the utility's requested amount.

As discussed in Issue No. 8, staff has also recalculated total CIAC based on the original purchase/developer agreements. Consistent with the methodology used to determine accumulated depreciation, the staff auditor recalculated accumulated amortization of CIAC using a 2.5% rate prior to the test year and a composite guideline rate of 2.7% for the test year. The utility, in its MFRs, used a composite rate of 3.10% to amortize CIAC. Staff's recommended balance of accumulated amortization of CIAC should be $124,739, based on a simple average. Therefore, staff recommends that accumulated amortization of CIAC should be increased by $15,309. Test year amortization of CIAC expense should be $28,341 using the same guideline rates for depreciation expense. Even though staff's recommended adjustments to CIAC and accumulated amortization are both increases, staff's test year balance of amortization is a decrease. This is a combined result of an increase in CIAC with a decrease in the amortization rate. Therefore, staff recommends that CIAC amortization expense should be decreased by $6,258.

The utility also attached to its response to Staff's Audit Report a computer generated schedule which shows the original cost of $24,786 and accumulated depreciation of $17,474 associated with the utility automobiles for business use. Although depreciation expenses for these automobiles were included in the test year expenses in its MFRs, the original cost and the accumulated depreciation were neither recorded by the utility on its book nor reflected in its MFRs. It is the utility's duty to furnish its accounting records in such a manner to allow staff's ready identification, analysis and verification of all facts relevant thereto. Lacking any original documentation from the utility, staff believes that it is inappropriate to adjust the balances of utility plant in service and accumulated depreciation.

ISSUE 11: Should the utility's negative acquisition adjustment be included in rate base?

RECOMMENDATION: An adjustment of $70,169 should be made to remove the incorrectly recorded negative acquisition adjustment. Accordingly, adjustments of $7,095 and $2,175, respectively, should also be made to remove the accumulated amortization of acquisition adjustment and test year amortization expense. (ZHANG)

STAFF ANALYSIS: The utility's MFRs contain a negative acquisition adjustment of $70,169 in connection with the utility's acquisition of Lake Saunders water facilities in 1991. In that transaction, the utility paid $10,000 for all water facilities which had a plant cost of $86,406 and recorded the difference between the book value and the purchase price as a negative acquisition adjustment. When questioned by the staff auditor regarding the justifications to record this adjustment, the utility responded to Staff Data Request No. 13, that the Commission has not approved a negative acquisition adjustment and no extraordinary circumstances exist to necessitate such an adjustment. Based on his review of the utility's general ledger, CIAC ledger and the Purchase Agreement, the staff auditor believed that the difference between the purchase price and the cost of the water facilities should be properly recorded as CIAC. However, the utility only has support for $58,463 out of a total $86,406 of plant assets, as discussed previously in Issue 2. Based on the above, the staff auditor determined the proper amount of CIAC should be $48,463.

In its response to the Audit Report, the utility agreed with the staff auditor to increase CIAC by $48,463 as long as the negative acquisition adjustment would be removed to avoid double accounting. As such, staff believes that an adjustment of $70,169 should be made to remove the incorrectly recorded negative acquisition adjustment. Corresponding adjustments of $7,095 and $2,175, respectively, should also be made to remove the accumulated amortization of acquisition adjustment and test year amortization expense. Staff has previously reflected the adjustment to increase CIAC by $48,463 in Issue 8.

ISSUE 12: Should an adjustment be made to advances for construction for errors and misclassifications ?

RECOMMENDATION: Yes. Based on a simple average, the proper amount of advances for construction is $376,255. (ZHANG)

STAFF ANALYSIS: The utility's MFRs show a zero balance for advances for construction. Audit Exception No. 12 of the Audit Report revealed that the utility's books contained numerous recording errors due to misclassifications and unrecorded advances made by developers. Based on the auditor's review of the utility's general ledgers, CIAC ledgers, developer/purchase agreements and billing registers for CIAC additions, the staff auditor proposed that the proper balance of advances for construction should be $376,255, based on a simple average. The utility indicated, in its response to the Audit Report, that the balance of deferred income taxes should be adjusted in accordance with the proposed adjustment to advances. Staff's proposed adjustment to deferred income taxes is discussed in detail in Issue 13. Based on the above, staff recommends that an adjustment should be made to reflect a balance of $376,255 for advances for construction.

ISSUE 13: Is an adjustment necessary to accumulated deferred income taxes?

RECOMMENDATION: Yes. Accumulated deferred income taxes should be increased by $127,927 to reflect the utility's income tax liability on advances for construction. (ZHANG)

STAFF ANALYSIS: Advances for construction received by the utility from developers are treated like CIAC and taxed by the Internal Revenue Services until they are repaid by the utility. As discussed previously in Issue No. 12, the utility failed to record any advances for construction due to the numerous recording errors. Staff has also recommended material adjustments to increase CIAC, which are not reflected on the utilities books, as discussed in Issues 7 and 8. When staff reviewed the utility's balance of debit deferred income taxes, it was apparent that the utility did not calculate this number appropriately. Although staff disagrees with the utility's method to calculate the deferred income taxes, staff believes the amount of accumulated deferred income taxes reported in the MFRs is close to the correct balance based on the staff's proposed adjustments to CIAC. However, this CIAC balance did not include the income tax effect of staff's proposed adjustment to advances for construction. As such, staff believes an adjustment is necessary to increase debit deferred income taxes by $127,927.

ISSUE 14: What is the appropriate working capital allowance?

RECOMMENDATION: The appropriate working capital allowance should be $26,575. (ZHANG)

STAFF ANALYSIS: Rule 25-30.433(2), Florida Administrative Code, requires Class B utilities to use the formula method (1/8 of operation and maintenance expenses) for calculating the working capital allowance. The utility has calculated its working capital allowance pursuant to this rule. Staff is recommending adjustments to operation and maintenance expenses as discussed in later issues. Based on the adjusted balance of operation and maintenance expenses, the recommended working capital allowance for the utility is $26,575.

ISSUE 15: What is the appropriate test year rate base?

RECOMMENDATION: The appropriate test year water rate base for the utility should be $61,913. (ZHANG)

STAFF ANALYSIS: Based on the staff's recommended adjustments and the use of a simple average method, the average rate base is $61,913 for water. The rate base schedule for water is attached as Schedule No. 1-A. The schedule of adjustments to rate base is attached as Schedule No. 1-B.

COST OF CAPITAL

ISSUE 16: What is the appropriate return on common equity?

RECOMMENDATION: Applying the current leverage formula, the rate of return on common equity should be 11.61%, with a range of 10.61% to 12.61%. (ZHANG)

STAFF ANALYSIS: In its MFRs, the utility derived its cost of equity of 11.65% by applying the Commission's leverage formula in effect at the time of filing pursuant to Order No. PSC-95-0982-FOF-WS, issued on August 10, 1995 in Docket No. 950006-WS. Although the formula used by the utility is still in effect as approved by the Commission , the utility erroneously calculated the equity ratio to be 43.50% as oppose to 44.10%.

Based on the components of the staff recommended capital structure, as shown on Schedule No. 2, the equity ratio for the utility is 44.10%. Using the current leverage formula established by Order No. PSC-96-0729-FOF-WS in Docket No. 960006-WS, issued on May 31, 1996, the appropriate return on common equity should be 11.61%. The appropriate range for the return on common equity should be 10.61% to 12.61%.

ISSUE 17: What is the appropriate overall cost of capital?

RECOMMENDATION: The appropriate overall cost of capital should be 9.26%, with a range of 8.92% to 9.59%. (ZHANG)

STAFF ANALYSIS: In its MFRs, the utility used a simple average capital structure and made no specific adjustments. The utility determined its cost of capital using a blended capital structure of the utility's actual deferred income taxes and customer deposits, with the remainder of its capital reconciled to rate base using its parent company's, Utilities, Inc., ratio of investor sources of capital. Using the actual debt cost for long-term debt of 9.19% and short-term debt of 9.12%, a return on customer deposits of 8% and the mid-point of the current leverage graph for the return on equity (ROE) of 11.65%, the utility requested an overall cost of capital of 10.24%.

Staff recommends that the required rate of return on common equity should be 11.61%, as discussed in the previous issue. In addition, staff has also used a return on customer deposits of 6% instead of the 8% used by the utility. This adjustment is consistent with Rule 25-30.311(4)(a), Florida Administrative Code, which establishes minimum interest rate on customer deposits. Based on the recommended adjustments, staff recommends an overall cost of capital of 9.26%, with a range of 8.92% to 9.59%.

NET OPERATING INCOME

ISSUE 18: Should an adjustment be made to test year operating revenues?

RECOMMENDATION: Yes. The test year operating revenues should be decreased by $55,502. (AUSTIN, ZHANG)

STAFF ANALYSIS: The first adjustment to operating revenue relates to Audit Exception No. 10. According to Audit Exception No. 10, the utility recorded Allowance for Funds Prudently Invested (AFPI) as a portion of its miscellaneous revenues. AFPI is considered below the line revenue and should not be recorded in revenue for ratemaking purposes. Therefore, test year operating revenues should be decreased by $32,912.

The second adjustment to operating revenue relates to Audit Exception No. 12. In this exception, the staff auditor revealed that the utility erroneously included $35,000 of advance for construction in the test year miscellaneous revenue As such, an adjustment should be made to reduce the test year operating revenue by $35,000.

The third adjustment to operating revenue relates to Schedule E-2 (Revenue at Present and Proposed Rates). The utility did not include bills for its Lake Saunders Acres subdivision in its Schedule E-2 and also the schedule contained a formula error. As a result, revenue at present rates was understated. The utility sent a revised Schedule E-2 in a staff data request dated September 19, 1996. However, Schedule B-1 (Schedule of Water Net Operating Income) was not revised to reflect corrections. Therefore, test year operating revenue should be increased by $10,765.

The final adjustment to operating revenue relates to the billing audit conducted by staff. Based on staff's billing audit of the historic test year, the utility's miscellaneous revenues are $5,580 for new customer charge, $75 for Non-Sufficient Funds check charge, and $60 for cut-off charge. Staff determined that the appropriate billing determinants are 9,350 customer bills and 215,002 million gallons for consumption. Staff applied the utility's existing tariff rates to the billing determinants per the billing audit. Staff's calculated metered water revenue is $252,749. Based on the utility's revised Schedule E-2, its metered water revenue was $251,104. Therefore, operating revenue should be increased by $1,645.

Based on the above, a net adjustment of $55,502 should be made to reduce operating revenues. The individual adjustments are shown on Schedule 3-B.

ISSUE 19: Are adjustments necessary to test year operation and maintenance (O & M) expenses?

RECOMMENDATION: Yes. Test year operation and maintenance expenses should be reduced by $1,767 to disallow a non-utility insurance premium, a refundable security deposit and non-test-year operating expenses. (ZHANG)

STAFF ANALYSIS: The Audit Report revealed that adjustments are necessary to reduce the utility's test year operation and maintenance expenses. These adjustments are in the following areas:

Non-utility Insurance Premiums

As revealed in Audit Exception No. 6, the utility recorded $7,651 as allocated insurance expenses for general liability for the twelve months ended December 31, 1995. According to the utility, life insurance policies were purchased for various employees and officers of its parent company. The utility, in its response to Staff Data Request No. 31, stated that the beneficiary of all the policies is Water Service Corporation (WSC), a non-profit entity which distributes all costs and income to each Utilities, Inc. subsidiary. The utility further stated that the proceeds would flow to the rate payers and offset any detrimental effect of the unexpected absence of key personnel. WSC also purchased fiduciary liability insurance policies for its directors and pension fund. The utility, in its response to the Audit Report, argued that this expense should be recovered as an ongoing business expense because most corporations carry similar insurance, which is a cost of attaining talented individuals for these positions.

Per the NARUC Uniform System of Accounts for Class B utilities, premiums for life insurance on officers and employees where the utility is beneficiary are non-utility expenses. Therefore, these expenses should be recorded "below the line" as non-utility expenses in Account No. 426 - Miscellaneous Non-utility Expenses. Since WSC, a subsidiary of Utilities, Inc., is the beneficiary of these life insurance policies, the cost of these policies should be recorded to the account referenced above. The fiduciary liability insurance policies for directors and pension fund were purchased to protect the members of board of directors and management in the event that mismanagement takes place. Although the utility might have purchased these liability policies for attaining key personnel, it failed to show how costs for these types of insurance are justified in regulated industries and what direct benefits these types of insurance provide to the ratepayers. It is the utility's burden to prove that these expenses are justified and reasonable. As such, staff believes costs for management liability insurance are not appropriate expenses to be recovered through customer rates.

Refundable Security Deposit

The staff auditor revealed, in Audit Exception No.8, that the utility recorded $275 for a refundable membership fee for electric service as miscellaneous O & M expenses for the year ended December 31, 1995. Staff believes that a refundable deposit is not an expense, and that it will be returned to the utility at some time in the future. As such, test year O & M expenses should be reduced by $275.

Non-Test Year Expenses

The staff auditor indicated, in Audit Exception No.9, that the utility recorded a total of $705 in purchased power expense and $46 in materials and supplies expense for the test year without providing any supporting documentation. The utility argued, in its response to the staff audit, that recording these expenses was an error that occurred in the accrual process, and it was not a lack of supporting documentation. According to Rule 25-30.450, Florida Administrative Code, the utility is required to maintain its accounting records in such a manner to allow staff's ready identification, analysis and verification of all facts relevant thereto. Regardless of the utility's argument that it is an accrual error as opposed to an unsupported entry, staff believes that the supporting documentation for this amount should have been provided to the staff auditor. As such, staff believes that O & M expenses should be reduced by $751.

Conclusion

Based on the above, staff recommends that O & M expenses should be reduced by $1,767 to disallow non-utility insurance, a refundable security deposit and unsupported operating expenses.

ISSUE 20: What adjustments for purchased power and chemicals are appropriate if repression analysis adjustments are determined to apply in this case?

RECOMMENDATION: Purchased power should be reduced by $2,762, and purchased chemicals should be reduced by $492. (MUNROE)

STAFF ANALYSIS: The recommended repression amount from Issue 27 is 17,030,454 gallons. When this amount is divided by the test year consumption and multiplied by 100%, the resultant is an adjustment figure of 7.37%. The following calculations represent adjustments to power and chemicals based upon this adjustment percentage.

These adjustments are based on analysis done in Issue 27.

17,030,454 gallons / 231,098,000 gallons X 100% = 7.37%

7.37% of $37,470 (Purchased Power) = $2,762

7.37% of $6,670 (Purchased Chemicals) = $492

ISSUE 21: What is the appropriate amount of rate case expense?

RECOMMENDATION: The appropriate amount of rate case expense should be $57,351, or $14,338 in annual amortization. This results in a decrease to the utility's filing of $13,429 in annual amortization. (ZHANG)

STAFF ANALYSIS: The utility's requested provision for rate case charges includes three components: a provision to recover current rate case costs through Commission hearing ($94,000), a provision to recover rate case charges from a prior limited proceeding ($15,843), and a provision to recover corporate formation expenses ($1,223). This results in a total requested amount of $111,066 to be amortized over 4 years, or $27,767 in annual rate case expense amortization.

The utility was requested to supply staff with current rate case expense, supporting documentation, and an estimate to complete the PAA proceeding. The utility also provided staff with its revised actual rate case expense and supporting documentation for the limited proceeding. In our review of this documentation, staff found several areas where adjustments or correction of errors are necessary. Staff will discuss each of the three provisions separately below.

DOCKET NO. 960444-WU (CURRENT RATE CASE)

The utility requested and staff recommended rate case expense for the current rate case is as follows:

	Per LUSI MFRs	Revised Request	Staff Recommended
Filing Fee	$2,000	$1,000	$3,000
Legal Fees	60,000	7,409	7,409
Accounting Fees (WSC)	22,000	27,635	25,555
Miscellaneous	10,000	3,681	3,681
Total Current	$94,000	$39,725	$39,645

Filing Fee

The utility's revised request for total rate case expense omitted $2,000 of the $3,000 rate case filing fee which the utility has paid this Commission. The $3,000 in this current docket was made up of $2,000 for the rate case and $1,000 for the service availability portion of the filing. It appears to staff that the utility was confused as to which amount related to the rate case. In addition to the filing fee for the rate case ($3,000), the utility paid $1,000 for the filing fee for the limited proceeding. The appropriate filing fee for the rate case as stated above is $3,000, with an additional $1,000 for the limited proceeding.

Water Service Corporation (WSC)'s Accounting Fees

The utility originally estimated its accounting fees to be $22,000. In its revised request, the utility reported that $24,735 was actually incurred and $2,900 remained to process the case through the PAA process, for a total of $27,635. These charges are from the related party service company, Water Service Corporation, which is also a wholly-owned subsidiary of Utilities, Inc., LUSI's parent company. The accounting fees of $24,735 were incurred by the WSC employees to process this rate case. The utility provided time sheets to support $22,707 incurred by Mr. Mark Kramer, but did not provide time sheets for $2,028 incurred by Mr. Carl Wenz. Upon staff's further request for Mr. Wenz's time sheets, the utility agreed to provide them when they were available. Staff, to date, has not received this documentation supporting Mr. Wenz's time spent on this rate case. It is fully the utility's burden to justify its requested costs, with no exceptions made for rate case expense. Florida Power Corp v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). For the above reason, accounting fees should be reduced by $2,028.

Staff has reviewed supporting documentation for all other rate case expenses actually incurred as of November 8, 1996 and the utility's estimate to complete this case through PAA. The utility originally estimated its legal fees to be $60,000 in its MFRs. In its revised request, the utility reported that $3,459 was actually incurred and $3,950 remaining to process the case through the PAA process, for a total of $7,409. The utility originally estimated its miscellaneous expenses to be $10,000 in its MFRs. In its revised request, the utility reported that $2,801 was actually incurred and $880 remaining to process the case through the PAA process, for a total of $3,681. We believe these expenses and estimates are reasonable and should be approved. However, staff does not believe it is reasonable to estimate expense through Commission hearing because such a decision is premature at this time. Based on the above, staff's recommended amount of rate case expense to process this case through PAA is $39,645.

DOCKET NO. 950232-WU (PRIOR LIMITED PROCEEDING)

The Commission approved, by PAA Order No. PSC-96-0540-AS-WU in Docket No. 950232-WU, issued on October 5, 1995, LUSI's application for limited proceeding and restructuring water rates. The order states that the utility shall have the opportunity to request recovery in the upcoming 1996 rate case of the rate case expense incurred in this limited proceeding. The order further states that it is appropriate to approve only those costs incurred up to the issuance of the PAA order, because the recovery of additional expense for a possible hearing will be revisited. Although that order was protested by LUSI and a settlement was ultimately approved by the Commission in Order No. PSC-96-0504-AS-WU (as discussed in the case background), the Commission's intent in the PAA order to allow recovery of those costs in this rate case was addressed. To the extent that the utility has supported those costs in this proceeding, staff believes that it is appropriate to consider those cost in this docket.

The utility originally requested the recovery of total rate case expense of $15,843 in its MFRs for the limited proceeding. In its revised request, the utility reported that $21,134 was actually incurred. The utility's request included all expenses to complete PAA and subsequent expenses in connection with the protest of the PAA order.

Water Service Corporation (WSC)'s Accounting Fees

In its revised request, the utility included accounting fees of $11,272 incurred by WSC employees to process this limited proceeding. Fees charged by Ms. Patty Cuddie were $1,428 for her service of thirty-four hours. Staff's review of Ms. Cuddie's time sheets for 1995 provided by the utility indicated that none of these hours were related to this proceeding. Eighteen of a total of thirty-four hours were allocated to LUSI for an AFUDC proceeding and the rest of the hours were allocated for her time responding to a Commission information request not associated with this proceeding. These costs are normal recurring operating expenses and staff believes that it is inappropriate to recover these other regulatory commission expenses through this proceeding. Hence, accounting rate case fees should be reduced by $1,428.

Staff has reviewed supporting documentation for all other rate case expenses actually incurred for this limited proceeding. These expenses included $6,410 of legal fees and $452 of miscellaneous expenses. We also included the appropriate filing fee of $1,000 for the limited proceeding, as discussed above. We believe these expenses are reasonable and appropriate. Based on the above adjustment and correction of an error, staff's recommended amount of rate case expense for this limited proceeding is $17,706.

CORPORATE FORMATION (UNDOCKETED)

In its MFRs and revised request, the utility included $1,223 of unamortized rate case expenses associated with the corporate formation of LUSI. During staff's field audit, the utility provided the staff auditor with a summary sheet which listed the names of the three WSC employees that worked on this corporate change, and the corresponding hours they spent and the hourly rates they charged. However, other than the years in which the charges were made, this summary sheet neither indicated what rate case these expenses were associated with nor stated why these expenses should be recovered through this instant rate case.

In its data request dated October 15, 1996, staff asked the utility to provide more detailed information regarding its request for the recovery of these expenses, but the utility never responded to these questions. However, the utility did include time sheets for two of the three employees when it submitted time sheets to support accounting fees for the instant rate case. These time sheets did not provide any additional information other than listing the name of the utility.

Staff believes that only providing time sheets, with no further description of work performed, is not sufficient to justify these expenses as rate case or other regulatory commission expense. Further, it is impossible for staff to analyze the reasonableness of the expense without knowing what type of expense it is. Based on the above, staff believes it is appropriate to remove $1,223 from rate case expense for the requested corporate formation costs.

SUMMARY

Staff recommends that after the adjustments discussed previously are made and errors are corrected, $57,351 should be allowed as reasonable rate case expense. This results in an annual expense of $14,330. Based on this and the adjustments discussed above, staff recommends reducing the amount requested in the MFRs for rate case amortization by $13,429.

ISSUE 22: Are adjustments necessary to reduce test year payroll and property taxes?

RECOMMENDATION: Yes. Adjustments should be made to reduce test year payroll and property taxes by $1,532 and $1,481, respectively, for double counting and non-utility expenses. (ZHANG)

STAFF ANALYSIS: The staff auditor revealed, in Audit Exception No. 7 of the Audit Report, that the utility capitalized operator salaries of $18,955 without removing payroll taxes associated with these salaries from test year other than income tax expenses. The auditor calculated payroll taxes associated with the capitalized salaries to be $1,532 and proposed reducing test year payroll taxes by this amount. In its response to the staff audit, the utility argued that salaries were capitalized properly using a capitalized rate for operators. This rate includes salary, payroll taxes and benefits.

The staff auditor calculated total payroll taxes for the utility's employees by using actual salaries and appropriate payroll tax rates. According to the staff auditor's calculation, the $8,988 included in the MFRs for payroll taxes is based on total salaries including the capitalized portion for operators. Since the utility argued the capitalized costs have already been added to the plant, no further adjustment to plant is necessary. To eliminate double-recovery of this amount, staff believes the auditor's adjustment to reduce payroll taxes by $1,532 is reasonable and appropriate.

In addition, the staff auditor also indicated, in Audit Exception No. 5, that the utility recorded real estate property taxes which were assessed on non-utility real estate property. The legal description of this property on the tax bill does not match the legal description of any real estate property owned by the utility. The utility did not provide any other evidence to substantiate the recording of this amount on its books. It is the utility's burden to support all entries made on its books; therefore, real estate property taxes should be reduced by $1,481.

ISSUE 23: What is the proper amount of personal property and real estate taxes for non-used and useful plant?

RECOMMENDATION: The proper amount of personal property and real estate taxes for non-used and useful plant should be $3,038 based on staff's recommended non-used and useful calculation. (ZHANG)

STAFF ANALYSIS: The utility included total personal property and real estate taxes of $14,211 in its MFRs. However, the utility did not allocate any property taxes to non-used and useful plant. The utility requested that the total $14,211 in taxes other than income taxes be considered used and useful. Rule 25-30.433(5), Florida Administrative Code, states that property tax expense on non-used and useful plant shall not be allowed. In its response to a Staff Audit Data Request, the utility provided a schedule which showed its calculation of non-used and useful personal property and real estate taxes. Staff has reviewed this schedule and agreed with the utility that real estate taxes on the utility land are 100% used and useful. However, staff believes that non-used and useful personal property taxes should be calculated using the staff's recommended balances for non-used and useful plant, organizational cost and land and land rights. As discussed previously in Issue 20, the proper amount of test year personal property and real estate taxes is $12,750. Staff has recalculated the non-used and useful personal property taxes to be $3,038. Therefore, staff recommends that an adjustment should be made to reduce test year taxes other than income by $3,038.

ISSUE 24: What is the appropriate level of test year operating income before any revenue increase?

RECOMMENDATION: The appropriate level of test year operating income should be negative $8,103 for water. (ZHANG)

STAFF ANALYSIS: Based on the adjustments discussed in previous issues, staff recommends that the test year operating income before any provision for increased revenues should be negative $8,103 for water. This represents a negative achieved rate of return of 13.09% for water. The schedule for operating income is attached as Schedules No. 3-A for water. The schedule of adjustments to operating income is attached as Schedule No. 3-B.

REVENUE REQUIREMENT

ISSUE 25: What is the appropriate revenue requirement?

RECOMMENDATION: The following revenue requirement should be approved: (ZHANG)

	TOTAL$	INCREASE	%INCREASE
Water	$281,670	$23,226	8.99%

STAFF ANALYSIS: The revenue required as a result of staff's analysis is $281,670 for water. This will allow the utility the opportunity to recover its allowed level of expenses and to earn a 9.26% rate of return on its investment in rate base.

RATES AND RATE STRUCTURE

ISSUE 26: What is the appropriate rate structure?

RECOMMENDATION: The Commission should find that LUSI's facilities and land are functionally related. Based on this finding, a uniform rate structure is appropriate for LUSI. (XANDERS, VACCARO)

STAFF ANALYSIS: LUSI is currently comprised of twelve facilities located throughout Lake County. In this docket, LUSI has requested a uniform rate structure for all of these facilities. By PAA Order No. PSC-95-1228-FOF-WS, issued October 5, 1995, in Docket No. 950232-WU, the Commission approved a uniform rate for all of the facilities with the exception of Lake Saunders Acres and Four Lakes. That docket was a limited proceeding to restructure LUSI's rates. Because the utility did not believe that the uniform rates were revenue neutral, it protested the PAA order and the case was set for hearing. However, prior to the hearing, the utility offered a settlement agreement. One of the provisions of the settlement offer was that LUSI would propose uniform rates in its upcoming rate case for all of its operations in Lake County, with the exception of Four Lakes and Lake Saunders Acres. This settlement offer was accepted with one clarification by Order No. PSC-96-0504-AS-WU, issued April 12, 1996. Staff notes that in this rate case, the utility has requested a uniform rate for **all** of its facilities, including Lake Saunders Acres and Four Lakes.

As a result of how this utility was formed over time, LUSI currently applies three different rate structures to its service areas in Lake County. (See Attachment A) An explanation of the background of this utility's growth will help explain how this situation evolved.

BACKGROUND OF RATES AND CHARGES

Several of the facilities that are now a part of LUSI were originally owned by Utilities Inc. of Florida (UIF). In 1982, Utilities, Inc. of Florida purchased Three Seasons Development Corporation. By Order No. 11459, issued December 27, 1982, in Docket No. 820281-W, the Commission granted UIF Certificate No. 383-W and authorized UIF to begin charging the rates in effect for Three Seasons Development Corporation to the Clermont I area. In 1987, in three separate amendment dockets (Docket Nos. 870057-W, 870998-WU and 870999-WU), UIF's requests to include the Amber Hills Subdivision and Highland Point Subdivisions, the Oranges Subdivision and the Lake Ridge Club Subdivision within its certificated territory was granted. When these requests were granted, UIF was given the authority to charge the same rates as those authorized in UIF's Lake County tariff. (See Orders Nos. 18469, issued November, 24, 1987 and 18508, issued December 8, 1987).

The Commission amended UIF's certificate again in 1988 and in 1989. By Order No. 19482, issued June 10, 1988, in Docket No. 880549-WU, UIF was granted its request to include Clermont II, the Vistas I and the Vistas II. By Order No. 21555, issued July 17, 1989, in Docket No. 890335-WU, UIF was granted its request to provide service to the Crescent West Subdivision. Similar to UIF's previous amendment requests, in both orders, UIF was granted the authority to charge the customers in the new territory the rates authorized in UIF's Lake County tariff.

In 1987, by Order No. 18605, issued December 24, 1987, in Docket No. 871080-WU, LUSI was granted its original certificate (Certificate No. 496-W) for the Crescent Bay Subdivision, a new development. Consistent with the way original rates are established, the original rates and charges for LUSI were based on projected data at 80% of buildout.

The Commission amended LUSI's certificate in 1990. By Order No. 23839, issued December 7, 1990, in Docket No. 900645-WU, a transfer of facilities from the Four Lakes system to LUSI was granted. In this docket, LUSI was given the authority to continue charging the existing rates approved for Four Lakes.

On February 20, 1991, LUSI and UIF were combined in a corporate reorganization. By Order No. 24139, issued February 20, 1991, in Docket No. 900906-WU, UIF's certificate was canceled and LUSI's certificate was amended to include the territory previously authorized for UIF. After the reorganization, LUSI was granted two more amendments. The first, approved by Order No. 24957, issued August 21, 1991, in Docket No. 900989-WU, incorporated the Lake Crescent Hills Subdivision. In this docket, LUSI was given the authority to charge the rates and charges that applied to the facilities once owned by UIF. The second, approved by Order No. PSC-92-1369-FOF-WU, issued November 24, 1992, in Docket No. 920174-WU, granted additional territory (the South Clermont Region) and allowed the utility to charge the rates in effect for the Crescent Bay Subdivision, which are the same rates that were originally approved for LUSI in Order No. 19962.

LUSI's last acquisition occurred in 1991. By Order No. 25286, issued November 1, 1991, Lake Saunders Acres was transferred to LUSI. LUSI was given the authority to charge the rates in effect for the Crescent Bay Subdivision by Order No. PSC-93-1092-FOF-WU, issued July 27, 1993, in Docket No. 910760-WU.

FUNCTIONAL RELATIONSHIP

Related to the rate structure issue is the issue of whether LUSI's land and facilities are functionally related. Section 367.021(11), Florida Statutes, which states that the definition of a utility system "may include a combination of functionally related facilities and land." Specifically, Florida courts have held that:

> Florida law ... allows uniform rates for only a utility system that is composed of facilities and land functionally related in the providing of water and wastewater service to the public

Citrus County v. Southern States Utilities, Inc., 656 So. 2d 1307, 1309 (Fla. 1st DCA 1995)

In Citrus County, the court determined that the evidence did not support uniform rates absent a showing that the utility's facilities "were operationally integrated, or functionally related, in any aspect of utility service other than fiscal management." Id. at 1310. Since LUSI has requested uniform rates in this case, staff believes that the Commission must evaluate whether the utility's land and facilities are functionally related before making a determination of whether uniform rates are appropriate. Consistent with the decision in Citrus County, staff has evaluated the operational relationship between LUSI's facilities in Lake County.

LUSI's representatives maintain that ten of the 12 facilities owned by LUSI will ultimately be interconnected. Nine of the 10 facilities are currently connected in three groups (as follows):

Group 1	Group 2	Group 3
Clermont I	Oranges	Highland Point
Amber Hill	Vistas	Crescent Bay
Lake Ridge Club		Crescent West
		Lake Crescent Hills

The company is planning to interconnect Clermont II with Clermont I and eventually interconnect all ten facilities. Due to their location, there are no plans to interconnect Four Lakes and Lake Saunders.

In addition, the facilities owned by LUSI are similar in size. The capacities of the facilities range in size from .0504 MGD to .72 MGD. The average capacity is .393 MGD and eight of the facilities have a capacity near this size. Further, they all have the same type of treatment - pump and chlorinate.

Although LUSI's operators have primary assignments to particular plants, all of LUSI's operators work exclusively within the LUSI facilities and are shared on a routine basis to replace other operators within the facilities in cases of illness, vacations and emergencies. After hours, a single operator is on call for all facilities, including those in Seminole and Orange Counties. LUSI's meter readers rotate between the various service areas on a monthly basis. As a result, the readers are familiar with the entire system. Also, it allows the company to temporarily replace meter readers in cases of illness, vacations and emergencies as well as when a meter reader terminates his or her employment.

Equipment is routinely shared between the facilities. According to the company, this equipment includes grounds maintenance equipment, dump trucks, trailers, pumps used in main breaks, trenchers, back hoes and a trailer-mounted portable generator.

Based on the above, staff believes that LUSI's facilities and land are functionally related and constitute a single system. Therefore, consistent with the Citrus County decision, staff believes that a uniform rate can be implemented for this utility. This finding, however, does not necessitate the implementation of a uniform rate structure. The next section discusses why staff believes that a uniform rate is appropriate for LUSI.

APPROPRIATE RATE STRUCTURE

The rate restructuring docket that preceded the instant docket resulted from concerns of the utility and the staff that neighboring ratepayers that are interconnected have different water rates. The transcripts from the customer service hearings in the rate restructuring docket and the instant docket indicate that the customers have likewise been concerned about the disparity in the rates and service availability charges. It is evident that uniform rates are the best solution for mitigating the disparity.

Because LUSI is comprised of facilities once owned by two different utilities, a review of the tariff shows no consistency in rates since the reorganization. As discussed in the background section, rates have historically been assigned to new acquisitions on an arbitrary basis based on either existing rates of the acquired subdivision or the rates in effect for some other area served by LUSI. This is the first case wherein the Commission is attempting to set cost based rates for this utility. Attachment A indicates the rates of each facility as well as which facilities are currently interconnected. As can be seen from this attachment, different rates are applicable even within service areas that have been interconnected. It is evident that the current rate groupings make no logical sense and a change is in order.

Several advantages of uniform rates have been recognized by experts in water and wastewater utility regulation. Uniform rates lower administrative and regulatory costs, improve rate and revenue stability and ensure affordability for customers of very small water systems. As can be seen from Attachment A, most of LUSI's service areas have fewer than 75 customers. Though uniform rates may not provide significant economies of scale by themselves, they can encourage regionalization of utilities which eventually leads to economies of scale. In addition, uniform rates allow the utility to provide economical service to all customers, regardless of the customer's location. A uniform rate can also prevent rate shock, reduce rate case expense, and help promote water conservation.

As can be seen from Attachment A, the majority of the service areas were billed under the same rate structure prior to this case. As a result of the interim rate increase in this docket, uniform rates have been in place for all systems except for Lake Saunders Acres and Four Lakes. Accordingly, with the exception of these facilities, customers are already under a uniform rate structure. To staff's knowledge, there have not been any complaints regarding the uniform rate structure. In fact, as mentioned earlier, these customers were concerned about the disparity in the rates. Also, as discussed earlier, the long range plans of this utility include an interconnection of ten of the twelve facilities. The fact that Lake Saunders Acres and Four Lakes facilities will not be interconnected to the remaining facilities should not preclude these facilities from receiving the benefit of uniform rates.

In addition, LUSI is operated by Water Service Corporations (WSC), a service organization that provides administrative and other service functions for Utilities, Inc., LUSI's parent company. As the employer of all personnel for every Utilities, Inc. subsidiary, WSC provides LUSI access to a large group of human resources. This group includes experts in construction, engineering, accounting, data processing, billing, regulation and customer service. LUSI's representatives assert that this allows LUSI to secure expertise and experience in a cost effective manner.

Further, Utilities, Inc. has national purchasing power and negotiates prices that result in lower costs to the ratepayers. Examples of national contracts include insurance, vehicles, chemicals, and meters. Insurance policies for Utilities, Inc. provide coverage for all facilities in Florida. The reduced premiums that result from the consolidated policies benefit the customers since these premiums would be greater on a stand alone basis. Utilities, Inc. also has established the same employee policies for all its systems in Florida.

Utilities, Inc. is also responsible for raising all capital for its subsidiaries, including LUSI. LUSI adopts the Utilities, Inc. capital structure to determine the overall cost of capital. The primary benefit to the customers of such a structure is the reduced cost of debt. If LUSI was a stand alone company, it would not be able to secure debt at the lower rates it enjoys as a result of being a part of a larger, combined entity.

Staff believes that the way LUSI is set up from an operational and financial standpoint supports the notion that customers of all subdivisions benefit from the consolidation of these efforts. Staff believes a uniform rate properly reflects the way the utility is operated and managed and is appropriate. Therefore, based on the above, staff recommends that a uniform rate structure be approved.

Plants	Number of Customers	Rate Group	Interconnected Plants
Clermont I*	69	A	1
Amber Hill	38	A	1
Lake Ridge Club	68	A	1
Oranges	77	A	2
Vistas	36	A	2
Highland Point	31	A	3
Crescent West	65	A	3
Lake Crescent Hills	75	A	3
Crescent Bay	43	B	3
South Clermont Region**	155	B	3
Clermont II*	69	A	N/A
Lake Saunders Acres	35	B	N/A
Four Lakes	50	C	N/A

Rate Groups	Rate Group A	Rate Group B	Rate Group C
BFC/Minimum Charge***	$7.035	$16.52	$5.54
Gallonage Charge	$0.69	$1.86	$0.84

Notes:

* Clermont I and II have been combined in the billing analysis. Therefore, the number of customers served by each facility has been estimated by dividing the total number of customers contained in the billing analysis by 2.

** South Clermont Region is not a plant, it is an area that receives service from the plants contained in Group 3. It encompasses several different subdivisions that are in LUSI's territory.

*** Those customers in Rate Groups A and C currently pay minimum charges rather than base facility charges. The minimum charge for Rate Group A includes 5,000 gallons usage and the minimum charge for Rate Group C includes 3,000 gallons usage.

ISSUE 27: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: Yes, a repression adjustment of 17,030,454 gallons is appropriate. Furthermore, in order to monitor the effect of the approved revenue increase on customers' consumption, Staff recommends that the utility be ordered to compile bi-monthly reports containing the number of customer bills, the gallons billed and the revenues billed. This information should be provided by service area, customer class and meter size. These bi-monthly reports should be filed every four months, for a period of two years, commencing on the first billing cycle the revised rates go into effect. (LINGO)

STAFF ANALYSIS: In its original filing, the utility requested an overall consumption reduction (aka repression) adjustment of 96,900,000 gallons; however, no support was provided for the adjustment. In Staff's Data Request dated September 20, 1996, we asked the utility to provide, for each service area in which it provides service, the amount of the projected consumption reduction. This information was to be separated by customer class and meter size, and provided in increments of 1,000 gallons. Staff also asked the utility to provide the documentation, workpapers, studies and analyses used to derive the requested repression adjustment.

In a response dated October 18, 1996, the utility cited its experience in the utility business and the high average consumption in one of their systems as the impetus for requesting the repression adjustment. Specifically, the utility stated in part:

> We are basing our consumption reduction on our experience in the utility business of over thirty years and a recent study performed by the National Regulatory Research Institute released in September of 1994....No where else in our company is consumption at the level that exists in Clermont I & II, Amber Hill, Highland Point, The Oranges, Lake Ridge Club, The Vistas, Crescent West and Lake Crescent Hills. The average residential customer uses **in excess of 29,000 gallons per month**....The average residential customer in Crescent Bay, Lake Saunders Acres, Preston Cove and South Clermont Region average monthly consumption of **under 10,700 gallons**....these areas are quite similar in character....The only significant

> difference between the two areas is the current level of rates....

(The above-referenced response discusses average consumption <u>per month</u>. However, the utility bills <u>bi-monthly</u>, so the above-referenced average consumption figures actually represent <u>two</u> months of consumption). The utility goes on to state:

> In fact, according to a study of the Southwest Florida Management (sic) District, price elasticity was found to exist as high as -0.9. In Charles Howe and E. Earl Whitlatch, "User-Specific Water Demand Elasticities," ... found the price elasticity for residential domestic irrigation demand to be -1.57 in the eastern United States....The proposed rates represent approximately a 171% increase in rates to those subdivisions in group one referred to above. With an elasticity of -0.9 consumption would be expected to decline by over 100%. Obviously this is impossible, so a floor must be ascertained when the rates become inelastic. One could argue that the "floor" is the consumption in group two, or 10,700 gallons per month. However, to provide a conservative estimate, we used 12,000 gallons.

(Staff notes that, based on our review of the SWFWMD study's results, residential price elasticity values ranged from -.01 to -.57, rather than the -.01 to -0.9 as stated in the utility's response.) The utility included in its response a revised MFR Schedule E-2 (Revenue Schedule at Present and Proposed Rates), wherein the repression adjustment was revised to 94,868,436 gallons. However, the utility did not provide the requested workpapers or other documentation to support its proposed adjustment. In response to staff's follow-up request dated November 1, 1996, and the resulting conference call on November 5, 1996, the utility provided staff with copies of MFR Schedule E-14 (Billing Analysis Schedule) that had been modified to reflect projected (repression-adjusted) bills and consumption in 1,000 gallon increments.

By comparing the data contained in the above-referenced response to that which was contained in the utility's filing, staff was able to construct workpapers that indicated at which consumption levels the utility expects repression to occur. (This analysis is consistent with how the utility provided the information, e.g., each rate group is comprised of service areas charging the same rates within that group. The analysis is included in this recommendation in Attachment B.) As shown on pages four, seven and eight of Attachment B, the utility made the following consumption adjustments:

Rate Group/Code	Service Areas	Proposed Consumption Adjustment
1 / 62801	Clermont, Amber Hill, Highland Point, The Oranges, Lake Ridge Club, The Vistas, Crescent West and Lake Crescent Hills	(99,518,000) gallons
2 / 66001	Crescent Bay, Lake Saunders Acres, Preston Cove and South Clermont	3,433,000 gallons
3 / 66301	Four Lakes/Harbor Oaks	1,217,000 gallons
	NET OVERALL ADJUSTMENT:	(94,868,000) gallons

As shown above, the utility assumed that only one of its rate groups will experience repressed consumption, while the other two rate groups will experience stimulated (that is, increased) consumption. In addition, the utility stated that it assumed repression would occur in the residential class only.

This case represents only the second instance in which a water utility has requested that the Commission grant a repression adjustment. Therefore, in order to present a thorough analysis of the utility's request, a discussion of the merits of repression adjustments in general is warranted, as well as discussions of the utility's request and staff's recommended adjustment.

General Discussion Regarding Repression and Price Elasticity

The term "price elasticity" refers to the relationship between water use and water price. Price elasticity measures the percentage change in the quantity demanded resulting from a one percent change in price, all other factors held constant. For example, if a water price increase of one percent leads to a 0.2 percent reduction in water use, price elasticity would be -0.2. (In other words, there is an inverse relationship between price and the quantity demanded -- this is the first law of demand). The term "repression" refers to the expected reduction in quantity demanded resulting from an increase in price. (Conversely, the term "stimulation" refers to the expected increase in quantity demanded resulting from a decrease in price.)

Consider the following example:

<u>Assume</u>: A 10% increase in price
Price elasticity = -0.3
<u>Then</u>: Resulting price = 110%
Reduction in demand = 3% (10% x -0.3)
Resulting demand = 97%
Resulting revenue increase = 6.7%
(110% price x 97% demand)

The above example illustrates that ignoring price elasticity in rate design analysis creates the potential for both revenue instability and revenue shortfalls. Furthermore, if rate structure is substantially modified (e.g., eliminating the gallons included in the base charge, as will be discussed in Issue 28) or if a large rate increase is implemented, revenue shortfalls can be especially problematic. Therefore, we believe it is appropriate to consider the utility's requested repression adjustment in this proceeding.

<u>The Utility's Requested Repression Adjustment</u>

Staff has several areas of disagreement with both the utility's methodology and its support for calculating its requested repression adjustment. First, regarding the specifics of LUSI's requested adjustment, the average bi-monthly consumption in rate group one is approximately 29,000 gallons. As shown in columns (b) and (g) on page four of Attachment B, the utility assumed that in this rate group, 1,236 bills out of 2,921 total residential bills will repress their usage by 115,606,000 gallons as a result of the rate change. Curiously, LUSI's proposed billing analysis indicates that the 1,236 bills and the related consumption of 115,606,000 gallons would be spread to usage increments of 26,000 gallons or less, but that there would be <u>no</u> repression in the range from 27,000 gallons to 39,000 gallons. Staff questions the rationale of making the adjustment in this manner.

Staff also questions the utility's assumption that stimulation will occur in the other two rate groups. As shown on pages seven and eight of Attachment B, the utility's proposed final rates for these two rate groups are greater than the corresponding rates prior to the approval of interim rates. Therefore, LUSI's assumption that a price <u>increase</u> will lead to an <u>increase</u> in the quantity demanded results in a positive (rather than inverse) relationship, which violates the first law of demand. In fact, the utility also recognizes the implausibility of the occurrence of stimulation in this case:

> Our consumption adjustment attempted to be conservative and suggest an average consumption of 12,000 gallons throughout the region. Obviously this would require usage to *increase* with increased rates ... which is highly unlikely. (Response to Staff's Data Request Dated September 20, 1996, No. 2)

Although repression is a valid concept that should be considered in this case, based on the discussion above, staff believes the utility's methodology of calculating its requested repression adjustment is flawed and unsupported. However, the utility's flawed methodology should not preclude the Commission from approving an adjustment -- the question now becomes how to determine an appropriate adjustment.

Staff's Recommended Repression Adjustment

In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. A summary of the contents of the database is listed below:

Data Obtained from:

Orders

1. The dollar amount of the revenue requirement increase for the water system.
2. The utility's rate structure before and after the rate proceeding.

Annual Reports

1. The number of gallons sold for the years 1989 - 1995.
2. The number of meter equivalents for the years 1989 - 1995.

Tariff Pages

1. The effective date of the revised rates.

Resulting Calculations:

1. The revenue requirement percentage increase (decrease) for the water system.
2. The dollar amount of the revenue requirement increase (decrease) per meter equivalent.

3. The average monthly consumption per meter equivalent for the years 1989 - 1995.
4. The percentage change in the average monthly consumption per meter equivalent from the prior year for the years 1990 - 1995.

Several utilities were excluded from the analysis, typically due to the lack (or unreliability) of consumption data. Data from the remaining 67 utilities forms the basis for our analysis.

As shown on page three of Attachment B, staff's estimated average increase in annual bills within the indicated usage groups for rate group one ranges from $20 to $82. We then isolated those utilities in the database which underwent the same type of rate structure change as is proposed in this case (eliminating gallons included in the base charge). There are ten utilities in this category. Next, those of the ten utilities that had a revenue requirement increase per meter equivalent between $20 and $82 were further isolated, narrowing the number of utilities to examine down to five.

The average monthly consumption per meter equivalent for these five utilities was calculated for both the year prior to that utility's rate change and the year subsequent to the rate change. The change in average monthly consumption per meter equivalent during that time period for these five utilities was then calculated; the resulting percentage changes are 0%, (9%), (13%), (15%) and (17%) for the five utilities whose parameters match those of LUSI. The utility with 0% change in average consumption appears to be anomalous, as the other four utilities all exhibited fairly significant consumption reductions caused by the revenue requirement increases. Based on the remaining values, we believe a conservative prediction of LUSI's anticipated consumption reduction in this rate group is (10%).

As discussed above, this case represents only the second instance in which a water utility has requested that the Commission grant a repression adjustment; and, as such, there are no established, previously-approved methodology to calculate an appropriate adjustment. Until there are approved methodologies in place, staff believes it is appropriate to err on the side of caution when considering the magnitude of our recommended adjustments. Therefore, for rate group one, staff's initial repression adjustment is 16,963,500 (169,635,000 gallons test year consumption from page five column (d) of Attachment B x (10%)). Consistent with Issue 18, based upon the billing audit, staff recommends increasing the test year consumption in rate group one by 669,541 gallons, resulting in total test year consumption for that rate group of 170,030,454. Therefore, staff's recommended repression adjustment is 17,030,454.

Because of the rate increase, repression may be expected in the remaining two rate groups as well. However, there are three considerations that persuade staff not to consider repression adjustments for these two rate groups. First, as shown on pages seven and eight of Attachment B, the average consumption per bi-monthly bill for rate groups two and three are 10,696 gallons and 9,924 gallons, respectively. The average consumption levels for each of these two rate groups are less than 40% of the corresponding average bi-monthly consumption in the first rate group, and indicate a higher percentage of nondiscretionary use compared to the bi-monthly average consumption in rate group one of 29,000 gallons. Second, nondiscretionary usage tends to be relatively inelastic, indicating less of a propensity for customers to repress consumption.

Finally, the total consumption in rate groups two and three represents only 17% of total residential consumption, so a repression adjustment in these groups would not be significant with regard to mitigating potential revenue instability or revenue shortfall concerns. In addition, as discussed above, we believe it is appropriate at this time to err on the side of caution when calculating our recommended adjustment. Consequently, staff is recommending no repression adjustment for rate groups two and three.

Unfortunately, little is known about how commercial/general service customers respond to water price. In addition, because these customers are such a heterogeneous group, it is difficult to quantify what the group's price elasticity is. In the instant case, consumption by general service customers represents a very small percentage (approximately five percent) of historical test period consumption, and the corresponding repression adjustment would not have a significant impact on revenue instability or revenue shortfall concerns. Therefore, consistent with the utility's methodology, staff excluded the general service class from its recommended repression adjustment calculation.

Based on the foregoing, and consistent with the repression exhibited by other utilities undergoing a similar rate structure change, staff recommends a repression adjustment of 17,030,454 gallons. Finally, in order to monitor the effect of the approved revenue increase on customers' consumption, staff recommends that the utility be ordered to compile bi-monthly reports containing the number of customer bills, the gallons billed and the revenues billed. This information should be provided by service area, customer class and meter size. These bi-monthly reports should be filed every four months, for a period of two years, commencing on the first billing cycle the revised rates go into effect.

Attachment B consists of eight pages. A description of the content and purpose of each page of the attachment follows.

Pages 1-2: Summary.

Page 3: This page presents an analysis of Rate Group 62801 (aka Rate Group 1). This page shows, in increments of 1,000 gallons, the increase in customers' average annual water bills that would result based on the utility's proposed revenue increase. Specific consumption ranges are selected, and the proposed increases in the customers' water bills within the specified ranges are averaged. These results are shown in column (b). Staff calculated what the corresponding increase in customers' bills would be based on our preliminary recommended rates, the results of which are shown in column (c). (The figures in column (c) are actually calculated on page 6, column (n).

Page 4: This page contains further analysis of Rate Group 1. This page was created to illustrate the shift in bill distribution and consumption that the utility believes will occur as a result of repression. The columns of particular interest are columns (b) and (g). Column (b) indicates the utility's projected migration of 1,236 customers from the 40,000 gallons and over consumption level to consumption levels between 1,000 gallons and 26,000 gallons. The corresponding number of gallons associated with the 1,236 bills from column (b) are 115,606,000 gallons (see column (g) at 40,000 gallons). Column (g) indicates the utility's projected gallons in the 1,000 gallon - 26,000 gallons range that results from the migration of 1,236 bills to that consumption range. A comparison of an average bi-monthly bill based on rates before interim, interim rates, and the utility's proposed final rates is shown at the bottom of the page.

Page 5: More Rate Group 1 analysis that shows the calculation of the utility's proposed increase in customers' bi-monthly and annual water bills (in increments of 1,000 gallons). Columns (i), (j), (k) and (m) are of particular interest.

Column (i) = bi-monthly water bills based on rates before interim

Column (j) = bi-monthly water bills based on the utility's proposed final rates

Column (k) = the increase in customers' <u>bi-monthly</u> water bills (rates before interim v. utility's proposed final rates)

Column (m) = the corresponding <u>annual</u> increase in customers' bi-monthly water bills (rates before interim v. utility's proposed final rates)

<u>Page 6</u>: More Rate Group 1 analysis that shows the calculation of the Staff's preliminary recommended increase in customers' bi-monthly and annual water bills (in increments of 1,000 gallons). Columns (i), (j), (k), (m) and (n) are of particular interest.

Column (i) = bi-monthly water bills based on rates before interim

Column (j) = bi-monthly water bills based on Staff's preliminary recommended rates

Column (k) = the increase in customers' <u>bi-monthly</u> water bills (rates before interim v. Staff's preliminary recommended rates)

Column (m) = the corresponding <u>annual</u> increase in customers' bi-monthly water bills (rates before interim v. Staff's preliminary recommended rates)

Column (n) = Specific consumption ranges are selected, and Staff's preliminary recommended increases in the customers' water bills within the specified ranges are averaged. These results also appear on page 3, column (c).

<u>Page 7</u>: Same analysis as shown on page 4, but for Rate Group 66001 (aka Rate Group 2).

<u>Page 8</u>: Same analysis as shown on page 4, but for Rate Group 66301 (aka Rate Group 3).

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU
SUMMARY: STAFF'S ESTIMATED INCREASE IN CUSTOMERS' AVERAGE ANNUAL BILLS USED TO DERIVE STAFF'S ESTIMATED REPRESSION ADJUSTMENT

ATTACHMENT B
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			(a)	(b)	(c)
			BASED ON UTILITY'S PROPOSAL		STAFF'S PROXY OF ESTIMATED
RATE GROUP/ CODE	SERVICE AREA	CONSUMP GALS IN 1,000 INCREM	PROPOSED INCREASE IN ANNUAL BILLS	AVERAGE INCREASE IN ANNUAL BILLS WITHIN CONSUMP GROUP	AVERAGE INCREASE IN ANNUAL BILLS WITHIN CONSUMP GROUP
1 / 62801	ALL SUBDIVISIONS	0	$65.79		
		1,000	78.96		
	Clermont	2,000	92.13		
	Amber Hill	3,000	105.30		
	Highland Point	4,000	118.47		
	Oranges	5,000	131.64	$98.72	$19.95
	Lake Ridge	6,000	140.67		
	Vistas	7,000	149.70		
	Crescent West	8,000	158.73		
	Lake Crescent Hills	9,000	167.76		
		10,000	176.79		
		11,000	185.82		
		12,000	194.85	$167.76	$39.27
		13,000	203.88		
		14,000	212.91		
		15,000	221.94		
		16,000	230.97		
		17,000	240.00		
		18,000	249.03		
		19,000	258.06		
		20,000	267.09	$235.49	$49.62
		21,000	276.12		
		22,000	285.15		
		23,000	294.18		
		24,000	303.21		
		25,000	312.24		
		26,000	321.27	$298.70	$59.28
		27,000	330.30		
		28,000	339.33		
		29,000	348.36		
		30,000	357.39		
		31,000	366.42		
		32,000	375.45		
		33,000	384.48		
		34,000	393.51		
		35,000	402.54		
		36,000	411.57		
		37,000	420.60		
		38,000	429.63		
		39,000	438.66	$384.48	$72.39
		40,000	447.69	$447.69	$82.05

SOURCES: (a): Recommendation Attachment B, page 5, col (m).
(c): Recommendation Attachment B, page 6, col (n).

RATE GROUP/ CODE	SERVICE AREA	CONSUMP GALS IN 1,000 INCREM	(a) TEST YEAR BI-MONTHLY BILLS	(b) = (c) - (a) PROJECTED ADJS TO BI-MONTHLY BILLS	(c) ADJUSTED BI-MONTHLY BILLS	(d) TY GALLONS CONSUMED	(e) = subtot (d) CUMULATIVE TY GALLONS CONSUMED	(f) = (e) / total (d) CUM % TY GALS	(g) = (h) - (d) PROPOSED CONSUMPTION ADJUSTMENT	(h) ADJUSTED TY REPRESSED GALLONS	(i) = subtot (h) CUMULATIVE ADJ TY GALS CONSUMED	(j) = (i) / total (h) CUM % ADJUSTED TY GALS	(k) = [(i) - (e)] / (e) PROPOSED % CHANGE CUM CONS
1 / 62801	ALL SUBDIVISIONS	0	71	0	71	0	0	0.0%	0	0	0	0.0%	0.0%
		1,000	30	52	82	30,000	30,000	0.0%	52,000	82,000	82,000	0.1%	173.3%
	Clermont	2,000	47	52	99	94,000	124,000	0.1%	104,000	198,000	280,000	0.4%	125.8%
	Amber Hill	3,000	29	52	81	87,000	211,000	0.1%	156,000	243,000	523,000	0.7%	147.9%
	Highland Point	4,000	29	51	80	116,000	327,000	0.2%	204,000	320,000	843,000	1.2%	157.8%
	Oranges	5,000	25	51	76	125,000	452,000	0.3%	255,000	380,000	1,223,000	1.7%	170.6%
	Lake Ridge	6,000	30	51	81	180,000	632,000	0.4%	306,000	486,000	1,709,000	2.4%	170.4%
	Vistas	7,000	42	51	93	294,000	926,000	0.5%	357,000	651,000	2,360,000	3.4%	154.9%
	Crescent West	8,000	48	52	100	384,000	1,310,000	0.8%	416,000	800,000	3,160,000	4.5%	141.2%
	Lake Crescent Hills	9,000	53	51	104	477,000	1,787,000	1.1%	459,000	936,000	4,096,000	5.8%	129.2%
		10,000	61	50	111	610,000	2,397,000	1.4%	500,000	1,110,000	5,206,000	7.4%	117.2%
		11,000	66	49	115	726,000	3,123,000	1.8%	539,000	1,265,000	6,471,000	9.2%	107.2%
		12,000	46	48	94	552,000	3,675,000	2.2%	576,000	1,128,000	7,599,000	10.8%	106.8%
		13,000	60	47	107	780,000	4,455,000	2.6%	611,000	1,391,000	8,990,000	12.8%	101.8%
		14,000	58	46	104	812,000	5,267,000	3.1%	644,000	1,456,000	10,446,000	14.9%	98.3%
		15,000	50	45	95	750,000	6,017,000	3.5%	675,000	1,425,000	11,871,000	16.9%	97.3%
		16,000	52	45	97	832,000	6,849,000	4.0%	720,000	1,552,000	13,423,000	19.1%	96.0%
		17,000	33	45	78	561,000	7,410,000	4.4%	765,000	1,326,000	14,749,000	21.0%	99.0%
		18,000	39	45	84	702,000	8,112,000	4.8%	810,000	1,512,000	16,261,000	23.2%	100.5%
		19,000	45	45	90	855,000	8,967,000	5.3%	855,000	1,710,000	17,971,000	25.6%	100.4%
		20,000	35	44	79	700,000	9,667,000	5.7%	880,000	1,580,000	19,551,000	27.9%	102.2%
		21,000	35	44	79	735,000	10,402,000	6.1%	924,000	1,659,000	21,210,000	30.2%	103.9%
		22,000	38	44	82	836,000	11,238,000	6.6%	968,000	1,804,000	23,014,000	32.8%	104.8%
		23,000	26	44	70	598,000	11,836,000	7.0%	1,012,000	1,610,000	24,624,000	35.1%	108.0%
		24,000	32	44	76	768,000	12,604,000	7.4%	1,056,000	1,824,000	26,448,000	37.7%	109.8%
		25,000	25	44	69	625,000	13,229,000	7.8%	1,100,000	1,725,000	28,173,000	40.2%	113.0%
		26,000	28	44	72	728,000	13,957,000	8.2%	1,144,000	1,872,000	30,045,000	42.8%	115.3%
		27,000	19	0	19	513,000	14,470,000	8.5%	0	513,000	30,558,000	43.6%	111.2%
		28,000	22	0	22	616,000	15,086,000	8.9%	0	616,000	31,174,000	44.5%	106.6%
		29,000	31	0	31	899,000	15,985,000	9.4%	0	899,000	32,073,000	45.7%	100.6%
		30,000	23	0	23	690,000	16,675,000	9.8%	0	690,000	32,763,000	46.7%	96.5%
		31,000	24	0	24	744,000	17,419,000	10.3%	0	744,000	33,507,000	47.8%	92.4%
		32,000	15	0	15	480,000	17,899,000	10.6%	0	480,000	33,987,000	48.5%	89.9%
		33,000	20	0	20	660,000	18,559,000	10.9%	0	660,000	34,647,000	49.4%	86.7%
		34,000	21	0	21	714,000	19,273,000	11.4%	0	714,000	35,361,000	50.4%	83.5%
		35,000	15	0	15	525,000	19,798,000	11.7%	0	525,000	35,886,000	51.2%	81.3%
		36,000	30	0	30	1,080,000	20,878,000	12.3%	0	1,080,000	36,966,000	52.7%	77.1%
		37,000	19	0	19	703,000	21,581,000	12.7%	0	703,000	37,669,000	53.7%	74.5%
		38,000	23	0	23	874,000	22,455,000	13.2%	0	874,000	38,543,000	55.0%	71.6%
		39,000	15	0	15	585,000	23,040,000	13.6%	0	585,000	39,128,000	55.8%	69.8%
		40,000	1,511	(1,236)	275	146,595,000	169,635,000	100.0%	(115,606,000)	30,989,000	70,117,000	100.0%	-58.7%
	TOTALS		2,921	0	2,921	169,635,000			(99,518,000)	70,117,000			-58.7%
	AVG CONS PER BI-MONTHLY BILL:					29,037				12,002			

	RATES BEFORE INTERIM			INTERIM RATES			PROPOSED RATES		
	BFC	Gal Chg	Avg Bi-Mo Bill	BFC	Gal Chg	Avg Bi-Mo Bill	BFC	Gal Chg	Avg Bi-Mo Bill
	$7.035	$0.69	$23.621	$8.64	$1.07	$39.71	$18.00	$2.195	$44.345
	incl 5,000 gallons		@ 29,037 gals			@ 29,037 gals			@ 12,002 gals

Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Interim 68.1%

Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Proposed 87.7%

NOTE: LUSI projects that all repression will occur within the RS class only.
Rates before interim and proposed rates from MFR Schedule E-1, p. 2.
Interim rates from Order No. PSC-96-1187-FOF-WU, p.14.

SOURCES: (a), (d): MFR Schedule E-14, p. 1.
(c), (h): Attachment to LUSI/Melson letter to Staff 12/06/96 (Schedule E-14, p. 1).

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU
PROPOSED REPRESSION BY SERVICE AREA IN 1,000 GALLON INCREMENTS: PROPOSED CHANGE IN CUSTOMERS' AVERAGE ANNUAL BILLS

		(a)	(b)	(c)	(d)	(e) = subtot (d) / total (d)	(f)	(g) = subtot (f) / total (f)	(h) = [subtot (f) - subtot (d)] / subtot (d)	(i) = $7.035 + ([[(a) - 5,000] / 1,000) x $0.69)	(j) = $18.00 + ([(a) / 1,000] x $2.195)	(k) = (j) - (i)	(l) = (k) / (i)	(m) = (k) x 6
										----- BI-MONTHLY BILLS -----		PROPOSED INCREASE IN BI-MONTHLY BILLS		
RATE GROUP/ CODE	SERVICE AREA	CONSUMP GALS IN 1,000 INCREM	TEST YEAR BI-MONTHLY YR BILLS	ADJUSTED BILLS	TY GALLONS CONSUMED	CUM % TY GALS	ADJUSTED TY REPRESSED GALLONS	CUM % ADJ TY GALS	PROPOSED % CHG CUM CONS	RATES BEFORE INTERIM	PROPOSED	AMOUNT	PERCENT	PROPOSED INCREASE IN ANNUAL BILLS
1 / 62801	ALL SUBDIVISIONS	0	71	71	0	0.0%	0	0.0%	0.0%	$7.04	$18.00	$10.97	155.9%	$65.79
		1,000	30	82	30,000	0.0%	82,000	0.1%	173.3%	7.04	20.20	13.16	187.1%	78.96
	Clermont	2,000	47	99	94,000	0.1%	198,000	0.4%	125.8%	7.04	22.39	15.36	218.3%	92.13
	Amber Hill	3,000	29	81	87,000	0.1%	243,000	0.7%	147.9%	7.04	24.59	17.55	249.5%	105.30
	Highland Point	4,000	29	80	116,000	0.2%	320,000	1.2%	157.8%	7.04	26.78	19.75	280.7%	118.47
	Oranges	5,000	25	76	125,000	0.3%	380,000	1.7%	170.6%	7.04	28.98	21.94	311.9%	131.64
	Lake Ridge	6,000	30	81	180,000	0.4%	486,000	2.4%	170.4%	7.73	31.17	23.45	303.5%	140.67
	Vistas	7,000	42	93	294,000	0.5%	651,000	3.4%	154.9%	8.42	33.37	24.95	296.5%	149.70
	Crescent West	8,000	48	100	384,000	0.8%	800,000	4.5%	141.2%	9.11	35.56	26.46	290.6%	158.73
	Lake Crescent Hills	9,000	53	104	477,000	1.1%	936,000	5.8%	129.2%	9.80	37.76	27.96	285.5%	167.76
		10,000	61	111	610,000	1.4%	1,110,000	7.4%	117.2%	10.49	39.95	29.47	281.0%	176.79
		11,000	66	115	726,000	1.8%	1,265,000	9.2%	107.2%	11.18	42.15	30.97	277.1%	185.82
		12,000	46	94	552,000	2.2%	1,128,000	10.8%	106.8%	11.87	44.34	32.48	273.7%	194.85
		13,000	60	107	780,000	2.6%	1,391,000	12.8%	101.8%	12.56	46.54	33.98	270.6%	203.88
		14,000	58	104	812,000	3.1%	1,456,000	14.9%	98.3%	13.25	48.73	35.49	267.9%	212.91
		15,000	50	95	750,000	3.5%	1,425,000	16.9%	97.3%	13.94	50.93	36.99	265.4%	221.94
		16,000	52	97	832,000	4.0%	1,552,000	19.1%	96.0%	14.63	53.12	38.50	263.2%	230.97
		17,000	33	78	561,000	4.4%	1,326,000	21.0%	99.0%	15.32	55.32	40.00	261.2%	240.00
		18,000	39	84	702,000	4.8%	1,512,000	23.2%	100.5%	16.01	57.51	41.51	259.3%	249.03
		19,000	45	90	855,000	5.3%	1,710,000	25.6%	100.4%	16.70	59.71	43.01	257.6%	258.06
		20,000	35	79	700,000	5.7%	1,580,000	27.9%	102.2%	17.39	61.90	44.52	256.1%	267.09
		21,000	35	79	735,000	6.1%	1,659,000	30.2%	103.9%	18.08	64.10	46.02	254.6%	276.12
		22,000	38	82	836,000	6.6%	1,804,000	32.8%	104.8%	18.77	66.29	47.53	253.3%	285.15
		23,000	26	70	598,000	7.0%	1,610,000	35.1%	108.0%	19.46	68.49	49.03	252.0%	294.18
		24,000	32	76	768,000	7.4%	1,824,000	37.7%	109.8%	20.15	70.68	50.54	250.9%	303.21
		25,000	25	69	625,000	7.8%	1,725,000	40.2%	113.0%	20.84	72.88	52.04	249.8%	312.24
		26,000	28	72	728,000	8.2%	1,872,000	42.8%	115.3%	21.53	75.07	53.55	248.8%	321.27
		27,000	19	19	513,000	8.5%	513,000	43.6%	111.2%	22.22	77.27	55.05	247.8%	330.30
		28,000	22	22	616,000	8.9%	616,000	44.5%	106.6%	22.91	79.46	56.56	246.9%	339.33
		29,000	31	31	899,000	9.4%	899,000	45.7%	100.6%	23.60	81.66	58.06	246.1%	348.36
		30,000	23	23	690,000	9.8%	690,000	46.7%	96.5%	24.29	83.85	59.57	245.3%	357.39
		31,000	24	24	744,000	10.3%	744,000	47.8%	92.4%	24.98	86.05	61.07	244.5%	366.42
		32,000	15	15	480,000	10.6%	480,000	48.5%	89.9%	25.67	88.24	62.58	243.8%	375.45
		33,000	20	20	660,000	10.9%	660,000	49.4%	86.7%	26.36	90.44	64.08	243.1%	384.48
		34,000	21	21	714,000	11.4%	714,000	50.4%	83.5%	27.05	92.63	65.59	242.5%	393.51
		35,000	15	15	525,000	11.7%	525,000	51.2%	81.3%	27.74	94.83	67.09	241.9%	402.54
		36,000	30	30	1,080,000	12.3%	1,080,000	52.7%	77.1%	28.43	97.02	68.60	241.3%	411.57
		37,000	19	19	703,000	12.7%	703,000	53.7%	74.5%	29.12	99.22	70.10	240.8%	420.60
		38,000	23	23	874,000	13.2%	874,000	55.0%	71.6%	29.81	101.41	71.61	240.2%	429.63
		39,000	15	15	585,000	13.6%	585,000	55.8%	69.8%	30.50	103.61	73.11	239.7%	438.66
		40,000	1,511	275	146,595,000	100.0%	30,989,000	100.0%	-58.7%	31.19	105.80	74.62	239.3%	447.69
	TOTALS		2,921	2,921	169,635,000		70,117,000		-58.7%					

SOURCES: (a), (b), (d): MFR Schedule E-14, p. 1.
(c), (f): Attachment to LUSI/Melson letter to Staff 12/06/96 (Schedule E-14, p. 1).
(i), (j): MFR Schedule E-1, p. 2.

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU
PROPOSED REPRESSION BY SERVICE AREA IN 1,000 GALLON INCREMENTS: STAFF'S RECOMMENDED CHANGE IN CUSTOMERS' AVERAGE ANNUAL BILLS

		(a)	(b)	(c)	(d)	(e) = subtot (d) / total (d)	(f)	(g) = subtot (f) / total (f)	(h) = [subtot (f) - subtot (d)] / subtot (d)	(i) = $7.035 + {[[(a) - 5,000] / 1,000) x $0.69}	(j) = $8.06 + {[(a) / 1,000] x $0.92}	(k) = (j) - (i)	(l) = (k) / (i)	(m) = (k) x 6	(n) = avg (m) per group
										----- BI-MONTHLY BILLS -----		RECOMMENDEDED INCREASE IN BI-MONTHLY BILLS			
RATE GROUP/ CODE	SERVICE AREA	CONSUMP GALS IN 1,000 INCREM	TEST YEAR BI-MONTHLY YR BILLS	ADJUSTED BILLS	TY GALLONS CONSUMED	CUM % TY GALS	ADJUSTED TY REPRESSED GALLONS	CUM % ADJ TY GALS	PROPOSED % CHG CUM CONS	RATES BEFORE INTERIM	STAFF RECOMMENDED	AMOUNT	PERCENT	RECOM INCREASE IN ANNUAL BILLS	RECOM AVERAGE INCREASE PER GROUP
1 / 62801	ALL SUBDIVISIONS	0	71	71	0	0.0%	0	0.0%	0.0%	$7.04	$8.06	$1.03	14.6%	$6.15	
		1,000	30	82	30,000	0.0%	82,000	0.1%	173.3%	7.04	$8.98	1.95	27.6%	11.67	
	Clermont	2,000	47	99	94,000	0.1%	198,000	0.4%	125.8%	7.04	$9.90	2.87	40.7%	17.19	
	Amber Hill	3,000	29	81	87,000	0.1%	243,000	0.7%	147.9%	7.04	$10.82	3.79	53.8%	22.71	
	Highland Point	4,000	29	80	116,000	0.2%	320,000	1.2%	157.8%	7.04	$11.74	4.71	66.9%	28.23	
	Oranges	5,000	25	76	125,000	0.3%	380,000	1.7%	170.6%	7.04	$12.66	5.63	80.0%	33.75	$19.95
	Lake Ridge	6,000	30	81	180,000	0.4%	486,000	2.4%	170.4%	7.73	$13.58	5.86	75.8%	35.13	
	Vistas	7,000	42	93	294,000	0.5%	651,000	3.4%	154.9%	8.42	$14.50	6.09	72.3%	36.51	
	Crescent West	8,000	48	100	384,000	0.8%	800,000	4.5%	141.2%	9.11	$15.42	6.32	69.4%	37.89	
	Lake Crescent Hills	9,000	53	104	477,000	1.1%	936,000	5.8%	129.2%	9.80	$16.34	6.55	66.8%	39.27	
		10,000	61	111	610,000	1.4%	1,110,000	7.4%	117.2%	10.49	$17.26	6.78	64.6%	40.65	
		11,000	66	115	726,000	1.8%	1,265,000	9.2%	107.2%	11.18	$18.18	7.01	62.7%	42.03	
		12,000	46	94	552,000	2.2%	1,128,000	10.8%	106.8%	11.87	$19.10	7.24	61.0%	43.41	$39.27
		13,000	60	107	780,000	2.6%	1,391,000	12.8%	101.8%	12.56	$20.02	7.47	59.5%	44.79	
		14,000	58	104	812,000	3.1%	1,456,000	14.9%	98.3%	13.25	$20.94	7.70	58.1%	46.17	
		15,000	50	95	750,000	3.5%	1,425,000	16.9%	97.3%	13.94	$21.86	7.93	56.9%	47.55	
		16,000	52	97	832,000	4.0%	1,552,000	19.1%	96.0%	14.63	$22.78	8.16	55.8%	48.93	
		17,000	33	78	561,000	4.4%	1,326,000	21.0%	99.0%	15.32	$23.70	8.39	54.8%	50.31	
		18,000	39	84	702,000	4.8%	1,512,000	23.2%	100.5%	16.01	$24.62	8.61	53.8%	51.69	
		19,000	45	90	855,000	5.3%	1,710,000	25.6%	100.4%	16.70	$25.54	8.85	53.0%	53.07	
		20,000	35	79	700,000	5.7%	1,580,000	27.9%	102.2%	17.39	$26.46	9.08	52.2%	54.45	$49.62
		21,000	35	79	735,000	6.1%	1,659,000	30.2%	103.9%	18.08	$27.38	9.31	51.5%	55.83	
		22,000	38	82	836,000	6.6%	1,804,000	32.8%	104.8%	18.77	$28.30	9.54	50.8%	57.21	
		23,000	26	70	598,000	7.0%	1,610,000	35.1%	108.0%	19.46	$29.22	9.77	50.2%	58.59	
		24,000	32	76	768,000	7.4%	1,824,000	37.7%	109.8%	20.15	$30.14	10.00	49.6%	59.97	
		25,000	25	69	625,000	7.8%	1,725,000	40.2%	113.0%	20.84	$31.06	10.23	49.1%	61.35	
		26,000	28	72	728,000	8.2%	1,872,000	42.8%	115.3%	21.53	$31.98	10.46	48.6%	62.73	$59.28
		27,000	19	19	513,000	8.5%	513,000	43.6%	111.2%	22.22	$32.90	10.69	48.1%	64.11	
		28,000	22	22	616,000	8.9%	616,000	44.5%	106.6%	22.91	$33.82	10.92	47.7%	65.49	
		29,000	31	31	899,000	9.4%	899,000	45.7%	100.6%	23.60	$34.74	11.15	47.2%	66.87	
		30,000	23	23	690,000	9.8%	690,000	46.7%	96.5%	24.29	$35.66	11.38	46.8%	68.25	
		31,000	24	24	744,000	10.3%	744,000	47.8%	92.4%	24.98	$36.58	11.61	46.5%	69.63	
		32,000	15	15	480,000	10.6%	480,000	48.5%	89.9%	25.67	$37.50	11.84	46.1%	71.01	
		33,000	20	20	660,000	10.9%	660,000	49.4%	86.7%	26.36	$38.42	12.07	45.8%	72.39	
		34,000	21	21	714,000	11.4%	714,000	50.4%	83.5%	27.05	$39.34	12.30	45.5%	73.77	
		35,000	15	15	525,000	11.7%	525,000	51.2%	81.3%	27.74	$40.26	12.53	45.2%	75.15	
		36,000	30	30	1,080,000	12.3%	1,080,000	52.7%	77.1%	28.43	$41.18	12.76	44.9%	76.53	
		37,000	19	19	703,000	12.7%	703,000	53.7%	74.5%	29.12	$42.10	12.99	44.6%	77.91	
		38,000	23	23	874,000	13.2%	874,000	55.0%	71.6%	29.81	$43.02	13.22	44.3%	79.29	
		39,000	15	15	585,000	13.6%	585,000	55.8%	69.8%	30.50	$43.94	13.45	44.1%	80.67	$72.39
		40,000	1,511	275	146,595,000	100.0%	30,989,000	100.0%	-58.7%	31.19	$44.86	13.68	43.9%	82.05	$82.05
	TOTALS		2,921	2,921	169,635,000		70,117,000		-58.7%						

SOURCES: (a), (b), (d): MFR Schedule E-14, p. 1.
(c), (f): Attachment to LUSI/Melson letter to Staff 12/06/96 (Schedule E-14, p. 1).

RATE GROUP/ CODE	SERVICE AREA	GALS IN 1,000 INCREM	(a) TEST YR BILLS	(b) = (c) - (a) PROJECTED ADJS TO BILLS	(c) ADJUSTED BI-MONTHLY BILLS	(d) TY GALLLONS CONSUMED	(e) = sum (d) CUMULATIVE TY GALLONS CONSUMED	(f) = (e) / total (d) CUM % TY GALS	(g) = (h) - (d) PROPOSED CONSUMPTION ADJUSTMENT	(h) ADJUSTED TY REPRESSED GALLONS	(i) = sum (h) CUMULATIVE ADJ TY GALS CONSUMED	(j) = (i) / total (h) CUM % ADJ TY GALS	(k) = [(i) - (e)] / (e) PROPOSED % CHG CUM CONS
2 / 66001	ALL SUBDIVISIONS	0	43	0	43	0	0	0.0%	0	0	0	0.0%	0.0%
		1,000	27	0	27	27,000	27,000	0.1%	0	27,000	27,000	0.1%	0.0%
	Crescent Bay	2,000	30	0	30	60,000	87,000	0.3%	0	60,000	87,000	0.3%	0.0%
	Lake Saunders Acres	3,000	28	0	28	84,000	171,000	0.6%	0	84,000	171,000	0.5%	0.0%
	Preston Cove	4,000	33	0	33	132,000	303,000	1.1%	0	132,000	303,000	1.0%	0.0%
	South Clermont	5,000	46	0	46	230,000	533,000	1.9%	0	230,000	533,000	1.7%	0.0%
		6,000	49	0	49	294,000	827,000	2.9%	0	294,000	827,000	2.6%	0.0%
		7,000	66	0	66	462,000	1,289,000	4.6%	0	462,000	1,289,000	4.1%	0.0%
		8,000	63	0	63	504,000	1,793,000	6.4%	0	504,000	1,793,000	5.7%	0.0%
		9,000	61	0	61	549,000	2,342,000	8.3%	0	549,000	2,342,000	7.4%	0.0%
		10,000	79	0	79	790,000	3,132,000	11.1%	0	790,000	3,132,000	9.9%	0.0%
		11,000	76	0	76	836,000	3,968,000	14.1%	0	836,000	3,968,000	12.6%	0.0%
		12,000	52	0	52	624,000	4,592,000	16.3%	0	624,000	4,592,000	14.5%	0.0%
		13,000	58	0	58	754,000	5,346,000	19.0%	0	754,000	5,346,000	16.9%	0.0%
		14,000	40	0	40	560,000	5,906,000	21.0%	0	560,000	5,906,000	18.7%	0.0%
		15,000	34	0	34	510,000	6,416,000	22.8%	0	510,000	6,416,000	20.3%	0.0%
		16,000	33	0	33	528,000	6,944,000	24.7%	0	528,000	6,944,000	22.0%	0.0%
		17,000	36	0	36	612,000	7,556,000	26.8%	0	612,000	7,556,000	23.9%	0.0%
		18,000	33	0	33	594,000	8,150,000	29.0%	0	594,000	8,150,000	25.8%	0.0%
		19,000	35	0	35	665,000	8,815,000	31.3%	0	665,000	8,815,000	27.9%	0.0%
		20,000	37	0	37	740,000	9,555,000	33.9%	0	740,000	9,555,000	30.3%	0.0%
		21,000	20	0	20	420,000	9,975,000	35.4%	0	420,000	9,975,000	31.6%	0.0%
		22,000	25	0	25	550,000	10,525,000	37.4%	0	550,000	10,525,000	33.3%	0.0%
		23,000	14	0	14	322,000	10,847,000	38.5%	0	322,000	10,847,000	34.3%	0.0%
		24,000	19	0	19	456,000	11,303,000	40.2%	0	456,000	11,303,000	35.8%	0.0%
		25,000	11	0	11	275,000	11,578,000	41.1%	0	275,000	11,578,000	36.7%	0.0%
		26,000	11	0	11	286,000	11,864,000	42.1%	0	286,000	11,864,000	37.6%	0.0%
		27,000	12	0	12	324,000	12,188,000	43.3%	0	324,000	12,188,000	38.6%	0.0%
		28,000	10	0	10	280,000	12,468,000	44.3%	0	280,000	12,468,000	39.5%	0.0%
		29,000	13	0	13	377,000	12,845,000	45.6%	0	377,000	12,845,000	40.7%	0.0%
		30,000	12	0	12	360,000	13,205,000	46.9%	0	360,000	13,205,000	41.8%	0.0%
		31,000	14	0	14	434,000	13,639,000	48.4%	0	434,000	13,639,000	43.2%	0.0%
		32,000	5	0	5	160,000	13,799,000	49.0%	0	160,000	13,799,000	43.7%	0.0%
		33,000	6	0	6	198,000	13,997,000	49.7%	0	198,000	13,997,000	44.3%	0.0%
		34,000	4	0	4	136,000	14,133,000	50.2%	0	136,000	14,133,000	44.7%	0.0%
		35,000	6	0	6	210,000	14,343,000	51.0%	0	210,000	14,343,000	45.4%	0.0%
		36,000	4	0	4	144,000	14,487,000	51.5%	0	144,000	14,487,000	45.9%	0.0%
		37,000	8	0	8	296,000	14,783,000	52.5%	0	296,000	14,783,000	46.8%	0.0%
		38,000	10	0	10	380,000	15,163,000	53.9%	0	380,000	15,163,000	48.0%	0.0%
		39,000	7	0	7	273,000	15,436,000	54.8%	0	273,000	15,436,000	48.9%	0.0%
		40,000	146	0	146	12,715,000	28,151,000	100.0%	3,433,000	16,148,000	31,584,000	100.0%	12.2%
TOTALS			1,316	0	1,316	28,151,000			3,433,000	31,584,000			12.2%
AVG CONS PER MONTHLY BILL:						10,696				12,000		12.2%	

	RATES BEFORE INTERIM			INTERIM RATES EXCL. LAKE SAUNDERS ACR			INTERIM RATES - LAKE SAUNDERS ACRES			PROPOSED RATES		
	BFC	Gal Chg	Avg Bi-Mo Bill	BFC	Gal Chg	Avg Bi-Mo Bill	BFC	Gal Chg	Avg Bi-Mo Bill	BFC	Gal Chg	Avg Bi-Mo Bill
	$16.520	$1.86	$27.114 @ 10,696 gals	$8.64	$1.07	$20.08 @ 10,696 gals	$21.00	$2.360	$46.242 @ 10,696 gals	$18.00	$2.195	$41.477 @ 10,696 gals
				Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Interi		-25.9%	Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Interi		70.5%	Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Proposed		53.0%

NOTE: LUSI projects that all repression will occur within the RS class only.
Rates before interim and proposed rates from MFR Schedule E-1, p. 1.
Interim rates from Order No. PSC-96-1187-FOF-WU, pp. 13, 16.

SOURCES: (a), (d): MFR Schedule E-14, p. 57.
(c), (h): Attachment to LUSI/Melson letter to Staff 12/06/96 -- Schedule E-14, p. 57.

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU
PROPOSED REPRESSION BY SERVICE AREA IN 1,000 GALLON INCREMENTS

RATE GROUP/ CODE	SERVICE AREA	GALS IN 1,000 INCREM	(a) TEST YR BILLS	(b) = (c) - (a) PROJECTED ADJS TO BILLS	(c) ADJUSTED BI-MONTHLY BILLS	(d) TY GALLLONS CONSUMED	(e) = sum (d) CUMULATIVE TY GALLONS CONSUMED	(f) = (e) / total (d) CUM % TY GALS	(g) = (h) - (d) PROPOSED CONSUMPTION ADJUSTMENT	(h) ADJUSTED TY REPRESSED GALLONS	(i) = sum (h) CUMULATIVE ADJ TY GALS CONSUMED	(j) = (i) / total (h) CUM % ADJ TY GALS	(k) = [(i) - (e)] / (e) PROPOSED % CHG CUM CONS
3 / 66301	ALL SUBDIVISIONS	0	3	0	3	0	0	0.0%	0	0	0	0.0%	0.0%
		1,000	4	0	4	4,000	4,000	0.1%	0	4,000	4,000	0.1%	0.0%
	Four Lakes/Harbor Oaks	2,000	3	0	3	6,000	10,000	0.2%	0	6,000	10,000	0.1%	0.0%
		3,000	1	0	1	3,000	13,000	0.2%	0	3,000	13,000	0.2%	0.0%
		4,000	4	0	4	16,000	29,000	0.5%	0	16,000	29,000	0.4%	0.0%
		5,000	7	0	7	35,000	64,000	1.1%	0	35,000	64,000	0.9%	0.0%
		6,000	9	0	9	54,000	118,000	2.0%	0	54,000	118,000	1.7%	0.0%
		7,000	11	0	11	77,000	195,000	3.3%	0	77,000	195,000	2.7%	0.0%
		8,000	10	0	10	80,000	275,000	4.7%	0	80,000	275,000	3.9%	0.0%
		9,000	12	0	12	108,000	383,000	6.5%	0	108,000	383,000	5.4%	0.0%
		10,000	10	0	10	100,000	483,000	8.2%	0	100,000	483,000	6.8%	0.0%
		11,000	11	0	11	121,000	604,000	10.3%	0	121,000	604,000	8.5%	0.0%
		12,000	15	0	15	180,000	784,000	13.3%	0	180,000	784,000	11.1%	0.0%
		13,000	15	0	15	195,000	979,000	16.7%	0	195,000	979,000	13.8%	0.0%
		14,000	14	0	14	196,000	1,175,000	20.0%	0	196,000	1,175,000	16.6%	0.0%
		15,000	20	0	20	300,000	1,475,000	25.1%	0	300,000	1,475,000	20.8%	0.0%
		16,000	19	0	19	304,000	1,779,000	30.3%	0	304,000	1,779,000	25.1%	0.0%
		17,000	10	0	10	170,000	1,949,000	33.2%	0	170,000	1,949,000	27.5%	0.0%
		18,000	9	0	9	162,000	2,111,000	35.9%	0	162,000	2,111,000	29.8%	0.0%
		19,000	10	0	10	190,000	2,301,000	39.2%	0	190,000	2,301,000	32.4%	0.0%
		20,000	12	0	12	240,000	2,541,000	43.3%	0	240,000	2,541,000	35.8%	0.0%
		21,000	6	0	6	126,000	2,667,000	45.4%	0	126,000	2,667,000	37.6%	0.0%
		22,000	6	0	6	132,000	2,799,000	47.6%	0	132,000	2,799,000	39.5%	0.0%
		23,000	3	0	3	69,000	2,868,000	48.8%	0	69,000	2,868,000	40.4%	0.0%
		24,000	5	0	5	120,000	2,988,000	50.9%	0	120,000	2,988,000	42.1%	0.0%
		25,000	6	0	6	150,000	3,138,000	53.4%	0	150,000	3,138,000	44.2%	0.0%
		26,000	4	0	4	104,000	3,242,000	55.2%	0	104,000	3,242,000	45.7%	0.0%
		27,000	5	0	5	135,000	3,377,000	57.5%	0	135,000	3,377,000	47.6%	0.0%
		28,000	3	0	3	84,000	3,461,000	58.9%	0	84,000	3,461,000	48.8%	0.0%
		29,000	3	0	3	87,000	3,548,000	60.4%	0	87,000	3,548,000	50.0%	0.0%
		30,000	2	0	2	60,000	3,608,000	61.4%	0	60,000	3,608,000	50.9%	0.0%
		31,000	1	0	1	31,000	3,639,000	61.9%	0	31,000	3,639,000	51.3%	0.0%
		32,000	0	0	0	0	3,639,000	61.9%	0	0	3,639,000	51.3%	0.0%
		33,000	2	0	2	66,000	3,705,000	63.1%	0	66,000	3,705,000	52.2%	0.0%
		34,000	1	0	1	34,000	3,739,000	63.6%	0	34,000	3,739,000	52.7%	0.0%
		35,000	2	0	2	70,000	3,809,000	64.8%	0	70,000	3,809,000	53.7%	0.0%
		36,000	1	0	1	36,000	3,845,000	65.4%	0	36,000	3,845,000	54.2%	0.0%
		37,000	0	0	0	0	3,845,000	65.4%	0	0	3,845,000	54.2%	0.0%
		38,000	1	0	1	38,000	3,883,000	66.1%	0	38,000	3,883,000	54.8%	0.0%
		39,000	4	0	4	156,000	4,039,000	68.7%	0	156,000	4,039,000	57.0%	0.0%
		40,000	32	0	32	1,836,000	5,875,000	100.0%	1,217,000	3,053,000	7,092,000	100.0%	20.7%
	TOTALS		296	0	296	5,875,000			1,217,000	7,092,000			20.7%
	AVG CONS PER MONTHLY BILL:					9,924				11,980	20.7%		

	RATES BEFORE INTERIM BFC	Gal Chg	Avg Mo Bill	INTERIM RATES BFC	Gal Chg	Avg Mo Bill	PROPOSED RATES BFC	Gal Chg	Avg Mo Bill
	$5.540	$0.81	$9.528	$7.04	$1.03	$17.26	$18.00	$2.195	$39.783
	incl 3,000 gallons		@ 9,924 gals			@ 9,924 gals			@ 9,924 gals

Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Interi 81.2%

Percent Change in Avg Bi-Monthly Bill: Rates Before Interim v. Proposed 317.5%

NOTE: LUSI projects that all repression will occur within the RS class only.
Rates before interim and proposed rates from MFR Schedule E-1, p. 3.
Interim rates from Order No. PSC-96-1187-FOF-WU, p. 15.

SOURCES: (a), (d): MFR Schedule E-14, p. 99.
(c), (h): Attachment to LUSI/Melson letter to Staff 12/06/96 -- Schedule E-14, p. 99.

ATTACHMENT C

Lake Utility Services Inc. (LUSI)
Docket No. 960444-WU

Total Plant Capacity (GPD)	4,716,000	*
Less Fire Flow	480,000	*
	4,236,000	
Max Day Demand	1,968,000	*
Number ERCs	937	**
Max. Day Demand/ERC	2,100	
Design Capacity (in ERCs)	2,017	
Buildout # of ERCs	2,017	
less current ERCs	937	
Future ERCs	1,080	
Future ERCs	1,080	
Growth in ERCs per year	101	
Years to buildout	11	

* Staff Recommendation Issue 6 (Used and Useful)

** Utility's MFRs

ISSUE 28: What are the appropriate water rates for LUSI?

RECOMMENDATION: The recommended rates should be designed to produce annual revenues of $275,955 for water excluding miscellaneous service revenue. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the appropriate rates. The approved rates should 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, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of notice. (AUSTIN)

STAFF ANALYSIS: The permanent rates requested by the utility are designed to produce annual revenues of $447,182 for water. The requested revenues represent an increase of $133,236 or 42.44% for water service.

Staff recommends that the final rates approved for the utility should be designed to produce annual operating water revenues of $275,955 which is an increase of $17,511 or 6.93%. This recommended increase exclude miscellaneous service revenues.

When determining the appropriate rates, staff first must determine the allocation of the components included in the recommended revenue requirement. These components are allocated based upon the relation to fixed and variable costs. Costs directly related to gallonage are allocated 100 percent to the gallonage charge. This is also true for the fixed costs. A majority of the components must be split or allocated between the base facility and the gallonage charges. LUSI did not provide any documentation or justification in its filing to determine its proposed allocation of revenue requirement.

Therefore, staff relied upon past practices and allocations of the Commission. Staff first allocated all variable costs directly to the gallonage charges. When the remaining components were allocated based upon standard allocations, the results did not make sense. Staff then applied the principles of conservation and revenue stability. The goal was to achieve a recommended gallonage charge as close to one dollar as possible. To achieve this, staff allocated the remaining revenue requirement components on a 35/65 split between the base facility and gallonage charges. When this split was applied, the recommended charges for a 5/8 x 3/4 inch meter are $8.06 for the base facility charge and $0.99 for the gallonage charge. These recommended charges encourage water conservation, as well as, promotes revenue stability.

The approved rates should be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The utility should be required to file and have staff's approval of revised tariff sheets. The utility should also be required to file and have approval of a proposed customer notice, pursuant to Rule 25-22.0407(10), Florida Administrative Code, prior to implementing the new rates. The Utility should provide proof of the date notice was given within 10 days after the date of notice.

A comparison of the utility's original rates, interim rates, requested rates, and staff's recommended rates is shown on Schedules Nos. 4-A through 4-D.

ISSUE 29: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water rates should be reduced, as shown on Schedules No. 5, to remove $15,014 for rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. The decrease in rates should become effective immediately following the expiration of the four year recovery period, pursuant to Section 367.0816, Florida Statutes. The Utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction. (AUSTIN)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously authorized in the rates. The reduction should reflect the removal of revenues associated with the amortization of rate case expense grossed-up for regulatory assessment fees which is $15,014. The removal of rate case expense should result in the reduction of rates recommended by staff on Schedule No. 5.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility also should be required to 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 should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

ISSUE 30: In determining whether an interim refund is appropriate, how should the refund be calculated, and what is the amount of the refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collections period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund 14.66% of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should be treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. (ZHANG, AUSTIN)

STAFF ANALYSIS: In Order No. PSC-96-1187-FOF-WU, issued on September 23, 1996, the utility's proposed rates were suspended and interim water rates were approved subject to refund, pursuant to Sections 367.082, Florida Statutes. The approved interim revenue is shown below:

	Revenues	Increase	Percentage
Water	$399,013	$85,067	27.10%

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be an attrition allowance or rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates was the historical twelve months ended December 31, 1995. The approved interim rates did not include any provisions for consideration of staff proposed adjustments in operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. The approved interim rates included miscellaneous service revenues of $73,607 which should have been removed. Based on staff's auditor, $67,912 of the miscellaneous service revenues were misclassified (see Issue 18). The utility's interim increase excluding miscellaneous service revenue should have been $85,067, a 35.39% increase. Since the miscellaneous service revenues were not removed, the Commission only granted the utility an interim increase of $65,132, a 27.10%

increase. Based on the above, the Commission only granted interim revenues of $311,186.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded, because it was not an actual expense during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be $266,406 for water. This revenue level is less than the interim revenue which was granted in Order No. PSC-96-1187-FOF-WU. Also, this revenue level is less than the revenue the Commission actually granted. Therefore, staff recommends a refund of 14.66% of interim rates.

As stated in the case background, the utility's interim rates were a result of a settlement. As part of the settlement, the utility stipulated to the use of "Staff's Proposed Rate Structure (Revised)" in Docket No. 950232-WU, for the purpose of calculating interim rates. Therefore, the rates included in "Staff Proposed Rate Structure (Revised)", pursuant to Order No. PSC-96-0504-AS-WU, became LUSI's current Commission approved rates immediately prior to any interim adjustment in this rate case. For interim, staff applied the percentage across the board to the rates stipulated in the settlement.

The utility should be required to refund 14.66% of water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility should be treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

ISSUE 31: What are the appropriate service availability charges for LUSI?

RECOMMENDATION: Uniform service availability charges are appropriate for LUSI. Staff's recommended service availability charges are shown on Schedule Nos. 6-A and 6-B. Therefore, the tariffs filed on June 3, 1996 for service availability charges should be denied as filed. The utility's current service availability tariff sheets (listed in the staff analysis) should be canceled within thirty days of the effective date of the order. The utility should be required to file revised tariff sheets within thirty days of the effective date of the order, which are consistent with the Commission's vote, staff should be given administrative authority to approve the revised tariff sheets upon expiration of the protest period and staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. (AUSTIN, MONROE)

STAFF ANALYSIS: As discussed in Issue 25, the rates for LUSI have historically been assigned to new acquisitions on an arbitrary basis based on either existing rates of the acquired subdivision or the rates in effect for some other area served by LUSI. As a result, the utility has a disparity in the service availability charges. There currently exist two different service availability charges for the subdivisions of this utility. The service availability charges differ within an interconnected group. For example, Crescent Bay is interconnected with Highland Point, Crescent West and Lake Crescent Hills; however, their service availability charges differ from the other three with in the interconnected group. Since the group is interconnected, they are essentially one system. Therefore, staff believes that it is inappropriate for customers to pay different service availability charges for the same service. For this reason and also for the reasons outlined in Issue 25, staff is recommending uniform service availability charges.

As mentioned in the case background, pursuant to Order No. PSC-96-0504-AS-WU, as a settlement, the utility agreed to propose uniform service availability charges. In the MFRs, the utility proposed, for all of its territory, a plant capacity charge of $600 per ERC and also a $600 main extension charge per ERC. The utility's charges were calculated based on it efficiently serving 1,250 ERCs, it currently serving 937 ERCs, and its having 313 ERCs to build-out. The utility indicated that the number of ERCs that it can efficiently serve was taken from its most recent annual report (year ending December 1995).

Based on staff's calculations using the utility's combined plant capacities less fire flows and max-day demand (MDD) provided in the MFRs, staff determined that the utility could serve 2,681 ERCs at designed capacity. Due to the large discrepancy in the number of ERCs the utility can efficiently serve, staff requested further amplification of the utility's calculation of ERCs at design capacity. The utility was provided a sample calculation indicating how staff arrived at its ERCs at design capacity.

On February 20, 1997, the utility provided revised calculations of its service availability charges using staff's methodology for the calculation of ERCs at design capacity. In these revisions, the utility changed the plant capacities of three of its systems. The utility provided documentation for the changes however, at least one had expired on December 31, 1991. At this point, staff contacted DEP for the permitted plant capacities. Staff's calculations of the ERCs at design capacity are based on the plant capacity data provided in Issue 6 and are shown on Attachment C. Also in its revised calculations of its service availability charges, the utility removed a $460,000 grant received from the State of Florida Department of Environmental Protection to extend mains to citizens with EDB contaminants in their private wells. The company stated that acceptance of money was necessary to complete the project which it did not anticipate undertaking in the foreseeable future. Further, the utility stated that the decision to extend the mains should not hamper the company's ability to calculate a reasonable service availability charge based on the investment and contributions to serve customers within the company's service territory. Staff disagrees with the removal of the grant. By removing the grant, the service availability charges calculated would yield the utility a contribution level higher than the 75% maximum as required by Rule 25-30.580 (1)(a), Florida Administrative Code.

The utility revised its service availability schedule but did not revise its application or request. The utility's revised service availability charge was $540 per ERC. However, staff was unable to determine the allocation for the plant capacity charge and the main extension charge. Staff contacted the utility on or about March 5, 1997 to find out the allocation of the charges. The utility indicated its revised plant capacity charge was $270 per ERC and the main extension was $270 per ERC. Staff is recommending $223 per ERC for the main extension and no plant capacity charge.

Pursuant to Rule 25-30.580 (1)(b), Florida Administrative Code, the minimum amount of contribution-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. Staff calculated the utility's minimum contribution level to be 62.87%. The utility's combined water systems are 57.12% contributed (net CIAC to net plant) which is below the minimum contribution level required by statute. In order to bring the utility to its minimum contribution level by statute, staff has calculated a charge of $76 per ERC. However, pursuant to Rule 25-30.580 (1)(a), the maximum amount of contributions-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility facilities and plant when the facilities and plant are at their designed capacity. Based on staff's calculation in Schedule No. 6-C, in order for the utility to achieve a 75% contribution level, its maximum charge should be $223. Staff is recommending that the $223 charge be allocated only to the main extension charge since by Rule 25-30.580(1)(b), Florida Administrative Code, the minimum amount of contribution-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility's proposed uniform meter installation charges are the same as the meter installation currently approved for Amber Hill, Clermont I & II, Crescent West, Highland Point, Lake Ridge Club, The Oranges, The Vistas I & II, and Lake Crescent Hills. The meter installation fees are as follows:

Meter Installation Charge:	
5/8" x 3/4" meter:	$ 150
1" meter:	$ 250
1.5" meter:	$ 450
2" meter:	$ 650
Over 2" meter:	Actual Cost

In order to remain consistent with uniform rates for this utility, staff believes the charges are just and reasonable for all of the utility's territory and should be approved.

Uniform service availability charges are appropriate for LUSI Staff's recommended service availability charges are shown on Schedule Nos. 6-A and 6-B. Therefore, the tariffs filed on June 3, 1996 for service availability charges should be denied as filed. The utility's current service availability tariff sheets which are Fifth Revised Sheet No. 25.0, Original Sheet No. 25.1, First Revised Sheet No. 25.1-A, Original Sheet No. 25.2, and Third

Revised Sheet No. 26.0. should be canceled within thirty days of the Commission's vote. All other tariff sheets that reference the charges on the above sheets should be amended accordingly. The utility should be required to file revised tariff sheets within thirty days of the effective date of the order, which are consistent with the Commission's vote, staff should be given administrative authority to approve the revised tariff sheets upon expiration of the protest period and staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

ATTACHMENT C

ISSUE 32: What is the appropriate AFPI charge?

RECOMMENDATION: The utility should be allowed to collect AFPI charges based on the staff proposed non-used and useful net plant amounts. Schedule 7, attached to this recommendation, provides the charges and detailed calculation behind each charge recommended by staff. The effective date of accruing the charges for AFPI should be January 1, 1996, consistent with Rule 25-30.434(4), Florida Administrative Code. The utility should file revised tariff sheets within thirty days of the effective date of the Order, which are consistent with the Commission's vote. Upon timely receipt and staff's verification that the tariffs are consistent with the Commission's decision, staff should be given administrative authority to approve the revised tariff sheets. If no protest is filed and the revised tariffs are approved, the charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1). Further, all of LUSI's prior tariff charges for AFPI should be canceled on the same date as the approved AFPI tariffs become effective. If the utility fails to file or incorrectly files the tariffs, then staff will file a subsequent recommendation to resolve any further issues. (ZHANG)

STAFF ANALYSIS: Over the past several years, LUSI engaged in a program to physically interconnect many small independent systems in the Lake County area to develop a more reliable and efficient regional water supply. LUSI has also undertaken a main extension program to enable LUSI to serve residents outside of its initial service territory whose private wells had been contaminated from pesticides used in the nearby orange groves. As previously discussed in Issue No. 5, staff has made material adjustments to remove the portion of the utility plant which is not serving current customers. Staff believes that the utility should be allowed to recover a reasonable rate of return on its investment in the non-used and useful plant through AFPI charges. As stated in Rule 25-30.434(1), Florida Administrative Code, an AFPI charge is designed to allow a utility to recover a fair rate of return on the portion of the plant facilities which were prudently constructed, but exceed the amount necessary to serve current customers. The AFPI charge includes a rate of return, depreciation, property taxes and regulatory assessment fees on this additional plant capacity.

Staff has made its calculation of AFPI charges in accordance with Rule 25-30.434, Florida Administrative Code. The cost of qualifying assets are the amounts of non-used and useful investment less accumulated depreciation. The net investment is divided by the number of ERCs remaining until build-out. The per ERC allowances for rate of return, income taxes, property taxes, and depreciation expense are calculated to arrive at a per ERC carrying cost for the non-used and useful investment. Staff has calculated separate AFPI charges for the water treatment plant and the water distribution system. In this case, the amount of qualifying assets is the fall-out of the staff's recommended non-used and useful calculation. Based on the adjusted non-used and useful percentages, staff has calculated the amount of qualifying assets and expenses associated with these assets. The qualifying assets for the water treatment plant and the water distribution system are $145,276 and $392,698, respectively. Based on the staff engineer's calculation, the future ERCs for the water treatment plant and distribution system are 1,080 and 977, respectively.

Staff's recommended calculation provides an AFPI charge for a five year period beginning January, 1996, and ending December, 2000. After December, 2000, the utility should be entitled to collect AFPI for the designated amount of ERCs, but the charge should remain fixed at the December, 2000 amount. When 1,080 and 977 ERCs for the water treatment plant and distribution system, respectively, are collected, the AFPI charges should cease. This reflects that the utility should bear the additional cost of carrying the excess plant after that date.

Staff has attached Schedule 7 to this recommendation, which provides the specific charges and the detail calculations behind each charge recommended by staff. A separate schedule is attached for both the water treatment plant and the distribution system.

Rule 25-30.434(4), Florida Administrative Code, states that the beginning date for accruing the AFPI charge shall agree with the month following the end of test year that was used to establish the amount of non-used and useful plant. Since the test year for this docket is the year ended December 31, 1995, the utility's beginning date for accruing the AFPI charge should be January 1, 1996. Further, that section states that if any connections are made between the beginning date and the effective date of the charge, no AFPI will be collected from those connections. However, LUSI currently has an AFPI tariff in effect. Those prior charges should remain effective until they are canceled or the designed number of ERCs have paid the charges.

The utility should file revised tariff sheets within thirty days of the effective date of the order issued in this case, which are consistent with the Commission's vote. Upon timely receipt and staff's verification that the tariffs are consistent with the Commission's decision, staff should be given administrative authority to approve the revised tariff sheets. If no protest is filed and the revised tariffs are approved, the charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. Further, all of LUSI's prior tariff charges for AFPI should be canceled on the same date as the approved AFPI tariffs become effective. If the utility fails to file or incorrectly files the tariffs, then staff will file a subsequent recommendation to resolve any further issues.

Staff has recently become aware that LUSI may have incorrectly collected AFPI charges for some of its customers. However, at this time we do not have sufficient information to determine if this in fact has occurred, and if so, in what amount. We will investigate this further, and staff will bring this issue to the Commission's attention in the future if our analysis indicates that a problem does exist.

OTHER ISSUES

ISSUE 33: Are the utility's books and records in compliance with Rule 25-30.115 and Rule 25-30.450, Florida Administrative Code (Audit Exception No. 1)?

RECOMMENDATION: No. LUSI's books and records are not in compliance with the above mentioned rules. Lake Placid Utilities, Inc., Utilities, Inc. of Florida, and Mid-County Services, Inc. are currently being audited by staff for compliance with past Commission orders. LUSI, as well as the remaining Utilities, Inc.'s FPSC regulated companies mentioned in the staff analysis of this issue should be given six months from the date of this order to bring their books and records into compliance with the NARUC Uniform System of Accounts. At that time, staff will perform compliance audits. If substantial compliance is not evident at that time, a show cause proceeding should be initiated. Further, if the parent company purchases any additional companies under the Commission's jurisdiction, the parent company should timely notify the Commission if the purchased utility's books are not in compliance with NARUC. The company should then request a reasonable amount of time that will be necessary to bring the books and records into compliance. (ZHANG)

STAFF ANALYSIS: The Commission has very specific rules regarding utilities' books and records and provisions relating to the burden of proof for audit purposes. Rule 25-30.115, Florida Administrative Code, states that water and wastewater utilities shall maintain its accounts and records in conformity with the 1994 NARUC Uniform Systems of Accounts. Rule 25-30.450, Florida Administrative Code, requires that the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. This rule further indicates that documents supporting a rate filing must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time.

Through the course of the field audit, the staff auditor concluded that the LUSI's books and records are not in compliance with the above mentioned rules. The staff auditor revealed, in Audit Exception No. 1 of the Audit Report, that the books, records and MFRs of this utility did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. The auditor listed the following items which were found to be in violation of the above rules:

1. Accumulated depreciation at December 31, 1994, as shown in Schedule A-9 of the MFRs, is not in agreement with the general ledger. The effect of this violation is discussed in Issue 10.

2. Many additions to plant in service were not supported by proper documentation, invoices, canceled checks, etc. Plant in service was misclassified on several different occasions. The effect of this violation is discussed in Issue 2.

3. The utility did not record its CIAC and advances for construction properly. There were developer/purchase agreements but no ledgers for advances for construction. The effect of this violation is discussed in Issues 8 and 12.

4. Revenues were misstated in the MFRs due to misclassifications. The related adjustment is discussed in Issue 18.

The above violations affected the balances of all major rate base components and the utility's test year operating income. For this reason, the information and schedules in the utility's MFRs also lacked integrity. Because the utility's books and records were maintained in such a poor condition, it was extremely time-consuming and difficult to calculate rate base and the revenue requirement. Given the statutory time requirement for a rate case, the staff auditors had to make tremendous efforts to review prior Commission orders, review the original documentation and examine the ledgers to recalculate and recreate the correct balances for the above areas. Specifically, the auditors recalculated plant in service and accumulated depreciation for all thirteen water plants. CIAC, accumulated amortization of CIAC and advances for construction were also recalculated for all thirteen water plants. In addition, technical staff had to spend a significant amount of time to recalculate non-used and useful plant and accumulated depreciation for the six groups of interconnected water plants.

Based on the above discussion, staff believes that the utility's inability and lack of responsibility to maintain its books and records in a manner required by the Commission has not only demanded an unreasonable amount of Commission resources to process this case, but would have also prevented staff from completing this case within the statutory 5-month timeframe, had the utility not granted two extensions. The excessive use of the limited Commission resources to support a utility's bookkeeping responsibilities is not fair and reasonable to other utilities which are paying regulatory assessment fees and maintaining their books and records as required by the Commission rules.

Utilities, Inc., the parent company of LUSI, owns a number of water and wastewater utilities under the Commission's jurisdiction, in addition to those in other states. Water Service Corporation, also a subsidiary of Utilities, Inc., maintains the books and records for all of Utilities, Inc.'s subsidiaries. In the two most recent rate cases filed by Utilities, Inc.'s subsidiaries in Florida, Lake Placid Utilities, Inc. and Utilities, Inc. of Florida, the Commission found that the books and records were not in compliance with the NARUC Uniform System of Accounts. (See Order No. PSC-95-0574-FOF-WS, issued on May 9, 1995 in Docket No. 951027-WS and Order No. PSC-96-0910-FOF-WS, issued on July 15, 1996 in Docket No. 940917-WS, respectively). At this time, Commission auditors are performing compliance audits on Lake Placid Utilities, Inc., Utilities, Inc. of Florida, and Mid-County Services, Inc. These audits are scheduled to be completed as of July 31, 1997.

Staff believes that compliance with the NARUC Uniform System of Accounts and the above stated Commission rule continues to be a problem for many of Utilities, Inc.'s subsidiaries. Since staff is in the process of performing compliance audits for the above mentioned companies, we will wait until the results of those audits to determine if show cause proceedings are necessary. If so, staff will open subsequent dockets to address our concerns regarding those companies.

Staff believes that the magnitude and pervasiveness of the problems that exist with LUSI's books and records and the reasons discussed above could warrant a show cause at this time. However, since this is the first case where LUSI's records were fully reviewed by staff, we believe that it is reasonable to allow the utility the opportunity to bring its books into compliance first before we initiate enforcement proceedings. We believe that a six-month period is a reasonable amount of time for LUSI to bring its records into compliance. Further, staff recommends that the Commission place the parent company on notice that all of its Florida utilities owned and/or purchased in the future that are under the jurisdiction of the Commission are required to become in compliance and/or continue to maintain their books and records in compliance with the Commission rules and the NARUC Uniform Systems of Accounts. Other than the companies previously cited for non-compliance, the remaining Utilities, Inc. FPSC regulated companies should be given six months from the date of this order to bring their books and records into compliance with the NARUC Uniform System of Accounts and Rule 25-30.450, Florida Administrative Code. The additional Florida subsidiaries are as follows:

Alafaya Utilities, Inc.
Miles Grant Water and Sewer Co.
Tierre Verde Utilities, Inc.
Utilities Inc. of Longwood

If, at the end of six months, any of these Commission regulated subsidiaries fail to be in substantial compliance, the Commission should immediately initiate proceedings requiring the utility to show cause why a fine should not be imposed. To ensure that all the Utilities, Inc. subsidiaries are placed on notice, staff will provide each with a copy of the order resulting from this recommendation. Further, if the parent company purchases any additional companies under the Commission's jurisdiction, the parent company should timely notify the Commission if the purchased utility's books are not in compliance with NARUC. The company should then request a reasonable amount of time that will be necessary to bring the books and records into compliance.

ISSUE 34: Should this docket be closed?

RECOMMENDATION: The docket should be closed if no person, whose interest are substantially affected by the proposed action, files a protest within the 21 day protest period , upon staff's verification that the utility has completed the required refunds and upon the utility's filing of and staff's approval of revised tariff sheets. (MUNROE, VACCARO)

STAFF ANALYSIS: If a protest is not received within 21 days of issuance of the Proposed Agency Action order, the order will become final. This docket should be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of the revised tariff sheets.

LAKE UTILITY SERVICES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-A
DOCKET NO. 960444-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$ 1,946,058	0	$ 1,946,058	(103,440)	1,842,618
2 LAND	3,730	0	3,730	357	4,087
3 NON-USED & USEFUL COMPONENTS	(49,361)	0	(49,361)	(488,618)	(537,979)
4 ACCUMULATED DEPRECIATION	(131,754)	0	(131,754)	(56,123)	(187,877)
5 CIAC	(881,203)	0	(881,203)	(197,429)	(1,078,632)
6 AMORTIZATION OF CIAC	109,430	0	109,430	15,477	124,907
7 ACQUISITION ADJUSTMENT	(70,169)	0	(70,169)	70,169	0
8 ACCUM. AMORT. OF ACQ. ADJUS.	7,095	0	7,095	(7,095)	0
9 ADVANCES FOR CONSTRUCTION	0	0	0	(376,255)	(376,255)
10 DEBIT ACCU. DEF. INCOME TAXES	116,542	0	116,542	127,927	244,469
11 WORKING CAPITAL ALLOWANCE	27,828	0	27,828	(1,253)	26,575
12 OTHER	0	0	0	0	0
RATE BASE	$ 1,078,196	0	$ 1,078,196	(1,016,283)	**61,913**

LAKE UTILITY SERVICES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-B
DOCKET NO. 960444-WU

EXPLANATION		WATER
UTILITY PLANT IN SERVICE		
To adjust utility plant in service	$	(103,440)
LAND		
To reflect unrecorded land cost	$	357
NON-USED AND USEFUL PLANT		
To reflect net non-used & useful adjustment	$	(488,618)
ACCUMULATED DEPRECIATION		
To remove acc. depre. related to UPIS adjustments	$	(56,123)
CIAC		
a) To reflect adjustment per Audit Exception No. 12	$	(168,449)
b) To impute CIAC on Vistas's water system	$	(16,500)
c) To impute CIAC to offset margin reserve	$	(12,480)
		(197,429)
ACCUMULATED AMORTIZATION OF CIAC		
a) To reflect adjustment per Audit Exception No. 12	$	11,803
b) To reflect the effect of imputation of CIAC on Vistas's water plant	$	3,506
c) To reflect the effect of imputation of CIAC on margin reserve	$	168
	$	15,477
ACQUISITION ADJUSTMENT AMORTIZATION		
To remove incorrectly recorded acquisition adjustment	$	70,169
ACCUMULATED AMORT. OF ACQUISITION ADJUSTMENT		
To reflect the effect of removal of acquisition adjustment	$	(7,095)
DEFERRED INCOME TAXES		
To reflect income tax on advance for construction	$	127,927
ADVANCE FOR CONSTRUCTION		
To reflect adjustment per Audit Exception No. 12	$	(376,255)
WORKING CAPITAL		
To reflect adjustments on operating expenses	$	(1,253)

LAKE UTILITY SERVICES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 2
DOCKET NO. 960444-WU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	40,625,000	0	(40,121,805) $	503,195	46.67%	9.19%	4.29%
2 SHORT-TERM DEBT	7,381,250	0	(7,289,823)	91,427	8.48%	9.12%	0.77%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	37,868,798	0	(37,399,742)	469,056	43.50%	11.65%	5.07%
5 CUSTOMER DEPOSITS	14,518	0	0	14,518	1.35%	8.00%	0.11%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	85,889,566	0	(84,811,370) $	1,078,196	100.00%		10.24%
PER STAFF							
10 LONG TERM DEBT	40,625,000	0	(40,602,579) $	22,421	36.21%	9.19%	3.33%
11 SHORT-TERM DEBT	7,381,250	0	(7,377,176)	4,074	6.58%	9.12%	0.60%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	37,868,798	0	(37,847,898)	20,900	33.76%	11.61%	3.92%
14 CUSTOMER DEPOSITS	14,518	0	0	14,518	23.45%	6.00%	1.41%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	85,889,566	0	(85,827,653) $	61,913	100.00%		9.26%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.61%	12.61%
OVERALL RATE OF RETURN	8.92%	9.59%

LAKE UTILITY SERVICES, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-A
DOCKET NO. 960444-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	339,294	107,888	447,182	(188,738)	258,444	23,226	281,670
OPERATING EXPENSES:						8.99%	
2 OPERATION AND MAINTENANCE	218,965	27,767	246,732	(10,024)	236,708 $		236,708
3 DEPRECIATION (NET OFF CIAC AMOR.)	29,578	(1,724)	27,854	(21,169)	6,685		6,685
4 ACQ. ADJ. AMORTIZATION	(2,175)	0	(2,175)	2,175	0		0
5 TAXES OTHER THAN INCOME	35,332	8,252	43,584	(13,548)	30,036	1,045	31,082
6 INCOME TAXES	9,066	11,708	20,774	(27,656)	(6,882)	8,347	1,465
7 TOTAL OPERATING EXPENSES	290,766	46,003	336,769	(70,222)	266,547	9,392	275,939
8 OPERATING INCOME	48,528	61,885	110,413	(118,516)	(8,103)	13,834	5,731
9 RATE BASE	1,078,196		1,078,196		61,913		61,913
RATE OF RETURN	4.50%		10.24%		-13.09%		9.26%

LAKE UTILITY SERVICES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-B
DOCKET NO. 960444-WU

EXPLANATION		WATER
OPERATING REVENUES		
a) To reverse utility's proposed revenue increase	$	(133,236)
b) To remove AFPI charges (Audit Exception No. 10)	$	(32,912)
c) To remove Advances booked as revenue (Audit Exception No. 12)	$	(35,000)
d) Calculation of correction for the MFRs	$	10,765
e) To reflect billing adjustment	$	1,645
	$	(188,738)
O & M EXPENSES		
a)To reduce expenses of power and chemical for unaccounted for water	$	(3,048)
b)To reflect repression adjustment	$	(3,254)
c)To reflect annual amortization of legal fees, LUSI vs Clermont	$	11,474
d)To reflect adjustment to rate case expense	$	(13,429)
e)To remove non-utility insurance premium per Audit Exception No. 6	$	(741)
f)To remove refundable security deposit per audit Exception No. 8	$	(275)
g)To reduce unsupported expenses per Audit Exception No.9	$	(751)
	$	(10,024)
DEPRECIATION EXPENSE NET OFF CIAC AMORTIZATION		
a) To reflect the effect of adjustment to plant in service	$	(12,128)
b) To adjust depr. exp. for non-u&u	$	(14,552)
c) To reflect adjustment to CIAC per Audit Exception No. 12	$	6,258
d) To amortize imputation of CIAC on margin reserve	$	(334)
e) To reflect the effect of imputation of CIAC on Vistas's water plant	$	(413)
	$	(21,169)
AMORTIZATION OF ACQUISITION ADJUSTMENT		
To remove amort. exp. associated with incorrectly recorded acq. adj.	$	2,175
TAXES OTHER THAN INCOME TAXES		
a) To remove RAFs related to revenue adjustments	$	(7,497)
b) To remove tax bill unrelated to utility property per Audit Exception No. 5	$	(1,481)
c) To remove property taxes for non-used & useful plant	$	(3,038)
d) To remove payroll taxes associated with capitalized salaries	$	(1,532)
	$	(13,548)
INCOME TAXES		
Income taxes associated with adjusted test year income	$	(27,656)
OPERATING REVENUES		
To reflect recommended revenue requirement	$	23,226
TAXES OTHER THAN INCOME TAXES		
To reflect adjustment to RAFs due to revenue change	$	1,045
INCOME TAXES		
Income tax related to revenue requirement	$	8,347

LAKE UTILITY SERVICES, INC — SCHEDULE NO. 4-A
COUNTY: LAKE — DOCKET NO. 960444-WU
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

CRESCENT BAY, PRESTON COVE, SOUTH CLERMONT REGION AND ALL FUTURE AREAS SERVED

Residential	Rates Prior to Filing	Rates Approved In Settlement	Commission Approved Interim	Utility Requested Final	Staff Recommended Final
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$16.52	$6.80	$8.64	$18.00	$8.06
3/4"	--	--	$0.00	--	$12.09
1"	--	$17.00	$21.61	$27.00	$20.14
1 1/2"	--	$34.00	$43.21	$45.00	$40.28
2"	--	$54.40	$69.14	$90.00	$64.46
3"	--	--	$0.00	$144.00	$128.91
4"	--	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$0.84	$1.07	$2.195	$0.99
General Service					
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$16.52	$6.80	$8.64	$18.00	$8.06
3/4"	$24.74	--	$0.00	--	$12.09
1"	$41.24	$17.00	$21.61	$27.00	$20.14
1 1/2"	$82.49	$34.00	$43.21	$45.00	$40.28
2"	$131.97	$54.40	$69.14	$90.00	$64.46
3"	$263.94	--	$0.00	$144.00	$128.91
4"	$412.41	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$0.84	$1.07	$2.195	$0.99

5/8" x 3/4" meter		Typical Residential Bill			
3,000 Gallons	$22.10	$9.32	$11.85	$24.59	$11.03
5,000 Gallons	$25.82	$11.00	$13.98	$28.98	$13.01
10,000 Gallons	$35.12	$15.20	$19.32	$39.95	$17.96

LAKE UTILITY SERVICES, INC | **SCHEDULE NO. 4-B**
COUNTY: LAKE | **DOCKET NO. 960444-WU**
RATE SCHEDULE - MONTHLY WATER RATES ***(BI-MONTHLY BILLING CYCLE)***
TEST YEAR ENDING: DECEMBER 31, 1995

CLERMONT I & II, AMBER HILL, HIGHLAND POINT, THE ORANGES, LAKE RIDGE CLUB, CRESCENT WEST, LAKE CRESCENT HILLS, THE VISTAS I & II

Residential and General Service	**Rates Prior to Filing**	**Rates Approved In Settlement**	**Commission Approved Interim**	**Utility Requested Final**	**Staff Recommended Final**
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$7.035	$6.80	$8.64	$18.00	$8.06
3/4"	--		$0.00	--	$12.09
1"	--	$17.00	$21.61	$27.00	$20.14
1 1/2"	--	$34.00	$43.21	$45.00	$40.28
2"	--	$54.40	$69.14	$90.00	$64.46
3"	--	--	$0.00	$144.00	$128.91
4"	--	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$0.69	$0.84	$1.07	$2.195	$0.99

5/8" x 3/4" meter			**Typical Residential Bill**		
3,000 Gallons	$7.04	$9.32	$11.85	$24.59	$11.03
5,000 Gallons	$7.04	$11.00	$13.98	$28.98	$13.01
10,000 Gallons	$10.49	$15.20	$19.32	$39.95	$17.96

(A) Includes 5,000 gallons per month

LAKE UTILITY SERVICES, INC — SCHEDULE NO. 4-C
COUNTY: LAKE — DOCKET NO. 960444-WU
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

HARBOR OAKS AND FOUR LAKES SUBDIVISIONS

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recommended Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$5.54 (A)	$7.04	$18.00	$8.06
3/4"	--	$0.00	--	$12.09
1"	--	$0.00	$27.00	$20.14
1 1/2"	--	$0.00	$45.00	$40.28
2"	--	$0.00	$90.00	$64.46
3"	--	$0.00	$144.00	$128.91
4"	--	$0.00	$288.00	$201.42
6"	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$0.81	$1.03	$2.195	$0.99
5/8" x 3/4" meter		**Typical Residential Bill**		
3,000 Gallons	$5.54	$10.13	$24.59	$11.03
5,000 Gallons	$7.16	$12.19	$28.98	$13.01
10,000 Gallons	$11.21	$17.34	$39.95	$17.96

(A) Includes 3,000 gallons per month

LAKE UTILITY SERVICES, INC SCHEDULE NO. 4-D
COUNTY: LAKE DOCKET NO. 960444-WU
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

LAKE SAUNDERS ACRES

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recommended Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$16.52	$21.00	$18.00	$8.06
3/4"	--	$0.00	--	$12.09
1"	--	$0.00	$27.00	$20.14
1 1/2"	--	$0.00	$45.00	$40.28
2"	--	$0.00	$90.00	$64.46
3"	--	$0.00	$144.00	$128.91
4"	--	$0.00	$288.00	$201.42
6"	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$2.36	$2.195	$0.99
5/8" x 3/4" meter		**Typical Residential Bill**		
3,000 Gallons	$22.10	$28.09	$24.59	$11.03
5,000 Gallons	$25.82	$32.82	$28.98	$13.01
10,000 Gallons	$35.12	$44.64	$39.95	$17.96

LAKE UTILITY SERVICES, INC
COUNTY: LAKE
RATE SCHEDULE - WATER FOUR YEAR RATE REDUCTION
TEST YEAR ENDING: DECEMBER 31, 1995

SCHEDULE NO. 5
DOCKET NO. 960444-WU

FOR ALL AREAS SERVED

SCHEDULE OF RATE DECREASE AFTER EXPIRATION OF AMORTIZATION PERIOD FOR RATE CASE EXPENSE

	STAFF RECOMMENDED RATES	RATE DECREASE
Residential		
Base Facility Charge:		
Meter Size:		
5/8 x 3/4"	$8.06	$0.44
3/4"	$12.09	$0.66
1"	$20.14	$1.10
1 1/2"	$40.28	$2.19
2"	$64.46	$3.51
3"	$128.91	$7.01
4"	$201.42	$10.96
6"	$402.85	$21.92
Gallonage Charge per 1,000 Gallons	$0.99	$0.05
General Service		
Base Facility Charge:		
Meter Size:		
5/8 x 3/4"	$8.06	$0.44
3/4"	$12.09	$0.66
1"	$20.14	$1.10
1 1/2"	$40.28	$2.19
2"	$64.46	$3.51
3"	$128.91	$7.01
4"	$201.42	$10.96
6"	$402.85	$21.92
Gallonage Charge per 1,000 Gallons	$0.99	$0.05

LAKE UTILITY SERVICES, INC. (LUSI)
DOCKET NO.: 960444-WU
TEST YEAR ENDED: DECEMBER 31, 1995
RATE SCHEDULE - SERVICE AVAILABILITY CHARGES

Schedule 6-A

Crescent Bay, Preston Cove, Lake Saunders Acres, South Clermont Region, and all future areas served

SERVICE AVAILABILITY CHARGES	PRESENT CHARGES	UTILITY'S ORIGINAL PROPOSAL	UTILITY'S PROPOSAL FOLLOWING DATA REQUEST	STAFF RECOMMENDED
PLANT CAPACITY CHARGE:				
Residential - per ERC (350 gpd)	$569.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$0.00
MAIN EXTENSION CHARGE:				
Residential - per ERC (350 gpd)	$506.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$223.00
METER INSTALLATION CHARGE:				
5/8" x 3/4"	$100.00	$150.00		$150.00
1"	$143.00	$250.00		$250.00
1-1/2"	$290.00	$450.00		$450.00
2"	$400.00	$650.00		$650.00
All Others	Actual Cost	Actual Cost		Actual Cost
GUARANTEED REVENUE CHARGE:				
With prepayment of Serv. Avail Charges				
Residential-per ERC	$14.28	$0.00	$0.00	$0.00
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines constructed by the utility)	$608.09	$608.09	$608.09	See Schedule 7 - 4
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines contributed to utility)	$299.97	$299.97	$299.97	$0.00

LAKE UTILITY SERVICES, INC. (LUSI)
DOCKET NO.: 960444-WU
TEST YEAR ENDED: DECEMBER 31, 1995
RATE SCHEDULE - SERVICE AVAILABILITY CHARGES Schedule 6-B

Amber Hill, Clermont I & II, Crescent West, Highland Point, Lake Ridge Club, The Oranges, The Vistas I & II
Lake Crescent Hills

SERVICE AVAILABILITY CHARGES	PRESENT CHARGES	UTILITY'S ORIGINAL PROPOSAL	UTILITY'S PROPOSAL FOLLOWING DATA REQUEST	STAFF RECOMMENDED
PLANT CAPACITY CHARGE:				
Residential - per ERC (350 gpd)	$200.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$0.00
MAIN EXTENSION CHARGE:				
Residential - per ERC (350 gpd)	$0.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$223.00
METER INSTALLATION CHARGE:				
5/8" x 3/4"	$150.00	$150.00	$150.00	$150.00
1"	$250.00	$250.00	$250.00	$250.00
1-1/2"	$450.00	$450.00	$450.00	$450.00
2"	$650.00	$650.00	$650.00	$650.00
All Others	Actual Cost	Actual Cost	Actual Cost	Actual Cost
GUARANTEED REVENUE CHARGE:				
With prepayment of Serv. Avail Charges				
Residential-per ERC	$0.00	$0.00	$0.00	$0.00
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines constructed by the utility)	$0.00	$0.00	$0.00	See Schedule 7 - 4
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines contributed to utility)	$0.00	$0.00	$0.00	$0.00

WATER SERVICE AVAILABILITY ANALYSIS

SCHEDULE NO. 1

GROSS BOOK VALUE	$1,846,705
LAND	$4,087
DEPRECIABLE ASSETS	$1,842,618
ACCUMULATED DEPRECIATION TO DATE	$187,877
ACCUMULATED DEPRECIATION AT DESIGN CAPACITY	$735,135
NET PLANT AT DESIGN CAPACITY	$1,111,570
TRANSMISSION & DISTRIBUTION/COLLECTION LINES	$1,160,992
MINIMUM LEVEL OF C.I.A.C.	62.87%
C.I.A.C. TO DATE	$1,072,421
ACCUMULATED AMORTIZATION OF C.I.A.C. TO DATE	$124,824
NET C.I.A.C. TO DATE	$947,597
LEVEL OF C.I.A.C. TO DATE	57.12%
ACCUMULATED AMORTIZATION OF C.I.A.C. AT DESIGN CAPACITY	$443,333
FUTURE CUSTOMERS (ERC) TO BE CONNECTED	1,080
COMPOSITE DEPRECIATION RATE	2.70%
COMPOSITE C.I.A.C. AMORTIZATION RATE	2.70%
NUMBER OF YEARS TO DESIGN CAPACITY	11
EXISTING CHARGE PER ERC	$1,075
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	145.41%
NET C.I.A.C. AT DESIGN CAPACITY	1,616,373
REQUESTED CHARGE PER ERC	$540
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	101.21%
NET C.I.A.C. AT DESIGN CAPACITY	1,125,027
MINIMUM CHARGE PER ERC	$76
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	62.87%
NET C.I.A.C. AT DESIGN CAPACITY	698,825
MAXIMUM CHARGE PER ERC	$223
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	75.00%
NET C.I.A.C. AT DESIGN CAPACITY	833,678

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-1

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC

Information Needed	Treatment Plant	Transmi. & Distri.
1. Cost of Qualifying Assets	$ 145,276	$ 392,698
2. Number of Future Customers	1,080 ERC	977 ERC
3. Annual Depreciation Expense	$ 4,566	$ 11,710
4. Rate of Return	9.35%	9.35%
5. Weighted Cost of Equity	4.03%	4.03%
6. Equity Percent	0.3469	0.3469
7. Federal Income Tax Rate	34.00%	34.00%
8. State Income Tax Rate	5.50%	5.50%
9. Annual Property Tax	$ 820	$ 2,218
10. Other Costs	$ 0	$ 0
11. Depreciation Rate of Assets	2.70%	2.70%
12. Test Year	1995	1995

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-2A

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC:

WATER TREATMENT PLANT

Cost of Quailfying Assets:	$ 145,276		Annual Depreciation Expense:	$ 4,566	
Divided By Future ERC:	1,080		Future ERC's:	1,080	
Cost/ERC:	$ 134.51		Annual Depr. Cost per ERC:	$ 4.23	
Multiply By Rate of Return:	9.35%				
Annual Return Per ERC:	$ 12.58		Annual Propery Tax Expense:	$ 820	
			Future ERC's:	1,080	
Annual Reduction in Return:	$ 0.40				
(Annual Depreciation Expense per ERC Times Rate of Return)			Annual Prop. Tax per ERC:	$ 0.76	
Federal Tax Rate:	34.00%		Weighted Cost of Equity:	4.03%	
Effective State Tax Rate:	3.63%		Divided by Rate of Return:	9.35%	
Total Tax Rate:	37.63%		% of Equity in Return:	43.10%	
Effective Tax on Return: (Equity % Times Tax Rate)	13.05%		Other Costs:	$ 0	
			Future ERC's:	1,080	
Provision For Tax: (Tax on Return/(1-Total Tax Rate))	20.93%		Cost per ERC:	$ 0.00	

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-2B

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC:

WATER TRANSMISSION & DISTRIBUTION SYSTEM

Cost of Quailfying Assets:	$ 392,698		Annual Depreciation Expense:	$ 11,710	
Divided By Future ERC:	977		Future ERC's:	977	
Cost/ERC:	$ 401.94		Annual Depr. Cost per ERC:	$ 11.99	
Multiply By Rate of Return:	9.35%				
Annual Return Per ERC:	$ 37.58		Annual Propery Tax Expense:	$ 2,218	
			Future ERC's:	977	
Annual Reduction in Return: (Annual Depreciation Expense per ERC Times Rate of Return)	$ 1.12		Annual Prop. Tax per ERC:	$ 2.27	
Federal Tax Rate:	34.00%		Weighted Cost of Equity:	4.03%	
Effective State Tax Rate:	3.63%		Divided by Rate of Return:	9.35%	
Total Tax Rate:	37.63%		% of Equity in Return:	43.10%	
Effective Tax on Return: (Equity % Times Tax Rate)	13.05%		Other Costs:	$ 0	
			Future ERC's:	977	
Provision For Tax: (Tax on Return/(1-Total Tax Rate))	20.93%		Cost per ERC:	$ 0.00	

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-3A

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Year: WATER TREATMENT PLANT

		1996		1997		1998		1999		2000
Unfunded Other Costs:	$	0.00	$	0.00	$	0.00	$	0.00	$	0.00
Unfunded Annual Depreciation:		4.23		4.23		4.23		4.23		4.23
Unfunded Property Tax:		0.76		0.76		0.76		0.76		0.76
Subtotal Unfunded Annual Expense:	$	4.99	$	4.99	$	4.99	$	4.99	$	4.99
Unfunded Expenses Prior Year:		0.00		4.99		9.97		14.96		19.95
Total Unfunded Expenses:	$	4.99	$	9.97	$	14.96	$	19.95	$	24.94
Return on Expenses Current Year:		0.47		0.47		0.47		0.47		0.47
Return on Expenses Prior Year:		0.00		0.47		0.93		1.40		1.87
Return on Plant Current Year.		12.58		12.18		11.79		11.39		10.99
Earnings Proir Year:		0.00		12.58		26.41		41.60		58.28
Compound Earnings from Prior Year:		0.00		1.18		2.47		3.89		5.45
Total Compounded Earnings:	$	12.58	$	26.41		41.60		58.28		76.59
Earnings Expansion Factor for Tax:		1.21		1.21		1.21		1.21		1.21
Revenue Required to Fund Earnings:	$	15.21	$	31.93	$	50.31	$	70.48	$	92.62
Revenue Required to Fund Expenses:		4.99		9.97		14.96		19.95		24.94
Subtotal:	$	20.20	$	41.90	$	65.27	$	90.43	$	117.56
Divided by Factor for Regulatory Assessment Fee		0.955		0.955		0.955		0.955		0.955
ERC Carrying Cost for 1 Year:	$	21.15	$	43.88	$	68.35	$	94.69	$	123.10

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-3B

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Year: WATER TRANSMISSION & DISTRIBUTION SYSTEM

	1996	1997	1998	1999	2000
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	11.99	11.99	11.99	11.99	11.99
Unfunded Property Tax:	2.27	2.27	2.27	2.27	2.27
Subtotal Unfunded Annual Expense:	$ 14.26	$ 14.26	$ 14.26	$ 14.26	$ 14.26
Unfunded Expenses Prior Year:	0.00	14.26	28.51	42.77	57.02
Total Unfunded Expenses:	$ 14.26	$ 28.51	$ 42.77	$ 57.02	$ 71.28
Return on Expenses Current Year:	1.33	1.33	1.33	1.33	1.33
Return on Expenses Prior Year:	0.00	1.33	2.67	4.00	5.33
Return on Plant Current Year:	37.58	36.46	35.34	34.22	33.10
Earnings Proir Year:	0.00	37.58	78.88	124.27	174.11
Compound Earnings from Prior Year:	0.00	3.51	7.38	11.62	16.28
Total Compounded Earnings:	$ 37.58	$ 78.89	124.27	174.11	228.82
Earnings Expansion Factor for Tax:	1.21	1.21	1.21	1.21	1.21
Revenue Required to Fund Earnings:	$ 45.45	$ 95.40	$ 150.27	$ 210.55	$ 276.71
Revenue Required to Fund Expenses:	14.26	28.51	42.77	57.02	71.28
Subtotal:	$ 59.71	$ 123.91	$ 193.04	$ 267.57	$ 347.99
Divided by Factor for Regulatory Assessment Fee	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$ 62.52	$ 129.75	$ 202.14	$ 280.18	$ 364.39

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-4

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Month:

	1996	1997	1998	1999	2000	2001
WATER TREATMENT PLANT						
January	1.76	23.05	45.92	70.54	97.06	123.10
February	3.53	24.94	47.96	72.74	99.42	123.10
March	5.29	26.84	50.00	74.93	101.79	123.10
April	7.05	28.73	52.03	77.13	104.16	123.10
May	8.81	30.62	54.07	79.32	106.53	123.10
June	10.58	32.52	56.11	81.52	108.89	123.10
July	12.34	34.41	58.15	83.71	111.26	123.10
August	14.10	36.30	60.19	85.91	113.63	123.10
September	15.87	38.20	62.23	88.10	116.00	123.10
October	17.63	40.09	64.27	90.30	118.36	123.10
November	19.39	41.99	66.31	92.49	120.73	123.10
December	21.15	43.88	68.35	94.69	123.10	123.10

	1996	1997	1998	1999	2000	2001
TRANSMISSION & DISTRI.						
January	5.21	68.12	135.78	208.64	287.20	364.39
February	10.42	73.72	141.81	215.14	294.21	364.39
March	15.63	79.33	147.84	221.65	301.23	364.39
April	20.84	84.93	153.88	228.15	308.25	364.39
May	26.05	90.53	159.91	234.65	315.27	364.39
June	31.26	96.13	165.94	241.16	322.28	364.39
July	36.47	101.73	171.97	247.66	329.30	364.39
August	41.68	107.34	178.01	254.17	336.32	364.39
September	46.89	112.94	184.04	260.67	343.34	364.39
October	52.10	118.54	190.07	267.17	350.35	364.39
November	57.31	124.14	196.10	273.68	357.37	364.39
December	62.52	129.75	202.14	280.18	364.39	364.39

Note: The AFPI charge will cease accruing charges and will remain constant after December 31, 2000. The utility can continue to collect the constant charge until all ERCs projected in the calculation have been added.