State of 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-

DATE: JULY 11, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (FITCH, EDWARDS, LINGO)
OFFICE OF THE GENERAL COUNSEL (HARRIS)

RE: DOCKET NO. 010823-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN SEMINOLE COUNTY BY CWS COMMUNITIES LP D/B/A PALM VALLEY.
COUNTY: SEMINOLE

AGENDA: 07/23/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUES 17, 20, AND 21 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: WAVIED (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010823.RCM

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CASE BACKGROUND

Palm Valley (Palm Valley or utility) is a water and wastewater utility located in Seminole County. By Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS, the Commission transferred operating Certificate Nos. 277-W and 223-S for water and wastewater respectively to CWS Communities. The Commission also approved the utility's rates that were in effect at the time the operating certificates were transferred.

During the historic test year, Palm Valley was a subsidiary of CWS Communities Ltd. which operates and develops several retirement communities around the country. During the historic test year ending July 31, 2001, the utility provided water and wastewater service to approximately 55 residential customers and one bulk service customer, which is a 641 unit mobile home park. During the test year, the utility also initiated a reuse system that serves approximately 187 existing customers of the utility and will serve the new customers in the newly developed Phase VIII section of the mobile home park.

During the last two years, the utility planned and developed a reuse system to aid in the disposal of effluent related to the wastewater system. In July 2001, the reuse system was brought online and began providing reuse water for irrigation to the newly developed Phase eight section of the mobile home park as well as many of the existing residents. Reuse will be available to the 148 future residents of the Phase VIII section and is currently available to 147 existing residents of the park.

The utility's service area is primarily a mobile home community in the west Seminole County area which also includes Fox Run, a small housing development near the mobile home park. Many of the residents are seasonal and reside in the community only a portion of the year. Many of the mobile homes within the park are individually metered and all of the Fox Run homes are individually metered.

On June 8, 2001, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on August 6, 2001. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Staff has audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate

setting. Staff also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a projected test year ending July 31, 2003 for this rate case. This is further addressed in Issue No. 1.

On February 14, 2002, Docket No. 020122-WS was established to transfer majority organizational control (TMOC) of CWS Communities to CP Limited Partnership known in Florida as Chateau Communities Limited Partnership. The Commission approved this transfer at the July 9, 2002, Agenda Conference. The utility did not undergo any substantial changes to management or operational costs due to the TMOC; therefore, Chateau elected to go through with this SARC since it was already being processed.

It was determined during a preliminary staff audit that Palm Valley was a Class C utility and qualified for a SARC under Section 367.0814, Florida Statutes. As soon as the new rates are applicable, approved revenues will qualify Palm Valley as a Class B utility. Therefore, staff used the NARUC account system designated for Class B utilities for this rate case.

The utility received Consumptive Use Permit No. 8266, effective December 20, 2001, from the St. Johns River Water Management District (SJRWMD). This permit required the utility to submeter all occupied mobile homes in Palm Valley as well as all newly constructed mobile homes. The permit also required the utility to seek an inclining block rate structure in its next rate case before the Florida Public Service Commission, which encourages water conservation in the Fox Run subdivision and in all parts of the Palm Valley Mobile Home Community.

The Commission has a memorandum of understanding with the five Florida Water Management Districts. This memorandum recognizes a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's area is under the jurisdiction of the St. Johns River Water Management District (SJRWMD or District).

A customer meeting was held in the service area on June 6, 2002. A representative of the St. Johns River Water Management District, and approximately 85 customers attended the meeting; 17 customers chose to give comments. Staff also conducted an informal afternoon meeting with the board of the homeowners' association.

Customers asked a number of questions of the water management district with regards to the permitting process in general, conservation methods, and the utility's consumptive use permit. Many of staff's adjustments are related to the requirements included in the utility's consumptive use permit. These adjustments will be discussed in Issue Nos. 4, 5, 8, 13, 15, 16, and 18. Customers' comments about low water pressure in the water and reuse systems will be discussed in Issue No. 2. Customers also questioned the accuracy of the existing meters in the mobile home park; this item will be discussed in Issue Nos. 2 and 4.

Many of the comments received at the customer meeting involved possible violations of Chapter 723, Florida Statutes, by the mobile home park owner who is also the utility owner. The Commission's jurisdiction and possible conflicts with Chapter 723, Florida Statutes, will be discussed in Issue No. 15.

The following is a list of acronyms which are used throughout this staff report:

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
SJRWMD	St. Johns River Water Management District

GLOSSARY OF TECHNICAL TERMS

BFC	Base Facility Charge - The portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

CUP Consumptive Use Permit - Permit issued by the water management district which outlines conditions of withdrawing water from the aquifer.

ERCs Equivalent Residential Connections - A statistic used to determine the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection size is compared to that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

GPD Gallons Per Day - An expression of a measured amount of liquid that can be delivered or actually measured during a 24-hour period.

GPM Gallons Per Minute - An expression of a measured amount of liquid that can be delivered or actually measured during a one-minute time period.

MGD Million Gallons per Day

O&M Operations and Maintenance Expense

RAF Regulatory Assessment Fees

SARC Staff Assisted Rate Case

UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.

Used and Useful the amount of plant capacity that is used by current customers including an allowance for the margin reserve.

USOA Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

ISSUE 1: Should the Commission approve a projected year end rate base for the utility?

RECOMMENDATION: Yes, the Commission should approve a projected year end rate base to allow the utility an opportunity to earn a fair return on its investment and to better match rate base with customer growth on a going forward basis. A projected year end test year ending July 31, 2003, should be approved. (FITCH)

STAFF ANALYSIS: For audit purposes staff selected a historical test year ending July 31, 2001. The utility is growing at a rate of 25 ERCs a year for water, wastewater, and reuse customers. This represents a significant annual increase (17%) in the number of reuse customers from the historic test year. Because the cost associated with reuse is a significant factor in this case, staff believes that rates based on historical data alone will be significantly different than rates based on current or even future conditions. Staff believes that a projected year end test year (ending July 31, 2003) is appropriate in this case and will better match increasing revenues with projected fixed and variable costs.

This is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. For an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

> The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Therefore, the Commission found a projected test year was appropriate.

The Commission should only apply a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket. The utility made net additions

which represent $351,393 (48%) for water UPIS and $689,908 (36%) for wastewater UPIS during the historic test year and staff is recommending pro forma additions to be made in the future test year of $48,675 for water and $34,869 for wastewater. The historic test year additions were made to upgrade existing plant as well as to meet the demand of the expanding customer base of the utility. The pro forma additions have been recommended so that the utility can meet the requirements of its CUP. Further, staff is recommending an increase in service availability charges that would result in a 70% increase for water and a 15% increase for wastewater CIAC collected in the projected test years. Staff has determined customer growth for next year of 25 ERC's based on estimates provided by the utility. In Order PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, the Commission found 36.07% of total plant to be considered an extraordinary circumstance; in Order PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, the Commission found improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance.

Because of the above factors, staff recommends that a projected year end rate base is appropriate, in this case, to better match rate base with customer base on a going forward basis and allow the utility an opportunity to earn a fair return on its investments. Staff recommends that a projected year end test year ending July 31, 2003, should be approved.

QUALITY OF SERVICE

ISSUE 2: Is the quality of service provided by CWS Communities LP d/b/a Palm Valley (Palm Valley) satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Palm Valley, to its customers, should be considered satisfactory. (EDWARDS)

STAFF ANALYSIS: Rule 25-30.433(1), Florida Administrative Code specifies:

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

Staff's analysis below addresses each of these three components:

Palm Valley is a class "C" utility which presently provides water and wastewater services to approximately 697 residential connections in Seminole County. The utility's service area is the Palm Valley Mobile Home Park and Fox Run Development which is located in Oviedo, Florida. The raw water source is ground water, which is obtained from a total of two wells that are located at the plant site. The processing sequence for this water treatment system is to pump raw water from the aquifer, aeration, inject chlorine, store, pressurize, and distribute. The wastewater treatment plant processes the inflowing waste and directs it to the reclaimed water processing system of the plant; The reclaimed water is then distributed to the dripper system, the residential area, and to the general service areas of the community.

Quality of The Product

At this time, staff acknowledges that the finished product meets the Environmental Protection Agency (EPA) standards. In addition, both staff and the DEP engineer concur that the finished products of the water, wastewater and reclaim water are satisfactory.

Operation Condition at the Plant

On November 5, 2001, staff conducted a field inspection of the facilities and the investigation revealed that Palm Valley's plants were in compliance with the Department of Health and DEP's rules and regulations. This utility is listed under the jurisdiction of SJRWMD. SJRWMD has placed water usage restrictions on Seminole County.

Water Treatment Facilities: The water plant has a source of supply capacity of 0.675 million gallons per day (mgd). The utility's water treatment facilities consist of: two wells (8" inches and 10" casings), two 25 horse power pumps, two 75,000 gallon storage tanks, one 5,000 gallon hydro pneumatic tank, three 50 horse power high speed service pumps and a liquid chlorine pump. At the time of the engineering investigation, the water treatment facilities appeared to be operating properly.

Water Distribution System: The water distribution system mains are polyvinyl chloride (PVC) (12", 8", 6", 4" and 2"). During the engineering investigation, the water distribution system appeared to be operating properly. Currently, the utility has no outstanding citations or violations on file with the DEP.

Wastewater Treatment Plant: The wastewater treatment plant has a permitted capacity of 0.150 mgd, annual average daily flows (AADF). This is an extended aeration with filtration and high-level disinfection system and the design consists of: Effluent disposal, aeration tanks, aeraboric digester, clarifier tanks, chlorine tanks and percolation ponds. At the time of the engineering investigation, the wastewater treatment facility appeared to be operating properly.

Wastewater Collection System: The wastewater collection system comprises: Collection mains - PVC pipes (8" and 3"); 86 manholes

and 5 lift stations. During the engineering investigation, the collection system appeared to be operation properly.

Reclaimed Water System: The Reclaimed Water System comprises of: filtration; high level disinfection; 30,000 gallons reclaimed water pump station; a 3-way automatic diverter valve; a 150,000 gallons reject pond; an 800,000 gallon wet weather storage/rapid infiltration basin with a disposal capacity of 17,000 gpd; a 35,000 gpd decorative pond; an 8,483 gpd clubhouse irrigation system; 21,140 gpd irrigation of 140 existing lots; 22,424 gpd irrigation of 148 new lots; a 10,000 gpd exfiltration trench; North Dripper System with a disposal capacity of 3,415 gpd; West Dripper System with a disposal capacity of 2,273 gpd; common area irrigation in new construction of 24,931 gpd and Area B Dripper System with a disposal capacity of 6,766 gpd. The total disposal capacity is 151,432 gpd.

Customer Satisfaction

On June 6, 2002, staff conducted a customer meeting which was held in Oviedo, Florida. There were approximately 85 customers and one representative (Ms. Shannon L. Joyce) from SJRWMD in attendance. Seventeen customers came forward to express their concerns, regarding this rate case. The majority of the customer's concerns were SJRWMD related and Ms. Joyce addressed those questions. The water quality issues expressed by the customers were: The installation of new meters, the newly proposed rates, and potable and reuse water pressure. After hearing the opinions and concerns expressed by the customers, staff investigated the concerns regarding low pressure and meter accuracy. The investigation revealed the following: All of the new meters are reading accurately and the old meters need to be replaced. In regard to low pressure, staff did not witness the existence of low pressure problems. However, staff asked the utility if they were experiencing low pressure problems. Ms. Sandra Seyffart, a representative of the utility, stated that low reuse/reclaimed water pressure had been a problem. However, "the pressure for the reuse/reclaimed system is back to normal." "A partially closed valve caused reduced pressure in the system for about five days. Also, the potable water pressure remains consistent between 45-53 psi." In addition, Ms. Seyffart stated that the complaints received by the utility regarding low water pressure were addressed. The utility would send a member of the maintenance staff to check the pressure at the customers' hose bibs to verify the pressure at the

home sites. About 99% of the time, the pressure at the hose bib was good, which indicates that the problem was inside the customers' homes.

Summary

Currently, a review of the water treatment system, water distribution system, wastewater treatment system, wastewater collection system and the reclaim water system evaluations for the past 3 years and data provided by DEP, indicates that the utility had a history of deficiencies/non compliance (wastewater treatment system) problems. However, at present, the DEP's files indicate that all of the systems are in compliance.

Based on the above, staff recommends that the quality of service provided by Palm Valley, to its customers, should be considered satisfactory.

ISSUE 3: What percentage of the utility's water and wastewater treatment plants, water distribution system, wastewater collection system, and reclaimed water system are used and useful?

RECOMMENDATION: The water treatment plant, wastewater treatment plant, water distribution system, wastewater collection system, and the reclaimed water system should be considered 78%, 81%, 100%, 100% and 100% used and useful, respectively. (EDWARDS)

STAFF ANALYSIS: On August 5, 2001, Palm Valley filed an application for a staff assisted rate case, for a rate increase. The utility records for the test year (2001) plus two years of projected growth adjustment (2003) were utilized to calculate the used and useful percentage. Currently, the utility's records indicate that the system is operating properly.

Water Treatment System

The water treatment plant has a SJRWMD permitted capacity of 0.675 mgd. The Commission's practice has been to use a five maximum day average in order to compensate for line break, fires, or other anomalies which could cause a single day to reflect usage out of the normal range. (See Orders Nos. PSC-96-0663-FOF-WS, issued May 13, 1996, in Docket No. 950336-WS, and PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495.) The five maximum day average flows, per the utility's records, is 327,000 gallons per day (gpd); however, with 2 years of projected growth the average flows should be 349,560 gpd. The fire flow requirement equates to 150,000 gpd.

Customer growth for the previous five years is not applicable in this case. The growth analysis projects that the area will be built out four (4) years after the projected test year. This is below the five-year growth allowance pursuant to Section 367.081(2)(a)2.b., Florida Statutes. Therefore, the growth rate in gallons of water per day is approximately 25,641 gpd. During the test year, the utility had not installed meters to all of its customers' homes, and they were not implementing a meter reading program. Therefore, unaccounted for water could not be determined. In accordance with the formula method for calculating used and useful, the water plant should be considered 78% used and useful. This is calculated by taking the five maximum days projected average flow, to which are added the built-out growth allowance and the fire flow requirement and then subtracting the excess

unaccounted for water which produces the flows that are then divided by the plant capacity. The calculation is summarized in Attachment A Page 1 of 4.

Water Distribution System

Palm Valley's customer base is primarily residential, and in this case connections are equivalent to ERCs. The water distribution system has the potential to serve an estimated 844 connections without the construction of additional distribution mains. The average number of connections served during the historical test year were 697 connections; however, with the addition of projected growth adjustment, the number of connections for the projected test year is 745. Growth allowance is 99 connections at built out. In accordance with the formula method of calculating used and useful, staff calculates that the distribution system should be considered 100% used and useful. This is calculated by taking the projected average test year number of connections plus the growth allowance then dividing that total by the estimated capacity in connections. This calculation is summarized in Attachment A Page 2 of 4.

Wastewater Treatment System

The wastewater treatment plant has a permitted capacity of 0.150 mgd. The Commission's practice is to use the DEP designated units of permitted capacity to calculate the used and useful. The DEP permitted this utility at 0.150 mgd based on annual average daily flow. The annual average daily flow (AADF), per the utility's records, is 103,756 gpd; however, the 2 years projected growth increased that amount to 107,116 gpd. As indicated earlier, the growth analysis projects that the area will be built out four (4) years after the projected test year. By using the projected customers' growth at built out which is 99 connections, the growth rate in gallons should be 14,256 gpd.

This utility had not installed meters to all of its customers' homes, and they were not implementing a meter reading program. Therefore, excessive infiltration or inflow could not be determined. In accordance with the formula method for calculating used and useful, the wastewater plant should be considered 81% used and useful. This is calculated by taking the projected annual average daily flow to which are added the built out growth allowance and subtracting the excess infiltration then dividing by

the plant capacity. This calculation is summarized in Attachment A Page 3 of 4.

Wastewater Collection System

The utility's customer base is primarily residential, and in this case connections are equivalent to ERCs. The wastewater collection system customer base, identical to the water distribution system, has the potential to serve an estimate 844 connections without the construction of additional collection mains or force mains. The average number of connections served during the historical test year was 697 connections; however, with the addition of projected growth adjustment the number of connections for the projected test year is 745. The projected customers' growth allowance at built out should be 99 connections. In accordance with the formula method of calculating used and useful, staff calculates that the collection system should be considered 100% used and useful. This is calculated by taking the projected average test year number of connections plus the built out growth allowance then dividing that total by the estimated capacity in connections. This calculation is summarized in Attachment A Page 4 of 4.

Reclaimed Water System:

Chapter 367.0817, Florida Statutes, requires that all prudent costs of a reuse project shall be recovered in rates. Therefore, the reclaimed water system is 100% used and useful.

Summary

Currently, based on the above and most recent data, staff recommends that the water treatment plant, wastewater treatment plant, water distribution system, wastewater collection, and reclaim water system, should be 78%, 81%, 100%, 100% and 100% used and useful, respectively.

ISSUE 4: Should Palm Valley be required to install new water and reuse meters and to initiate a meter replacement program?

RECOMMENDATION: Yes. Staff is recommending that the utility be required to install water and reuse meters which should be in place within six months from the effective date of the order. (EDWARDS, FITCH)

STAFF ANALYSIS: Palm Valley has recently installed more than 100 meters for all of its existing water customers. However, none of the meters were being read. Therefore, staff was unable to obtain sufficient data to make a determination regarding the amount of unaccounted for water. In addition, the possibility of inflow and infiltration to the wastewater treatment system could not be determined.

The utility has approximately 100 or more of the original meters whose flows exceed 1,000,000 gallons. Once a meter's flows exceed 1,000,000 gallons, the accuracy of the meter normally declines. Therefore, staff is recommending that the implementation of an aggressive meter change out program be initiated. The meter change out program should begin immediately after all customers have received reclaimed water meters.

Further, as a condition of its CUP, the utility is required to individually meter all of its customers. This is consistent with the SJRWMD's goal of water conservation, in that, it has been found that rates based on consumption are the most effective way to encourage water conservation. Staff agrees and through the Commission's MOU with the Water Management Districts, staff has made a conscious effort to move utilities from flat and unmetered rates to metered consumption based rates.

At present time, the utility has not yet installed meters for reuse throughout the system. The customers with reuse service are currently receiving the service at no charge until the completion of this rate case. In discussions with staff, the utility indicated that without a rate, there was really no need to meter the reuse supplied to customers of the utility. The utility further indicated that it would immediately install meters when a rate was issued by the Commission for reuse.

Staff recognizes the need to promote reuse and that it is a valuable water source which should not be wasted. Therefore, in

Issue No. 11, staff is recommending a reuse gallonage rate which is designed to encourage acceptance of reuse for irrigation versus potable water and encourage responsible use of this valuable resource. The utility will have to meter consumption to charge this or any rate other than zero. Therefore, staff is recommending that the utility install reuse meters for all of its reuse customers.

Based on the foregoing, staff recommends that the utility be required to install water and reuse meters which should be in place within six months from the effective date of the order.

ISSUE 5: What is the appropriate test year rate base for this utility?

RECOMMENDATION: The appropriate projected year end rate base for the utility is $499,732 for water and $864,049 for wastewater. (FITCH)

STAFF ANALYSIS: The Commission set rate base for this utility in Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS, (Transfer Docket).

Staff has selected a projected test year ended July 31, 2003, and the rate base components have been calculated using the utility's books and records for a plant balance through that time. Because staff has selected a projected test year end, averaging adjustments have not been made. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded a UPIS balance of $285,865 for water and $1,134,245 for wastewater during the historical test year. Staff has increased UPIS by $98,240 for water and by $105,256 for wastewater to reflect the UPIS balance approved in the transfer docket. Staff increased UPIS water and wastewater by $449,539 and $695,192 respectively to include plant additions made during the test year. Staff has decreased UPIS water by $98,148 to reflect the retirement of two in-ground storage tanks and a hydro-pneumatic tank during the historic test year. Staff also decreased wastewater by $5,284 to reflect the retirement of a lift station and treatment equipment during the historic test year.

At historic test year end, there were 225 customers in Palm Valley Mobile Home Park that did not have water meters. As discussed in Issue No. 4, staff is recommending that the utility be required to install meters for all of its water and reuse customers. Therefore, staff has included pro forma plant of $48,675 to include the purchase and installation of the meters for the water system. Staff also included a pro forma plant addition to wastewater of $34,869 for purchase and installation of 147 reuse meters for existing customers and 50 reuse meters for future reuse customers.

Staff's adjusted balance for the water and wastewater accounts are $784,171 and $1,964,278 respectively.

Land: The Commission determined land values for this utility of $2,433 for water and $96,409 for wastewater in the utility's transfer docket. The utility recorded a land value of $116,298 for wastewater. There have been no changes in land since the transfer docket. Therefore, staff has decreased this account by $19,889 for wastewater to reflect the Commission approved land balance.

Non-used and Useful Plant: Staff has determined the used and useful percentages for each plant account including pro forma plant items. Applying the non-used and useful percentages to the plant accounts results in non-used and useful plant of $50,187 for the water system. The non-used and useful accumulated depreciation is $26,900 for the water plant. This results in a net non-used and useful adjustment of $23,287 for the water plant and water distribution system.

Applying the non-used and useful percentages to the wastewater system plant and distribution systems results in non-used and useful plant of $212,461. The non-used and useful accumulated depreciation is $113,166 for the wastewater plant and distribution system. This results in an overall non-used and useful adjustment of $99,295.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of $89,509 for water and $390,046 for wastewater during the historic test year. Staff increased this account $3,230 for water and $34,867 for wastewater to match the balances approved in the transfer docket. Staff further increased this account $170 for water and $1,835 for wastewater to include an unrecorded connection during the historic test year.

Staff increased this account by an additional $59,600 for water and $65,800 for wastewater to include the projected connections during the projected test year based on the existing service availability charges and the service availability charges recommended in Issue No. 18. Staff has also increased this account by $4,425 for water and by $4,425 for wastewater to include projected meter installation fees recommended in Issue No. 18. Total adjustments for this account is an increase of $67,425 for water and $106,927 for wastewater further resulting in balances of $156,934 and $496,973 for water and wastewater respectively.

Accumulated Depreciation: The utility recorded $228,501 for water and $398,125 for wastewater during the historical test year. Staff has increased this account by $7,968 for water and by $170,721 for wastewater to reflect the accumulated depreciation balances approved in the transfer docket.

Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has increased this account by $103,015 for water and decreased this account by $398,609 for wastewater to reflect staff's calculated accumulated depreciation.

Staff has increased this account by $52,682 and by $174,249 for water and wastewater respectively to include the projected test years' accumulated depreciation. Staff's net adjustment to this account is a decrease of $58,301 for water and an increase of $402,137 for wastewater.

Staff's calculated accumulated depreciation for the future test year end is $170,200 for water and $800,262 for wastewater.

Amortization of CIAC: The utility recorded amortization of CIAC of $51,078 for water and $118,202 for wastewater during the historical test year. Staff has decreased this account by $3,808 for water and increased this account by $59,101 for wastewater to reflect the CIAC amortization balances approved in Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS.

Consistent with Commission practice, staff has recalculated amortization of CIAC using composite depreciation rates. Staff's has increased this account by $4,559 for water and decreased this account by $40,080 for wastewater to adjust the utility balance to staff's calculated amount.

Staff has increased this account by $7,746 for water and $43,597 for wastewater to reflect staff calculated amortization of CIAC for the two year period ended July 31, 2003 (the projected test period). Total adjustments for this account is an increase of $8,497 for water and $62,618 for wastewater.

Working Capital Allowance: Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used

for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $3,974 (based on O&M of $31,796) for water and $19,072 (based on O&M of $152,579) for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is $499,732 for water and $864,049 for wastewater. Rate base and the appropriate adjustments can be found on Schedules 1A, 1B, and 1C.

COST OF CAPITAL

ISSUE 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity for this utility is 10.51% with a range of 9.51% - 11.51%. The appropriate overall rate of return for this utility is 9.62%. (FITCH)

STAFF ANALYSIS: Based on the utility's records, at July 31, 2001, Palm Valley's capital structure consisted of the following: common stock of $0, paid-in-capital of $0, retained earnings of $0, and long term debt of $0.

Palm Valley is a wholly-owned subsidiary of CWS Communities, Ltd., the developer of the service territory served by the utility. Soon after the SARC application was submitted by the utility, CWS Communities was acquired by Chateau Communities, Ltd. (Chateau). Since the utility did not sufficiently record capital structure, staff has elected to use the capital structure of Chateau.

Staff has increased Common Stock by $256,953 to reflect the capital structure of Chateau. Staff has further adjusted capital structure by increasing Paid In Capital by $232,405,586. The two adjustments result in a total equity of $232,662,539 for the parent company.

Common equity represents 63.70% of the utility's total capital structure. Using the current leverage formula approved in Docket No. 010006-WS, by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, the return on equity allowed for the utility is 10.51%.

Chateau, the parent, has a number of short term debt obligations that total $39,664,587 or 10.86% of the total capital structure with an average interest of 8.47%. The average interest cost for the short term debt is 8.47%.

The parent had incurred $92,930,352 of long term debt with an average interest cost of 7.91%.

The utility currently has a tariffed charge for customer deposits. Palm Valley's records indicate total customer deposits of $875. During the test year, $550 of customer deposits were returned to the customers resulting in a final historic test year

balance of $325. Staff has determined projected year end customer deposits to be $2,875, based on existing deposits and customer deposits recommended in Issue No. 19.

The utility's capital structure has been reconciled with staff's recommended rate base. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 9.62%.

Staff recommends the appropriate rate of return on equity for this utility of 10.51% with a range of 9.51% - 11.51%, and the appropriate overall rate of return for this utility of 9.62%.

NET OPERATING INCOME

ISSUE 7: What are the appropriate projected test year revenues?

RECOMMENDATION: The appropriate projected test year revenues for the utility are $38,613 for water and $40,342 for wastewater services. (FITCH)

STAFF ANALYSIS: The utility recorded revenues for the 12-month period ended July 31, 2001, of $24,399 and $19,309 for water and wastewater respectively.

As previously mentioned, the service area is divided into two sections. One section consists of 55 residential customers that reside in the Fox Run subdivision. The utility's current residential water tariff authorizes a base facility charge of $2.69 which includes 2,000 gallons and a gallonage charge of $.54 per 1,000 gallons used above the initial 2,000 gallons. The utility's wastewater tariff allows for a flat rate of $8.77 per month for residential customers. The residential wastewater tariff does not include a gallonage cap.

The other section within the Palm Valley service area is the Palm Valley Mobile Home Park and consists of 641 customers who are not all individually metered. Instead, the developer, who is also the utility owner, treats itself as a single bulk service customer. The tariffed rate for the bulk service customer is $.54 per 1,000 gallons for water and $.56 per 1,000 gallons for wastewater. Staff was provided with the master meter readings for the mobile home community and used the data to calculate revenues.

Staff has calculated revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by $12,062 for water and $18,801 for wastewater to reflect revenue based on the existing rates. Staff has increased these amounts by $2,152 for water and $2,232 for wastewater to include revenues resulting from the future test year customer growth.

Staff recommends test year revenues of $38,613 for water and $40,342 for wastewater.

ISSUE 8: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense for this utility is $65,585 for water and $240,539 for wastewater. (FITCH)

STAFF ANALYSIS: The utility provided the auditor with all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended July 31, 2001. Using the documents provided by the utility and the audit, staff has determined the appropriate operating expenses for the projected test year and a breakdown of expenses by account class. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Purchased Power (615/715) - The utility recorded $3,959 for water and $15,257 for wastewater in this account during the historic test year. Staff has increased this account by $273 for water and $1,105 for wastewater to allow for an increase in power usage due to customer growth during the projected test period. Staff has decreased this account by $1,550 for water and by $5,989 for wastewater to reflect a repression adjustment.

Staff's adjustment to purchased power results in a balance of $2,682 for water $10,374 for wastewater.

Fuel for Power Production (616/716) - During the test year, the utility did not record an amount in this account. The utility installed diesel generators in both the water and wastewater plants as required by DEP. Fuel was purchased for the generators and mistakenly recorded in Materials and Supplies. Staff has reclassified $532 to this account from Materials and Supplies (636) for fuel purchased and divided it equally between water and wastewater. This resulted in an increase to this account of $266 each for water and wastewater to include fuel bought for the new generators.

Chemicals (618/718) - The utility recorded $5,078 for water and $5,689 for wastewater in this account during the historic test year. Staff has decreased this account by $401 for water and by $534 for wastewater to remove undocumented chemical purchases.

Staff has increased this account for wastewater by $233 to reclassify chemicals from Account No. 720 ($191) and Account No. 736 ($42). Staff has increased this account $322 for water and $390 for wastewater to include estimated increases due to customer growth during the projected test period. Staff has decreased this account by $1,831 for water and by $1,972 for wastewater to reflect a repression adjustment.

Staff's recommended balances for this account is $3,168 for water and $3,806 for wastewater.

Materials and Supplies (620/720) - The utility recorded $1,987 for water and $4,595 for wastewater in this account during the historic test year.

Staff has decreased this account by $189 for water and by $74 for wastewater to remove undocumented expenses. Staff has also decreased this account by $265 for water and by $250 for wastewater to reclassify rate case expense to Account No. 665 and 765. Staff has decreased this account by $191 for wastewater to reclassify chemical expense to Account No. 718.

Staff has increased this account by $568 for wastewater to reclassify supplies recorded in the Contractual Services-Other Account. Staff has decreased this account by $275 for water and by $1,974 for wastewater to reclassify engineering fees to the Contractual Services-Engineering Account. Staff has further reduced this account by $240 for water to remove billing cost already included in Account No. 632. Total adjustments to this account result in a decrease of $969 and $1,921 for water and wastewater respectively.

Contractual Services - Engineering (631/731) - The utility recorded $0 in this account for water and wastewater during the test year. Staff increased this account by $275 for water and by $1,974 for wastewater to reclassify amounts improperly recorded in Materials and Supplies Account (620/720). Staff also increased this account by $1,312 each for water and wastewater that was incorrectly recorded in Miscellaneous Expenses (675/775). The majority of the engineering expenses recorded were non-recurring. Therefore, staff reduced this account by $1,050 for water and by $2,629 for wastewater to amortize engineering expenses over a five-year period pursuant to Rule 25-30.433(8), Florida Administrative Code.

Total adjustments to this account result in an increase of $537 for water and $657 for wastewater.

Contractual Services - Accounting (632/732) - The utility recorded $0 in this account during the test year. Staff increased this account by $1,630 each to water and wastewater to include an amount improperly recorded in Miscellaneous Expenses Account (675/775).

In Issue No. 15, staff is recommending that the utility be required to bill all its metered customers pursuant to Rule 25-30.335, Florida Administrative Code. The utility indicated that it would be soliciting the services of Park Billing which is a company that prints and mails bills for utility companies. The utility requested a total of $6,000 to be split evenly between water and wastewater to obtain billing services from the vendor. Staff has found this amount to be prudent and has allowed an increase of $3,000 each for water and wastewater to provide the billing services. Total adjustments result in an increase of $4,630 each for water and wastewater for this account.

Contractual Services - Testing (635/735) - The utility recorded $0 for both water and wastewater in this account during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rule 62-550 and 551, Florida Administrative Code, and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are as follows:

Water DEP Required Testing

Description	Frequency	Annual Cost
Bacterialogicals	Monthly	$720
Volatile Organics	36 Months	73
Gross Alpha	36 Months	30
Inorganics	36 Months	170
Nitrate and Nitrite	36 Months	40
PCB's and Pesticides	36 Months	500
Secondary Contaminants	36 Months	130
	Total Amount	$ 1,663

Wastewater DEP Required Testing

Description	Frequency	Annual Cost
CBOD & TSS Effluent	Every two weeks	$ 1,586
CBOD & TSS Influent	Every two weeks	1,586
Fecal Coliform	Every two weeks	936
PH	Every 5 days	0
Sewer Nitrates	Every two weeks	936
Sludge Analysis	Annually	450
	Total Amount	$ 5,494

During staff analysis, it was discovered that testing services are included as part of the duties of the operator and therefore, do not appear as a separate expense. Staff has increased this account $1,663 for water and $5,494 for wastewater to reclassify testing expenses that were recorded in Contractual Services - Other (636/736).

Contractual Services-Other (636/736) - The utility recorded $5,135 for water and $55,207 for wastewater in this account during the

test year. Staff has decreased this account by $300 for water to remove an out of period invoice. Staff has increased this account by $30,792 for wastewater to allow for an increase in the operator's expense that took place during the historic test year.

Initially, staff believed the amount requested for the operator to be excessive based on previous allowances for operator services for the utility. Upon further review, staff believes that the amount is prudent. The increase can be attributed to the addition of reuse services for the utility. When reuse was added, the duties of the operator increased considerably in the form of more DEP required hours on duty and more frequent monitoring and testing of the effluent from the system.

Staff has made the following reclassifications: $532 for water to Account No. 616 and 716 (diesel fuel), $42 for wastewater to Account No. 718 (chemicals), and $568 for wastewater to Account No. 720 (supplies). As discussed above, it was discovered that testing services are included as part of the duties of the operator and therefore, do not appear as a separate expense. Therefore, staff has reclassified $1,663 for water and $5,494 for wastewater to the Contractual Services-Testing Account to include DEP required testing.

Staff has decreased this account by $2,424 to amortize non-recurring dripper field repairs over five-years. The utility requested an annual amount of $21,288 to maintain the dripper fields. Initially staff believed this amount to be excessive. However, the construction of the dripper fields is such that a lawn mower or tractor can not be used to maintain the fields. Instead, the seven plus acre fields must be maintained with weed trimmers. Therefore, staff believes that this cost is reasonable and has increased this account by $19,838 ($1,450 already included during the test year) for wastewater to reflect the dripper field maintenance cost.

Total adjustments for this account is a decrease of $2,495 for water and an increase of $42,102 for wastewater.

Regulatory Commission Expense (667/767) - The utility did not record an amount in this account for the test year. Pursuant to Rule 25-30.020, Florida Administrative Code, the utility paid a rate case fee of $1,000 each for the water and wastewater systems and recorded the fee in the Miscellaneous Account. Staff has

increased this account by $1,000 for water and wastewater each to reclassify the filing fee improperly recorded in Miscellaneous Expenses Account (675/775).

The utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. Staff increased this account $329 each for water and wastewater to allow the utility relief from additional mailing and copying expenses associated with this rate case. Staff has further increased this account by $258 each for water and wastewater to reclassify rate case expense recorded in the Materials and Supplies account.

Staff has decreased this account $1,190 each for water and wastewater to amortize the total rate case expenses over four years. Total adjustments in this account result in an increase of $397 for water and wastewater respectively.

Miscellaneous Expense (675/775) - The utility recorded $8,079 for water and $8,079 for wastewater in this account during the historic test year. Staff has decreased this account $1,000 each for water and wastewater to reclassify rate case fees to Regulatory Commission Expense (667/767). Staff has reduced this account further to reclassify Regulatory Assessment Fees of $1,556 each for water and wastewater to Taxes Other Than Income.

Staff decreased $1,630 each from this account for water and wastewater and transferred the amounts to Contractual Services - Accounting (632/732) to properly classify accounting expenses associated with the utility. Staff further decreased these accounts $1,312 each for water and wastewater and transferred the amounts to Contractual Services - Engineering (631/731). Staff decreased this account by $728 each to remove Seminole County utility taxes from this account. Seminole County utility taxes are recovered through a separate charge on the customer's bill.

Staff has increased this account by $1,806 for water and decreased this account by $1,806 for wastewater to reclassify the cost associated with a consumptive use permit to the water system. The consumptive use permit was issued for five-years; therefore, staff has decreased this account by $2,889 to amortize the consumptive use permit over five-years.

Total adjustments result in a decrease of $7,309 for water and a decrease of $8,032 wastewater.

Operation and Maintenance Expense (O&M Summary) - Total O&M adjustments are a decrease of $6,467 for water and an increase of $36,827 for wastewater. Staff's recommended O&M expenses are $31,796 for water and $152,579 for wastewater.

Depreciation Expense - The utility recorded depreciation expense of $0 for water and wastewater for the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation is $27,707 for water and $86,421 for wastewater, therefore, staff has increased this account by these amounts for water and wastewater respectively.

Non-used and useful depreciation has a negative impact on depreciation expense. Staff has decreased this account by $1,883 for water to reflect non-used and useful depreciation, wastewater has been decreased $10,840 to reflect non-used and useful depreciation.

Amortization of CIAC also has a negative impact on depreciation expense. Staff has decreased this account by $5,545 for water to reflect staff's calculated amortization of CIAC and wastewater has been decreased by $22,713 as well.

Staff's calculated depreciation expense is $20,279 for water and $52,868 for wastewater.

Taxes Other Than Income - The utility recorded $1,477 for water and wastewater each in this account during the historic test year. These amounts consisted of payroll taxes for the test year. Staff has decreased this amount by $250 each for water and wastewater to annualize payroll taxes for the test year.

Staff increased this account $1,556 for water and $1,556 for wastewater to include RAFs that were improperly recorded in Miscellaneous Expenses (675/775). Staff's calculated revenues resulted in an adjustment to test year RAFs. These revenue adjustments resulted in an increase of $182 for water and $259 for wastewater RAFs in this account.

Staff further increased this account $7,168 for water and $19,301 for wastewater to record the used and useful portion of property (real and tangible) taxes associated with the utility. Total adjustments for this account result in increases of $8,656 and $20,866 for water and wastewater respectively.

Income Tax - Palm Valley's parent company, Chateau Communities, is a limited partnership. Therefore, pursuant to Rule 25-30.433(7), Florida Administrative Code, the utility has no income tax liability.

Operating Revenues - Revenues have been increased by $75,046 for water and $283,319 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been increased by $3,377 for water and $12,749 for wastewater to reflect regulatory assessment fees of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of $65,585 for water and $240,539 for wastewater.

REVENUE REQUIREMENT

ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is $113,659 for water and $323,661 for wastewater. (FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of $75,046 (194.35%) for water and $283,319 (702.29%) for wastewater. This will allow the utility the opportunity to recover its expense and earn a 9.62% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted rate base	$499,732	$864,049
Rate of Return	x .0962	x .0962
Return on investment	$48,074	$83,122
Adjusted O & M expense	$31,796	$152,579
Depreciation expense (Net)	$20,279	$52,868
Taxes Other Than Income	$13,510	$35,092
Revenue Requirement	$113,659	$323,661
Projected Test Year Revenues	$38,613	$40,342
Percent Increase/(Decrease)	194.35%	702.29%

As discussed in Issue No. 7, the utility's projected test year revenues are $38,613 for water and $40,342 for wastewater. The above calculation results in a 194.35% annual increase of $75,046 ($113,659 - $38,613) for water and a 702.29% annual increase of $283,319 ($323,661 - $40,342) for wastewater.

Staff would like to point out that although the percentage increase in services would appear extremely high, the recommended rates are reasonable due to the overall large customer base. It should also be noted that percentage increases are relative to the base amount being increased. In this case, the existing rates are

extremely low, thus even modest increases in actual dollars would result in high percentage increases.

As previously mentioned, the service area is divided into two groups, the 641 customers in the Palm Valley Mobile Home Park that do not receive a monthly bill and the 55 customers in the Fox Run subdivision that do receive a monthly bill. The overall percentage increase in revenue is misrepresentative because the majority of the test year revenues are derived from the 55 customers of the Fox Run subdivision. The residents of the mobile home park are supplied water and wastewater service as part of their monthly rent.

Further, In Issue No. 10, staff is recommending that the reuse portion of the wastewater revenue requirement be allocated between a reuse rate and the water revenue requirement. This further skews the actual increase in revenue requirement to the water customers. A more representative revenue requirement increase would be as follows:

	Water	Wastewater
Revenue Requirement (from above)	$113,659	$323,661
Less Reuse Revenues	$0	($46,592)
Reuse Revenue Requirement Allocated	$63,129	($63,129)
Reallocated Revenue Requirement	$176,788	$213,940
Projected Test Year Revenues	$38,613	$40,342
Percent Increase/(Decrease)	357.85%	430.32%

The above calculation better represents the actual increase in revenue requirement between the water and wastewater systems.

RATE STRUCTURE, RATES AND TARIFF CHARGES

ISSUE 10: What is the appropriate reuse revenue requirement and how should recovery of the reuse revenue requirement be allocated between the water, wastewater, and reuse systems?

RECOMMENDATION: The appropriate reuse revenue requirement is $130,764. The reuse revenue requirement should be allocated so that $46,592 (36%) is recovered through reuse rates, $63,129 (48%) is included in water rates, and $21,043 (16%) is included in the calculation of wastewater rates. Staff's allocations are consistent with the authority prescribed in Section 367.0817(3), Florida Statutes. (FITCH, LINGO)

STAFF ANALYSIS: Section 367.0817(3), Florida Statutes, sets forth the Commission's authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

In July 2001, the utility brought the reuse system online and began providing reuse services to 147 existing customers of the utility. According to the company, the customers were chosen for reuse based on their proximity to the wastewater treatment plant. An additional 148 more customers will be receiving reuse upon build-out of the Phase 8 section of the mobile home park resulting in a total of 295 total reuse customers served by the utility.

Revenue requirement associated with the reuse system has been calculated as follows:

	Reuse
Adjusted Reuse Rate Base	$555,228
Rate of Return	x .0962
Return on Investment	$53,440
Reuse O & M Expense	$41,632
Reuse Depreciation Expense (Net)	$23,868
Reuse Taxes Other Than Income	$11,824
Revenue Requirement	$130,764

As discussed in Issue No. 11, staff is recommending a reuse gallonage rate of $1.15 per 1,000 gallons. Staff has estimated the projected annual reuse usage to be 40,515,000 gallons per year, based on the 2001 reuse inventory report. This results in staff's recommended projected reuse revenues of $46,592.

In Issue No. 13, staff has determined that 75% of the remaining revenue requirement ($84,171) should be shifted to the water system. Staff believes that this is prudent and necessary to permit the development of conservation rates as discussed below. Staff believes that allocating the 75% of the remaining reuse revenue requirement to water customers is both reasonable and prudent for this utility and will allow staff to construct a meaningful conservation rate structure.

In this case, absent any rate design adjustment, the pre-repression rates would be a BFC of $5.23 with a gallonage charge of $1.14 per kgal. These rates do not represent meaningful conservation rates. Staff believes an important rate design goal is to design rates that are conservation oriented as possible without jeopardizing the utility's revenue sufficiency or stability. The first step in accomplishing this goal is to shift a portion of the reuse system's revenue requirement to the water system.

Based on the forgoing staff recommends that the appropriate reuse revenue requirement is $130,764. The reuse revenue requirement should be allocated so that $46,592 (36%) is recovered through reuse rates, $63,129 (48%) is included in water rates, and $21,043 (16%) is included in the calculation of wastewater rates.

ISSUE 11: What is the appropriate rate for reuse services?

RECOMMENDATION: The appropriate rate for reuse is $1.15 per 1,000 gallons of usage. 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, providing the reuse customers have received notice. (FITCH)

STAFF ANALYSIS: As part of a large plant expansion project throughout 1999 and 2000, the utility installed the appropriate lines and system needed to provide reuse for irrigation purposes to the 148 projected units of the Phase VIII portion of the development. The utility also installed the necessary lines to provide reuse to approximately 147 existing customers in an older section of the Palm Valley establishment.

At present time, the utility has not yet installed meters for reuse throughout the system. The customers with reuse service are currently receiving the service at no charge until the completion of this rate case. In discussions with staff, the utility indicated that without a reuse rate, there was really no need to meter the reuse supplied to customers of the utility. The utility further indicated that they would immediately install meters when a reuse rate was issued by the Commission for reuse. Staff has recommended in Issue No. 4 that the utility be required to install reuse meters for all its reuse customers.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by the Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. Staff recognizes the need to promote reuse and that reuse is a valuable water source which should not be wasted. In this case, staff has designed a reuse rate that both promotes the acceptance of reuse and encourages conservative use of the resource.

In determining the rate for this utility, staff compared the rates of a number of utilities that provide residential reuse for customers. Staff compared reuse rates from the four county area which included Seminole, Volusia, Orange, and Lake Counties as they are listed in the 2001 Reuse Inventory Directory issued by the Florida Department of Environmental Protection which was issued in June 2002. In that area, approximately 15 utilities provide

residential reuse for customers. Staff's investigation revealed that of those 15 utilities, 11 of them instituted a flat rate and the other four used a BFC/Gallonage format for billing purposes.

While a majority of these utilities use a flat rate for residential reuse services, staff believes that metering would help to curtail excessive usage by reuse customers. Although this Commission and the utility would like to encourage reuse, there is a limited amount of reuse available. A flat rate may promote excessive irrigation and place the utility in the precarious position of having to supplement the reuse system with potable water.

As mentioned, four of the utilities in the DEP data base use a BFC/Gallonage rate structure for the residential reuse customers in their service areas. Although staff would ordinarily agree with this rate structure, circumstances surrounding the Palm Valley Utility and customers would prevent this rate structure from serving its purpose, which is to promote reuse. The following table contains rates from other residential reuse providers in Seminole County:

Reuse System Name	**Charge/Month**	**Charge/1000 gal**
Altamonte Springs Regional	$10.50	$0
Casselberry	1.24	.67
Sanford	3.25	.25
Winter Springs/ East	5.00	0
Winter Springs/Tuscawilla	5.00	0

The customers of Palm Valley currently do not directly pay for water or wastewater separately since it is currently considered an included service as part of the monthly lot rents. When this case is complete, the majority of the customers will begin receiving water and wastewater bills for the first time. Staff believes that a significant amount of rate-shock will be experienced by many of the customers. Staff further believes that an additional BFC/Gallonage bill for reuse would discourage usage of the reuse system and supply. Staff believes that many of the customers would

revoke reuse service to avoid the additional BFC they would receive every month.

For the above reasons, staff recommends no base facility charge and that a monthly gallonage charge of $1.15 per thousand gallons be considered for this utility. This rate structure will encourage customers to take reuse and assure adequate effluent disposal in that it is significantly cheaper than potable water and provides an excellent source for irrigation. Further, staff believes that this rate is sufficiently high enough to encourage responsible use of this resource. Based on staff's recommended rate of $2.30 per thousand gallons of potable water, the cost per thousand gallons of reuse would only be 50% of potable water rates. Staff believes that setting a reuse rate of half the potable water rate will encourage acceptance of this resource.

As discussed in Issue No. 10, the reuse rate will provide the utility with revenues to offset the additional expenses incurred while providing reuse service to the customers. Staff recommends that the appropriate rate for reuse for this system is $1.15 per 1,000 gallons of usage. 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, providing the reuse customers have received notice.

ISSUE 12: What is the appropriate residential gallonage cap for wastewater service?

RECOMMENDATION: The appropriate residential gallonage cap for wastewater service should be 6,000 gallons. (FITCH)

STAFF ANALYSIS: The recommended rates for wastewater service should include a base facility charge for all residential customers regardless of meter size with a cap of 6,000 gallons of usage per month on which the gallonage charge may be billed. There is no cap on usage for general service wastewater bills.

The current Commission standard in setting residential wastewater rates is that only 80% of residential water usage is returned to the system as wastewater. The remaining 20% is attributed to outside uses such as lawn irrigation, car washing, etc.

Generally, the Commission sets monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. For this utility, staff's analysis indicates that residential customers will use approximately 6,600 gallons of water per month once the new base facility/gallonage rate structure is initiated.

Considering the above factor and that the utility serves a mobile home retirement community with seasonal customers, staff believes that the wastewater gallonage cap for residential customers should be set at 6,000 gallons per month. Therefore, staff recommends a gallonage cap of 6,000 gallons per month for wastewater residential customers at this time. If usage patterns change, this gallonage cap will be re-examined in the next rate case.

ISSUE 13: Is a continuation of the utility's current rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current rate structure for its water system is not appropriate in this case. Specifically, the 2,000 gallon allotment should be removed from the rate structure currently applicable to the Fox Run subdivision, and the master meter rate structure should be removed from the corresponding rate structure applicable to the utility's Palm Valley mobile home park customers. The utility's rate structure should be changed to a traditional base facility charge (BFC)/gallonage charge rate structure applicable to all its customers, **and a negative (reverse) conservation adjustment of 15% should also be implemented.** (LINGO)

STAFF ANALYSIS: For the approximately 55 customers within the Fox Run subdivision, the utility's current water system rate structure consists of a monthly BFC/gallonage charge rate structure, in which the BFC of $2.69 includes an allotment of 2,000 gallons (2 kgal) of water, and all gallons in excess of 2 kgal used are charged $0.54 per kgal. Approximately 641 individual homes within the Palm Valley mobile home park (the Palm Valley park or park) were not metered during the historic test year. The developer has paid the tariffed charge of $0.54 per kgal as measured through the park's master meter.

The Commission's preferred rate structure has historically been the traditional BFC/gallonage charge rate structure. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. However, in response to the Governor's stated water conservation policy, as well as water supply concerns throughout the state, the state's five Water Management Districts have requested that the Commission implement inclining-block rate structures whenever possible.

The utility's current rate structure for the Palm Valley park is considered nonusage sensitive because the homes are neither individually metered nor billed for their respective consumption. These customers therefore receive no price signal to reduce usage at any consumption level. The current rate structure for the Fox Run subdivision is also considered nonusage sensitive because of the 2 kgal allotment in the BFC. This allotment discourages conservation at and below the allotment level.

Staff recommends that the current rate structures be eliminated to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures. Furthermore, the current rate structures should be eliminated in order for the utility to move toward compliance with the requirements of its Consumptive Use Permit (CUP) as issued by the St. John's River Water Management District. The utility's current CUP requires that the utility implement an inclining-block rate structure. However, due to a lack of detailed metered data for all of the utility's residential customers, implementation of an inclining-block rate structure is not appropriate at this time.

Staff believes an important rate design goal is to design rates that are as conservation-oriented as possible without jeopardizing the utility's revenue sufficiency or revenue stability. In this case, absent any rate design adjustments, the pre-repression rates would be a BFC of $5.23 with a gallonage charge of $1.14 per kgal. Staff does not believe these rates are sufficient to design meaningful conservation rates. We believe an increase in the water system's revenue requirement is necessary to accomplish this goal.

As discussed in Issue No. 10, the remaining portion of the reuse system's revenue requirement to be recovered through rates is $84,171. Section 367.0187, Florida Statutes, gives the Commission the authority to allocate the costs of providing reuse among any combination of the utility's customer base. Specifically, Section 367.0817(3), Florida Statutes, states:

> All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

This legislation recognizes that all customers benefit from the water resource protection afforded by reuse. Prior to the existence of this statute, the Commission approved a water conservation plan for Sanlando Utilities Corporation in Docket No. 930526-WS, wherein the utility was allowed to collect the cost of

a proposed reuse project entirely through the rates of its customers.

Criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: 1) recognition of perceived benefit; 2) average usage of the water customers; 3) the level of the water rates; 4) the magnitude of the water and wastewater revenue increases; and 5) the need to send a stronger price signal to achieve water conservation.

As mentioned above, staff does not believe the water system's rate level, absent a shift in reuse costs, are sufficient to design meaningful conservation rates. As discussed at the customer meeting by a representative of the St. Johns River Water Management District (SJRWMD or District), the nearby City of Oviedo is already having problems with salt water intrusion in some of its wells. A benefit of allocating a portion of the reuse system's costs to the utility's water customers is that it will enable staff to design rates that send a stronger conservation signal. This will hopefully forestall similar problems occurring with Palm Valley's wells.

The water and wastewater systems share the same customer base. Absent a shift in reuse costs to the utility's water customers, the revenue increase for the water system is $75,046, while the wastewater system's corresponding increase is $283,319. A shift of reuse costs to the water system will mitigate the wastewater system's increase, while enabling staff to design more conservation-oriented rates.

Based on the foregoing, we believe an allocation of a portion of the utility's reuse system revenue requirement is necessary and appropriate in this instance so that meaningful conservation rates may be designed. Staff analyzed shifting various portions of the reuse revenue requirement, in increments of 25 percentage points, from 25% to 75%, to the water system. The results of our analysis are shown in the table on the following page.

PORTION OF $84,171 REUSE SYSTEM REVENUE REQUIREMENT SHIFTED TO THE WATER SYSTEM			
	ALLOCATION PERCENTAGES SHIFTED		
	25%	50%	75%
$ Amount Shifted	$ 21,043	$ 42,086	$ 63,128
Percentage Increase in Total Water System Revenue Requirement	18%	36%	54%
BFC w/o Allocation	$5.23	$5.23	$5.23
Gal Chg w/o Allocation	$1.14	$1.14	$1.14
BFC w/Allocation	$6.17	$7.11	$8.05
Gal Chg w/Allocation	$1.34	$1.54	$1.75
5 kgal Price w/o Alloc	$10.93	$10.93	$10.93
5 kgal Price w/Alloc	$12.87	$14.83	$16.79
Amount Increase	$1.94	$3.90	$5.86
Percentage Increase	18%	36%	54%

As seen in the table above, allocating 25% of the reuse system's revenue requirement to the water system increases the total water system revenue requirement a mere 18%. This equates to an increase in price at 5 kgal of $1.94. Doubling the reuse shift to 50% increases the total water system revenue requirement by 36%, increasing the price at 5 kgal by $3.90. Staff does not believe shifts of these magnitudes will enable us to design meaningful, conservation-oriented rates. However, shifting 75% of the reuse revenue requirement to the water system increases the water system's revenue requirement by $63,128 (54%). Based on our analysis, we believe that a shift of this magnitude will make it possible to design meaningful, more conservation-oriented rates.

An additional rate design adjustment which results in more conservation-oriented rates is a conservation adjustment, whereby a portion of the cost recovery is shifted from the BFC to the gallonage charge. This adjustment is made in the majority of water rate cases. However, staff believes there are two reasons why a conservation adjustment should not be made in this case. First, as discussed above, staff is making the utility's water rates more conservation-oriented by changing the rate structure for the vast majority of the customers from non-metered to metered rates. This type of rate structure change typically results in a greater change in the utility's revenue stability and sufficiency compared to other rate structure changes. Staff anticipates that substantial consumption reductions will be made by those newly-metered customers. This will be discussed in greater detail in the following issue.

The second reason why staff believes a conservation adjustment is inappropriate is that predicting the total anticipated consumption reduction for both the Palm Valley park customers and Fox Run customers is difficult in this case. Although the Fox Run customers have been receiving and paying a water bill prior to this case, due to the rate structure change and the magnitude of the price changes, there is no directly comparable information in staff's database which would help predict the anticipated consumption reduction for these customers. Furthermore, the water bill for the Palm Valley park has historically been paid by the developer, who plans to continue paying the bill for the park's residents for another year. This postpones the date the Palm Valley park residents begin receiving a price signal regarding their consumption.

In recognition of the above-referenced concerns, we believe a shift in cost recovery from the BFC to the gallonage charge is inappropriate in this case. Conversely, we believe a shift that will result in an increase in BFC cost recovery, and thereby provide greater revenue stability, is appropriate. Staff's initial assessment of cost recovery indicates that the BFC would recover 40% of the water system's costs, while the gallonage charge would recover the remaining 60% of the costs. Based upon our analysis of the utility's monthly consumption patterns, coupled with our best professional judgement, staff believes that a negative (reverse) conservation adjustment of 15% will be sufficient to provide the utility its needed revenue stability.

Therefore, a continuation of the utility's current rate structure for its water system is not appropriate in this case. Specifically, the 2,000 gallon allotment should be removed from the rate structure currently applicable to the Fox Run subdivision, and the master meter rate structure should be removed from the corresponding rate structure applicable to the utility's Palm Valley mobile home park customers. The utility's rate structure should be changed to a traditional BFC/gallonage charge rate structure applicable to all its customers, **and a negative (reverse) conservation adjustment of 15% should also be implemented.**

ISSUE 14: Is an adjustment to reflect repression of consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 22,388 kgal is appropriate. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were no water utilities that had experienced the same sort of rate structure and price increase changes as the utility's Fox Run customers. However, based upon our best professional judgement, plus anecdotal evidence of customers' reactions to similar rate structure and price changes in other jurisdictions, we believe the Fox Run residents will reduce their consumption by 50%. This results in an anticipated annual reduction in consumption for those residents of 3,322 kgal.

The recommended adjustment for the Palm Valley park residents was more difficult to determine. Although our database does not contain information regarding utilities' customers going from a situation in which they did not directly pay for their water to one in which they become metered and billed, the database does contain information on several utilities which experienced the rate structure change of going from flat rates to metered rates. The consumption reductions in these cases range from 45% to 60%. Therefore, staff believes an anticipated 50% reduction in consumption for the Palm Valley park customers is reasonable before consideration of other factors.

Staff has been informed by the utility that, although it will read the newly-installed meters and send bills to the Palm Valley park residents, the developer will pay these residents' water bills for the first year after the increased rates go into effect. We anticipate that customers seeing what their water bill would encourage some reduction in consumption in the first year after the

rate increase. Staff believes that over the course of a two-year period, once customers actually start paying their water bills, the average repression will be 35%. This results in an anticipated reduction in consumption of 19,066 kgal, or a utility system total of 22,388 kgal. This represents an overall repression adjustment of approximately 37%.

Therefore, a repression adjustment of 22,388 kgal is appropriate. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 15: Should the utility be required to bill all individually metered customers in its service area?

RECOMMENDATION: Yes, the utility should be required to bill all its individually metered water and reuse customers pursuant to Rule 25-30.335, Florida Administrative Code, with the conditions discussed below in the staff analysis. (FITCH, HARRIS)

STAFF ANALYSIS: In order to comply with its CUP, the utility initiated this rate case primarily for the purpose of establishing future residential water, wastewater, and reuse rates for the customers of the mobile home park that are currently being served as a bulk rate customer. Currently, the water and wastewater services are included as part of the lot rent for the residents of the mobile home park.

According to the SJRWMD, the district wants to move the utility customers away from the flat rate (included in lot rent) structure in order to encourage water conservation. The district has taken steps toward this goal by requiring in the utility's CUP that all the mobile home customers be submetered and that the utility seek an inclining block rate structure in its next rate proceeding. Staff agrees that consumption based rates are the most effective way to encourage conservation and through the Commission's MOU with the Water Management Districts, staff has made a conscious effort to move utilities from flat and unmetered rates to metered consumption based rates.

Staff has received a number of calls from concerned customers who believe that a separate water and wastewater bill imposed upon them would violate their prospectus (rental agreement) with the developer. Many of the customers believe that their prospectus disallows the metering of water lines, the reading of the meters, and billing for utility services. Several customers provided staff with copies of the current prospectus and argued that the utility cannot charge rates that would violate the prospectus.

In Order No. 22160, issued November 7, 1989 in Docket No. 890442-WU, the Commission found that Section 367.081(2), Florida Statutes, sets forth how this Commission must set rates. In that order, the Commission found that it must consider a fair return on the investment of the utility in property used and useful in the public service in setting rates that are "just, reasonable, compensatory, and not unfairly discriminatory." The Commission

would be prevented from carrying out its statutory mandate if it were to be bound by deed restrictions and covenants. Further, varying restrictions and covenants would give rise to unfairly discriminatory rates.

In Cohee v. Crestridge Utilities Corp., 324 So. 2d 155 (Fla. 2d DCA 1975), the Second District Court of Appeal acknowledged that the Commission has exclusive jurisdiction to set rates. The Court, however, stated that the homeowners were entitled to an adjudication of whether the utility had breached its contract by increasing rates, and that this could only be done in a court of law. In Order No. 22160, the Commission found that similarly, the Lake Tarpon homeowner's dispute concerning the covenants and restrictions is a contractual dispute within the exclusive jurisdiction of the courts.

Further, in Order No. PSC-94-0569-FOF-WS, issued May 13, 1994, in Docket No. 930847-SU, a case similar to this one where the customers' position was that the Commission could not legally alter the contract by changing the customers' rates and charges for the provision of water and wastewater services, the Commission found that pursuant to Chapter 367, Florida Statutes, the Commission has exclusive jurisdiction to regulate the provision of water and wastewater service by utilities, which of course, includes the establishment of rates and charges. In Public Service Commission v. Lindahl, 613 So. 2d 63, 64 (Fla. 2d DCA 1993), the Court found that the Commission's authority to raise or lower rates, even those established by a contract, is preemptive. Also, in Order No. 21680, issued August 4, 1989, in Docket No. 881178-WS, the Commission found that a pre-existing contract, of a similar nature as the contract in this case, was not determinative in setting rates in accordance with Chapter 367, Florida Statues.

In this case, the utility and the developer are one in the same. Residents of the mobile home park have expressed concern that rates would violate Chapter 723, Florida Statutes, which indicate that a reduction of services to tenants of a mobile home park must be accompanied by a comparable reduction in monthly lot rents. Staff believes that the Commission lacks the authority to resolve this issue and that this issue should be resolved between the tenants of the mobile home park and the Chateau Communities.

Staff has had numerous conversations with the utility and the SJRWMD over the current billing provisions. As a result, the

utility, in an effort to appease the tenants of the mobile home park and comply with its CUP, has requested a unique rate structure to be put in place during this rate proceeding. Rather than immediately imposing a residential rate on the 641 customers of the mobile home park, the utility requested that the individual rates not be placed in effect until there is sufficient time to meet the requirements of Chapter 723, Florida Statutes. Rather than collecting revenues from the customers, revenues are to be paid by the developer and treated as regular revenue.

Staff reviewed the plan suggested by the utility and we recommend a number of conditions to accompany the utility's proposed rate structure:

1. The utility should be required to read each customer meter each month as if it was billing in a normal fashion. Expenses are being allowed for meter reading so the utility should be required to perform this task.

2. The utility should mail the bills monthly to the customers even though the customers will not be submitting payment. This will allow the customers to monitor and adjust their water usage nearly a year before receiving their first actual bill. This will not only promote conservation but it will lessen the rate shock to customers they may experience upon receiving their first actual water bill.

3. The utility should record these monthly statements as revenues and pay RAFs accordingly.

4. The utility should be required to notice the customers 90 days prior to the first actual billing which is to take place. This should take place no later than August 2003. The customer will be receiving monthly "statements" rather than bills for nearly a year prior to receiving their first actual bill. Noticing will assist in reminding the customers that funds are due for services rendered and will prevent a number of late fees and disconnects.

Staff believes that, although this proposed arrangement is unusual, it is the preferable alternative at this time. The developer is willingly assuming the monthly bills of the residents

to help them adjust to the new billing practices and rates even though it will result in a loss of revenue. Staff further believes that, as long as revenues and usage are being recorded properly and appropriately, this arrangement should be approved. Further, the SJRWMD's conservation goal of charging consumption based rates will ultimately be accomplished.

Therefore, staff recommends that the utility should be required to bill all its individually metered customers pursuant to Rule 25-30.335, Florida Administrative Code.

ISSUE 16: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $176,788 for the water system and $213,940 for the wastewater system, excluding miscellaneous service charges. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until 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 the notice. Once the utility has completed implementation of rates under Section 723, Florida Statutes, the utility should be required to notify the Commission no later than August 31, 2003, to delete its bulk rate tariff. Staff should be given administrative authority to cancel this tariff upon notification by the utility. (LINGO, FITCH)

STAFF ANALYSIS: As discussed previously, the appropriate revenue requirement is $113,659 for water and $323,661 for wastewater. However, for rate setting purposes, the revenue requirement is $176,788 for water and $213,940 for wastewater. As discussed in Issue No. 10, staff has estimated reuse revenues of $46,592. Also discussed in that issue, staff is reallocating 75% or $63,129 of the remaining reuse revenue requirement from wastewater to water. Therefore, staff has designed water rates to include 75% of the remaining reuse revenue requirement and wastewater rates that include 25% of the reuse revenue requirement net of reuse revenues of $46,592. The recommended rates should be designed to produce revenue of $176,788 ($113,659 + $63,129) for the water system and $213,940 ($323,661 - $63,129 - $46,592) for the wastewater system, excluding miscellaneous service charges.

Staff has designed rates using a base facility gallonage charge rate structure for both water and wastewater. Staff's calculated rates also include a repression adjustment of 22,388 kgal for water and 17,276 kgal for wastewater as discussed in Issue No. 14. Staff has also made a negative 15% conservation adjustment to water rates as discussed in Issue No. 14. Residential wastewater rates were calculated using a 6,000 gallon cap as discussed in Issue No. 12.

Schedules of the utility's existing rates and rate structure and staff's preliminary rates and rate structure are as follows:

Monthly Rates - Water

Residential Service

Base Facility Charge

Meter Sizes	Existing Rates	Staff's Recommended Rates
5/8" x 3/4"	$2.69 (includes 2,000 gal)	N/A
5/8" x 3/4"	N/A	$9.57
3/4"	N/A	$14.36
1"	N/A	$23.93
1 ½"	N/A	$47.85
2"	N/A	$76.56
3"	N/A	$153.12
4"	N/A	$239.25
Gallonage Charge		
Per 1,000 gallons	$0.54 (over 2,000 gal)	$2.30 (All gallons)

Monthly Rates - Water
General Service

Base Facility Charge

Meter Sizes	Existing Rates	Staff's Recommended Rates
5/8" x 3/4"	N/A	$9.57
3/4"	N/A	$14.36
1"	N/A	$23.93
1 ½"	N/A	$47.85
2"	N/A	$76.56
3"	N/A	$153.12
4"	N/A	$239.25
Gallonage Charge		
per 1,000 gallons	$0.54	$2.30

Monthly Rates - Wastewater
Residential

Meter Sizes	Existing Rates	Staff's Recommended Rates
All meter sizes	$8.77	$10.74
Gallonage Charge		
Per 1,000 gallons (6,000 gallon Cap)	N/A	$3.81

Monthly Rates - Wastewater

General Service

Meter Sizes	Existing Rates	Staff's Recommended Rates
5/8" x 3/4"	N/A	$10.74
3/4"	N/A	$16.12
1"	N/A	$26.86
1 ½"	N/A	$53.72
2"	N/A	$85.95
3"	N/A	$171.91
4"	N/A	$268.60
Gallonage Charge		
Per 1,000 gallons	N/A	$4.57

As discussed in Issue No. 15, staff is recommending that the utility send informational bills, for a one year period, to its existing customers who receive service as part of the customer's lot rent. The utility should collect these revenues through the developer using a bulk service rate for that period. Staff has determined the bulk service rate as follows:

MONTHLY RATE - WATER

BULK SERVICE

Palm Valley Mobile Home Park

Applicable: For units whose service is included in lot rent

Base Facility Charge: $9.57 per unit.

Gallonage Charge: $2.30 per thousand gallons of individual meter readings.

MONTHLY RATE - WASTEWATER

BULK SERVICE

Palm Valley Mobile Home Park

Applicable: For units whose service is included in lot rent

Base Facility Charge:	$10.74 per unit.
Gallonage Charge (6,000 gallon cap):	$3.81 per thousand gallons of individual meter readings.

The above bulk service rates are designed to recover the same revenue from the Palm Valley Subdivision as would be collected under staff's recommended residential tariffs.

Approximately 49% ($85,938) of the water system revenue requirement net of the reuse revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 51% ($90,850) of the revenue requirement represents revenues collected through the consumption charge based on the number of gallons. Approximately 45% ($96,439) of the wastewater system revenue requirement net of reallocated reuse revenue requirement and reuse revenues is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 55% ($117,501) of the revenue requirement represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential rates at various usage levels:

Monthly Rates - Water

Residential

Gallons	Existing	Staff Recommended Rates
3,000	$3.23	$16.48
5,000	$4.31	$21.08
10,000	$7.01	$32.59

Monthly Rates - Wastewater

Residential

Gallons	Existing	Staff Recommended Rates
3,000	$8.77	$22.18
5,000	$8.77	$29.80
10,000	$8.77	$33.62

If the Commission approves staff's recommendation, these rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision and that the customer notice is adequate.

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

Once the utility has completed implementation of rates under Section 723, Florida Statutes, the utility should be required to notify the Commission no later than August 31, 2003, to delete its bulk rate tariff. Staff should be given administrative authority to cancel this tariff upon notification by the utility.

ISSUE 17: 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 rates should be reduced, as shown on schedule 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires the rates be reduced immediately following the expiration of the four-year rate period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $418 annually. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decrease as shown on Schedules 4a and 4b.

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 shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 18: Should the utility's service availability charges be revised?

RECOMMENDATION: Yes, the utility's service availability charges should be revised to include a Plant Capacity Charge of $1,035, a Main Extension Charge of $1,178, and a Meter Installation Fee of $177 for water and reuse customers and a Plant Capacity Charge of $433 and a Main Extension Charge of $364 for wastewater. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The rates should not be implemented until 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 the notice. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided adequate notice is given, if no protest is filed. (FITCH)

STAFF ANALYSIS: The utility's current tariff authorizes a $170 connection fee for water and a $1,835 connection fee for wastewater.

Rule 25-30.580, Florida Administrative Code, specifies guidelines for determining service availability charges as follows:

> (a) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
>
> (b) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

Currently the utility is approximately 6% contributed for water and 42% contributed for wastewater. The utility's current minimum contribution levels, as determined by Rule 25-30.580,

Florida Administrative Code, are 53.23% for water and 45.64% for wastewater. Although the utility is currently below the minimum contribution levels for both water and wastewater, the utility's existing service availability charges for wastewater will likely cause the utility to exceed the maximum guidelines prescribed by the above referenced rule. Staff has designed service availability charges such that the contribution level for water will approach the minimum contribution level described above at build out and that the contribution level for wastewater will approach the maximum level described above at build out.

The following are the utility's existing and staff's recommended service availability charges:

Water Service Availability Charges

	Existing Charge	Staff Recommended Charge
Connection Fee	$170	N/A
Plant Capacity Charge	N/A	$1,035
Main Extension Charge	N/A	$1,178

Wastewater Service Availability Charges

	Existing Charge	Staff Recommended Charge
Connection Fee	$1,835	N/A
Plant Capacity Charge	N/A	$433
Main Extension Charge	N/A	$364

In Issue No. 4, staff is recommending that the utility be required to install meters for all its existing water and reuse customers as well as future water and reuse customers. The utility has provided staff with invoices for meters and meter installation in the amount of $177 per meter. Staff believes this amount is reasonable based on the type of meter being installed by the utility. Staff is recommending that a meter installation fee of $177 be approved to offset the cost of meter installation for new water and reuse customers.

Based on the foregoing, staff recommends that the utility's service availability charges should be revised to include a Plant Capacity Charge of $1,035, a Main Extension Charge of $1,178, and a Meter Installation Fee of $177 for water and reuse customers and a Plant Capacity Charge of $433 and a Main Extension Charge of $364 for wastewater. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. The rates should not be implemented until 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 the notice. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided adequate notice is given, if no protest is filed.

ISSUE 19: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be as specified in the staff analysis. The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (FITCH)

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's existing tariff authorizes the utility to collect a $10 customer deposit for water and for wastewater. This amount will not provide an average bill for a 2-month period based on staff's recommended rates in Issue No. 11. Therefore, staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

Water

Residential and General Service

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	$10.00	$39.00
All over 5/8" x 3/4"	$10.00	2 x Average Bill

Wastewater

Residential and General Service

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	$15.00	$47.00
All over 5/8" x 3/4"	$15.00	2 x Average Bill

The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 20: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Commission Clerk and Administrative Services no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (HARRIS, FITCH)

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $242,624 for water and wastewater combined. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its

order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission Division of Commission Clerk and Administrative Services no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

ISSUE 21: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to allow staff to verify completion of pro forma plant items as described in Issue No. 4. Once staff has verified that this work has been completed, the docket should be closed administratively. (FITCH, HARRIS)

STAFF ANALYSIS: Staff has recommended that the utility complete pro forma items described in Issue No. 4. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional six months from the effective date of the Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, the docket should be closed administratively.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010823-WS - PALM VALLEY

1)	**Permitted Capacity of Plant**	675,000	gallons per day
2)	**Average of 5 Highest Days From Maximum Month**	349,560	gallons per day
3)	**Average Daily Flow**	193,162	gallons per day
4)	**Fire Flow Capacity**	150,000	gallons per day
5)	**Growth**	25,641	gallons per day

a) Test year Customers in connections:

Begin	745
End	745
Average	745

(Use average number of customers)

b) Projected customer Growth in connections: 99 connections

c) Statutory Growth Period: 5 Years

(b)x [3/(a)]= 25,641 gallons per day for growth

6) **Excessive Unaccounted for Water** gallons per day

a) Total Unaccounted for Water gallons per day

b) Reasonable Amount gallons per day

c) Excessive Amount gallons per day

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = *78% Used and Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

1)	**Capacity of System** (Number of Potential Customers, ERCs or connections Without Expansion)	844	connections
2)	**Test year connections**		
	a) Beginning of Test Year	745	connections
	b) End of Test Year	745	connections
	c) Average Test Year	745	connections
3)	**Growth**	99	connections
	a) Projected customer growth in connections	99	connections
	b) Statutory Growth Period	5	Years

(a) = 99 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = *100% Used and Useful

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

1) **Permitted Capacity of Plant** (AADF) 150,000 gallons per day

2) **Maximum Daily Flow** 410,864 gallons per day

3) **Average Daily Flow** (AADF) 107,116 gallons per day

4) **Growth** 14,256 gallons per day

a) Test year Customers in connections:
Beginning 745
Ending 745
Average 745

(Use average number of customers

b) Projected customer Growth in connections 99 connections

c) Statutory Growth Period 5 Years

(b) x [3/(a)]= 14,256 gallons per day for growth

5) Excessive Infiltration or Inflow (I&I) n/a gallons per day

a) Total I&I: gallons per day

Percent of Average Daily Flow 0.00%

b) Reasonable Amount gallons per day

(10% of average Daily Flow)

c) Excessive Amount gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = *81% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

1)	Capacity of System (Number of potential customers, ERCs or Lots without expansion	844	connections
2)	Test year connections		
	a) Beginning of Test Year	745	connections
	b) End of Test Year	745	connections
	c) Average Test Year	745	connections
3)	Growth	99	connections
	(Use End of Test Year and End of Previous Years for growth connections)		
	a) Projected customer growth in connections	99	connections
	b) Statutory Growth Period	5	Years

(a) = 99 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = *100% Used and Useful

PALM VALLEY
TEST YEAR ENDING 7/31/03
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 010823-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$285,865	$498,306	$784,171
2. LAND & LAND RIGHTS	$2,433	0	$2,433
3. NON-USED AND USEFUL COMPONENTS	$0	(23,287)	($23,287)
4. CIAC	($89,509)	(67,425)	($156,934)
5. ACCUMULATED DEPRECIATION	($228,501)	58,301	($170,200)
6. AMORTIZATION OF CIAC	$51,078	8,497	$59,575
7. WORKING CAPITAL ALLOWANCE	$0	3,974	$3,974
8. WATER RATE BASE	$21,366	$478,366	$499,732

PALM VALLEY
TEST YEAR ENDING 7/31/03
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 010823-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$1,134,245	$830,033	$1,964,278
2. LAND & LAND RIGHTS	$116,298	(19,889)	$96,409
3. NON-USED AND USEFUL COMPONENTS	$0	(99,295)	($99,295)
4. CIAC	($390,046)	(106,927)	($496,973)
5. ACCUMULATED DEPRECIATION	($398,125)	(402,137)	($800,262)
6. AMORTIZATION OF CIAC	$118,202	62,618	$180,820
7. WORKING CAPITAL ALLOWANCE	$0	19,072	$19,072
8. WASTEWATER RATE BASE	$580,574	$283,475	$864,049

PALM VALLEY TEST YEAR ENDING 7/31/03 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 010823-WS
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. Adjustment per Order PSC-00-1675-PAA-WS	$98,240	$105,256
2. Increase to include plant additions during historic test year	449,539	695,192
3. Include wastewater plant retirements during historic test year	(98,148)	(5,284)
4. Increase to include pro forma meters.	48,675	34,869
Total	$498,306	$830,033
NON-USED AND USEFUL PLANT		
1. To reflect projected year end non-used and useful plant	($50,187)	($212,461)
2. To reflect projected year end non-used and useful accumulated dep.	26,900	113,166
Total	($23,287)	($99,295)
LAND AND LAND RIGHTS		
1. Adjustment per Order PSC-00-1675-PAA-WS	$0	($19,889)
CIAC		
1. Increase to match Order PSC-00-1675-PAA-WS	($3,230)	($34,867)
2. Include unrecorded connection during historic test year	(170)	(1,835)
3. Include CIAC for projected test years connections	(59,600)	(65,800)
4. Projected Meter Installation Fees	(4,425)	(4,425)
Total	($67,425)	($106,927)
ACCUMULATED DEPRECIATION		
1. Adjustment per Order PSC-00-1675-PAA-WS	$7,968	$170,721
2. To reflect accumulated depreciation per staff	103,015	(398,609)
3. Include projected test years accumulated depreciation	(52,682)	(174,249)
Total	$58,301	($402,137)
AMORTIZATION OF CIAC		
1. Adjustment per Order PSC-00-1675-PAA-WS	($3,808)	$59,101
2. To reflect staff calculated accumulated amortization of CIAC	4,559	(40,080)
3. To reflect projected test year additions	7,746	43,597
Total	$8,497	$62,618
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	$3,974	$19,072

PALM VALLEY
TEST YEAR ENDING 7/31/03
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 010823-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$0	$256,953	$256,953					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	232,405,586	232,405,586					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	$0	$232,662,539	232,662,539	(231,793,841)	868,698	63.70%	10.51%	6.69%
6. SHORT TERM DEBT	0	39,664,587	39,664,587	(39,516,490)	148,097	10.86%	8.47%	0.92%
7. LONG TERM DEBT	0	92,930,352	92,930,352	(92,583,376)	346,976	25.44%	7.91%	2.01%
TOTAL DEBT	0	132,594,939	132,594,939	(132,099,866)	495,073	36.30%		
8. CUSTOMER DEPOSITS	875	2,000	2,875	(2,864)	11	0.00%	6.00%	0.00%
9. TOTAL	$875	$365,259,478	$365,260,353	($363,896,571)	$1,363,782	100.00%		9.62%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.51%	11.51%
OVERALL RATE OF RETURN	8.99%	10.26%

PALM VALLEY
TEST YEAR ENDING 7/31/03
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 010823-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$24,399	$14,214	$38,613	$75,046 194.35%	$113,659
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	38,263	(6,467)	31,796	0	31,796
3. DEPRECIATION (NET)	0	20,279	20,279	0	20,279
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,477	8,656	10,133	3,377	13,510
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$39,740	$22,468	$62,208	$3,377	$65,585
8. OPERATING INCOME/(LOSS)	($15,341)		($23,595)		$48,074
9. WATER RATE BASE	$21,366		$499,732		$499,732
10. RATE OF RETURN	-71.80%		-4.72%		9.62%

PALM VALLEY
TEST YEAR ENDING 7/31/03
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 010823-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$19,309	$21,033	$40,342	$283,319 702.29%	$323,661
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	115,752	36,827	152,579	0	152,579
3. DEPRECIATION (NET)	0	52,868	52,868	0	52,868
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,477	20,866	22,343	12,749	35,092
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$117,229	$110,561	$227,790	$12,749	$240,539
8. OPERATING INCOME/(LOSS)	($97,920)		($187,448)		$83,122
9. WASTEWATER RATE BASE	$580,574		$864,049		$864,049
10. RATE OF RETURN	-16.87%		-21.69%		9.62%

PALM VALLEY
TEST YEAR ENDING 7/31/03
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 010823-WS
PAGE 1 OF 2

	WATER	WASTEWATER
OPERATING REVENUES		
1. Include actual revenues for test year	$12,062	$18,801
2. Include projected test years growth revenues	2,152	2,232
Subtotal	$14,214	$21,033
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Power (615/ 715)		
a. Increase for projected customer growth	$273	$1,105
b. Repression Adjustment	(1,550)	(5,989)
Subtotal	($1,277)	($4,883)
2. Fuel for Power Production (616/617)		
a. Fuel for Power Generator Test Runs	$266	$266
3. Chemicals (618/ 718)		
a. Remove Undocumented Chemicals	($401)	($534)
b. Reclassify Chemicals from (720 & 718)	0	233
c. Increase for projected customer growth	322	390
d. Repression Adjustment	(1,831)	(1,972)
Subtotal	($1,910)	($1,883)
4. Materials & Supplies (620/ 720)		
a. Remove undocumented plant	($189)	($74)
b. Reclassify rate case expense to (665/765)	(265)	(250)
c. Reclassify Chemicals to (718)	0	(191)
d. Reclassify Supplies from (736)	0	568
e. Move to Contractual Services - Engineering (631/731)	(275)	(1,974)
f. Remove billing already included in staff allowance	(240)	0
Subtotal	($969)	($1,921)
5. Contractual Services - Engineering (631/731)		
a. Include amounts from (620/720) incorrectly recorded	$275	$1,974
b. Include amounts from (675/775) incorrectly recorded	1,312	1,312
c. Reduce to amortize expenses over five years.	(1,050)	(2,629)
Sub total	$537	$657
6. Contractual Services - Accounting (632/732)		
a. Include amount from (675/775) for accounting services	$1,630	$1,630
b. Include utility requested amount for billing services	3,000	3,000
Sub total	$4,630	$4,630
7. Contractual Services - Testing (635/ 735)		
a. Testing from account (636/736)	$1,663	$5,494

(O & M EXPENSES CONTINUED ON NEXT PAGE)

PALM VALLEY
TEST YEAR ENDING 7/31/03
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 010823-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
8. Contractual Services - Other (636/ 736)		
a. Annualize Operator Expense	($300)	$30,792
b. Move to (616/716) for diesel fuel, split 50/50	(532)	0
c. Reclassify Chemicals to (718)	0	(42)
d. Reclassify Supplies to (720)	0	(568)
e. Reclassify Testing to (635/735)	(1,663)	(5,494)
f. Nonrecurring repair over 5 years	0	(2,424)
g. Include amount for dripper field maintenance	0	19,838
Subtotal	($2,495)	$42,102
9. Regulatory Expense (665/ 765)		
a. Include $1000 from (775) for improperly recorded rate case expense	$1,000	$1,000
b. Reclassify rate case expense from (620/720) split 50/50	258	258
c. Noticing cost	329	329
d. Reduce to amortize case related expenses over four years	(1,190)	(1,190)
Subtotal	$397	$397
10. Miscellaneous Expense (675/ 775)		
a. Transfer rate case expense to (666/766)	($1,000)	($1,000)
b. Transfer accounting expenses to (632/732)	(1,630)	(1,630)
c. Reclassify RAF's to TOTI	(1,556)	(1,556)
d. Transfer engineering expenses to (631/731)	(1,312)	(1,312)
e. Include amount from (720) for lift station cleaning	0	0
f. Reclassify Consumptive use permit from wastewater	1,806	(1,806)
g. Amortize Permit over 5 years	(2,889)	0
h. Remove county utility tax from expense accounts	(728)	(728)
Subtotal	($7,309)	($8,032)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($6,467)	$36,827
DEPRECIATION EXPENSE		
1. To reflect depreciation calculated per 25-30.140, F.A.C.	$27,707	$86,421
2. To reflect non-used and useful test year depreciation.	(1,883)	(10,840)
3. To reflect staff calculated amortization of CIAC	(5,545)	(22,713)
Total	$20,279	$52,868
TAXES OTHER THAN INCOME		
1. Payroll Taxes	($250)	($250)
2. Reclassified RAFs from (675/775)	1,556	1,556
3. Adjust RAF's to meet staff calculated revenues	182	259
4. Property Taxes	7,168	19,301
Total	$8,656	$20,866

PALM VALLEY
TEST YEAR ENDING 7/31/03
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
DOCKET NO. 010823-WS

	TOTAL PER PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$13,571	$0	$13,571
(603) SALARIES AND WAGES - OFFICERS	$0	0	$0
(604) EMPLOYEE PENSIONS AND BENEFITS	$0	0	$0
(610) PURCHASED WATER	0	0	$0
(615) PURCHASED POWER	3,959	(1,277) [1]	$2,682
(616) FUEL FOR POWER PRODUCTION	0	266 [2]	$266
(618) CHEMICALS	5,078	(1,910) [3]	$3,168
(620) MATERIALS AND SUPPLIES	1,987	(969) [4]	$1,018
(630) CONTRACTUAL SERVICES - BILLING	0	0	$0
(631) CONTRACTUAL SERVICES - ENGINEERING	0	537 [5]	$537
(632) CONTRACTUAL SERVICES - ACCOUNTING	0	4,630 [6]	$4,630
(635) CONTRACTUAL SERVICES - TESTING	0	1,663 [7]	$1,663
(636) CONTRACTUAL SERVICES - OTHER	5,135	(2,495) [8]	$2,640
(640) RENTS	0	0	$0
(650) TRANSPORTATION EXPENSE	0	0	$0
(658) INSURANCE EXPENSE - Workers Comp	454	0	$454
(665) REGULATORY COMMISSION EXPENSE	0	397 [9]	$397
(670) BAD DEBT EXPENSE	0	0	$0
(675) MISCELLANEOUS EXPENSES	8,079	(7,309) [10]	$770
	38,263	(6,467)	31,796

PALM VALLEY
TEST YEAR ENDING 7/31/03
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 010823-WS

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$13,571	$0	$13,571
(703) SALARIES AND WAGES - OFFICERS	$0	0	$0
(704) EMPLOYEE PENSIONS AND BENEFITS	$0	0	$0
(710) PURCHASED SEWAGE TREATMENT	$0	0	$0
(711) SLUDGE REMOVAL EXPENSE	12,900	0	$12,900
(715) PURCHASED POWER	15,257	(4,883) [1]	$10,374
(716) FUEL FOR POWER PRODUCTION	0	266 [2]	$266
(718) CHEMICALS	5,689	(1,883) [3]	$3,806
(720) MATERIALS AND SUPPLIES	4,595	(1,921) [4]	$2,674
(730) CONTRACTUAL SERVICES - BILLING	0	0	$0
(731) CONTRACTUAL SERVICES - ENGINEERING	0	657 [5]	$657
(732) CONTRACTUAL SERVICES - ACCOUNTING	0	4,630 [6]	$4,630
(735) CONTRACTUAL SERVICES - TESTING	0	5,494 [7]	$5,494
(736) CONTRACTUAL SERVICES - OTHER	55,207	42,102 [8]	$97,309
(740) RENTS	0	0	$0
(750) TRANSPORTATION EXPENSE	0	0	$0
(758) INSURANCE EXPENSE - Workers Comp	454	0	$454
(765) REGULATORY COMMISSION EXPENSES	0	397 [9]	$397
(770) BAD DEBT EXPENSE	0	0	$0
(775) MISCELLANEOUS EXPENSES	8,079	(8,032) [10]	$47
	115,752	36,827	152,579

RECOMMENDED RATE REDUCTION SCHEDULE

PALM VALLEY | **SCHEDULE NO. 4**
TEST YEAR ENDING 7/31/03 | **DOCKET NO. 010823-WS**

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE BASE FACILITY CHARGE:		**MONTHLY RECOMMENDED RATES**	**MONTHLY RATE REDUCTION**
Meter Size:			
5/8"X3/4"	**$**	**9.57**	**0.02**
3/4"		**14.36**	**0.03**
1"		**23.93**	**0.06**
1-1/2"		**47.85**	**0.11**
2"		**76.56**	**0.18**
3"		**153.12**	**0.36**
4"		**239.25**	**0.56**
6"		**478.50**	**1.13**
RESIDENTIAL & GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	**$**	**2.30**	**0.01**

RECOMMENDED RATE REDUCTION SCHEDULE

PALM VALLEY — **SCHEDULE NO. 4A**
TEST YEAR ENDING 7/31/03 — **DOCKET NO. 010823-WS**

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL			
BASE FACILITY CHARGE:			
Meter Size: All Meter Sizes	**$**	**10.74**	**0.02**
GALLONAGE CHARGE:			
PER 1,000 GALLONS (6,000 gallon cap)	**$**	**3.81**	**0.01**
GENERAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	**$**	**10.74**	**0.02**
3/4"		**16.12**	**0.03**
1"		**26.86**	**0.04**
1-1/2"		**53.72**	**0.09**
2"		**85.95**	**0.14**
3"		**171.91**	**0.27**
4"		**268.60**	**0.43**
6"		**537.21**	**0.86**
GALLONAGE CHARGE:			
PER 1,000 GALLONS	**$**	**4.57**	**0.01**
REUSE CHARGE			
PER 1,000 GALLONS	**$**	**1.15**	**0.00**