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: OCTOBER 3, 2002

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

FROM: DIVISION OF ECONOMIC REGULATION (MONIZ, DAVIS, LINGO)
OFFICE OF THE GENERAL COUNSEL (ECHTERNACHT)

RE: DOCKET NO. 020010-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN HIGHLANDS COUNTY BY THE WOODLANDS OF LAKE PLACID, L.P.
COUNTY: HIGHLANDS

AGENDA: 10/15/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUES 12, 13, AND 15 INTERESTED PERSONS MAY PARTICIPATE

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

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020010.RCM

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CASE BACKGROUND

The Woodlands of Lake Placid, L.P. (Woodlands or utility) is a Class C water and wastewater utility providing service in Highlands County. The utility provides water and wastewater service to 151 residential customers located within the Lake Placid Camp Florida Resort RV park (Camp Florida, Resort or RV park) and water service to 33 residential customers located outside the park (Hickory Hills and Lake Ridge Estates). It also provides water service to four general service customers outside the park and water and wastewater service to 2 general service customers located within the RV park. The Camp Florida Resort Homeowners Association is one of the general service customers' with 9 connections. The other general service customer is the RV park with 164 connections, consisting of 162 rental lots, the Community Center, and the Guard House. The utility is in both the Highlands Ridge and Southern Water Use Caution Areas of the Southwest Florida Water Management District (SWFWMD).

The utility first came to the Commission's attention when it applied for an exemption in Docket No. 881608-WS. At that time, the entity providing utility service was Camp Florida Resort Utility Association, Inc. (CFRUA). The application stated that Lake Placid Camp Florida Resort, Inc., the developer, planned to construct a recreational vehicle and camping resort and the water and wastewater charges would be nonspecifically included in the cost of the site rentals. The Resort established CFRUA to provide the utility service for the Resort. The Commission found CFRUA to be exempt pursuant to Section 367.022(4), Florida Statutes, by Order No. 20905, issued March 16, 1989. The Order required CFRUA or its successors to notify the Commission within 30 days of any change in its method of operation which might change its regulatory status.

In 1990, the Developer began selling some of the RV sites. The Camp Florida Resort Property Owners Association (Association) was established around this time. Staff obtained copies of the Association's 1996 and 1997 budgets with a line item for water and wastewater service. Each year CFRUA informed the Association of the monthly lot rate for water and wastewater. The Association would then total the costs for all services to the lot owners and common areas, and assess each owner an annual lump sum amount, billed

quarterly. Based on these budgets, it appears that CFRUA initially charged $25.00 per lot for water and wastewater service per month. The transition from including water and wastewater service in the cost of the rental sites to billing the owners resulted in a change to the regulatory status of the system.

Early in 1995, the Florida Department of Environmental Protection (DEP) found contamination in the wells of approximately 33 homes in the Hickory Hills and Lake Ridge Estates (HHLR) housing developments near the south side of Resort. Pursuant to a request from DEP, CFRUA extended water lines to these homes outside of the Resort. DEP paid for the extension of the water line to serve the customers who had contaminated wells. Wastewater service is provided through septic tanks. These new CFRUA customers were charged a flat rate of $22.00 per month for water service. The provision of water service to HHLR also resulted in a change to the regulatory status of the system.

On September 15, 1995, the utility and the RV park were sold. The utility became Woodlands and the resort continued as Camp Florida Resort. However, the books and records were not kept separate; the utility and the resort continued to function as one business entity. The utility believed that it was exempt pursuant to Order No. 20905, and continued running the utility under the same parameters. Initially, this included the $22.00 flat charge for water service to the residential customers located within the Resort and HHLR, $48.40 plus usage for water to the four commercial customers outside the Resort, and $25.00 per month for water and wastewater service to the Association for privately owned lots within the Resort.

On December 2, 1996, Woodlands sent a letter to the Resort, which was forwarded to the property owners and the Association, informing customers of a rate increase for water and wastewater service from $25.00 per month to $35.00 per month. As a result of this notice, a customer in the Resort filed a complaint about the rate increase with the Commission on February 17, 1997. This complaint initiated an investigation, which determined that the utility's operations had changed such that it no longer appeared to be exempt.

The utility received its certificate by Order No. PSC-02-0250-PAA-WS, issued February 26, 2002, in Docket No. 990374-WS. Pursuant to this order, the utility's existing rates for water and wastewater were approved, on a temporary basis. The order stated that conservation rates would be considered by the Commission in the instant docket. The utility was allowed to continue to charge its existing late payment fee and the standard miscellaneous charges.

On January 2, 2002, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on March 1, 2002. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Rate base has not yet been established for this utility. Staff has audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate setting. Staff has 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 selected the historical test year ended December 31, 2001, for this rate case.

A customer meeting was held in the service area on July 15, 2002. Approximately 16 customers attended the meeting and 6 customers chose to give comments. Staff also conducted informal afternoon meetings with customer representatives. Prior to the customer meeting, staff received several letters from customers voicing their concerns about the proposed increase. The most common concern raised among customers was the desire to have their rates changed from flat to metered since the majority of the residential customers reside in the community only about four months out of the year. Therefore, they do not believe they should pay the same rate for service when not in residence. The customer's major topic of discussion, at the meeting, was centered around the customers' lack of trust concerning the information the utility had provided staff. The most prominent doubt was over the information staff had collected from the utility concerning the potential customer/Equivalent Residential Connection (ERC) count used in setting the proposed rates. However, there were no complaints over the quality of the water or the failure of the utility to respond to water outages or wastewater back-ups.

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
OPC	Office of Public Counsel
SWFWMD	Southwest Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

BFC — Base Facility Charge - A charge designed to recover 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.

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

gpd — Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.

gpm	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operations and Maintenance Expense
RAF	Regulatory Assessment Fee
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: Is the quality of service provided by the Woodlands of Lake Placid, L.P., considered satisfactory?

RECOMMENDATION: The quality of service provided by Woodlands of Lake Placid, L.P., should be considered satisfactory; however, the utility should be required to complete the pro forma plant modification for the wastewater treatment plant within 120 days of the issuance of the Consummating Order. The docket should remain open for staff to verify the project as complete. (DAVIS)

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

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

Staff's recommendation concerning the overall quality of service provided by the utility is derived from an evaluation of three separate components of water and wastewater utility operations:

(1) Quality of Utility's Product (compliance with drinking water standards),
(2) Operational Conditions of Utility's Plant or Facility, utility's Attempt to Address Customer Satisfaction, and
(3) Utility's Attempt to Address Customer Satisfaction.

QUALITY OF UTILITY'S PRODUCT

Water

In Highlands county, the potable water program is regulated by the Department of Environmental Protection (DEP). According to DEP records for the last three years, the utility is currently up to date with all chemical analysis. All test results have been reviewed by the DEP and are considered satisfactory. The utility's treated water meets or exceeds all standards for safe drinking water.

Consumptive use in Highlands County is permitted by the Southwest Florida Water Management District. The utility obtained its Consumptive Use Permit (CUP) on June 29, 1999, which limits the average daily withdrawal to 175,200 gallons with a maximum monthly withdrawal of 262,800 gallons. During the 2001 test period, flow volumes did not exceed this allowance. However, staff has also considered flows from January, 2002, through June, 2002. While the utility stayed within its allowance for average daily flows, it exceeded the maximum monthly withdrawal limit during the months of February, March, April, and May (2002). The Southwest Florida Water Management District is actively involved in a review of the utility's water usage volumes at this time. The CUP is a twenty year permit that will expire on June 29, 2009.

Wastewater

The wastewater system is regulated by the Southwest District of the DEP. The utility's previous operating permit expired in 1999. Before that operating permit could be renewed, the DEP required the utility to submit an Operations and Performance Report. This report was prepared by a professional engineer who performed an analysis of the wastewater treatment system. This analysis verified that the operating equipment was sound and that all areas of plant operations were functioning properly. This analysis also provided proof that the wastewater treatment plant was operating within its capacity, and the effluent being discharged was within safe parameters. A five-year permit was issued on December 23, 1999, and is valid until December 22, 2004. The quality of the

product from the wastewater treatment plant is considered to be satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

Water

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Over the last three years, the most important plant-in-service issue was the addition of an emergency power generator. The utility has now installed an auxiliary power generator for emergency outages which fulfills one of the pro forma plant allowances. The buildings which houses chlorine treatment equipment at the water treatment plant appear to have received normal maintenance and is considered to be satisfactory. The areas around the buildings appear well maintained. The quality of the water treatment plant-in-service is considered satisfactory.

Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the Woodlands wastewater plant is sufficient to process the average daily flows generated by the on-line customers. The wastewater plant is located behind a 6 foot chain-link fence with natural vegetation that partially obstructs its view from the public. Behind the fence, the plant appears well maintained with the exception of some normal aging. On March 4, 2002, (during a period of peak flows), a DEP inspector visited the wastewater treatment facilities at Woodlands. It was noted as a deficiency during that inspection that the utility needed to modify the chlorine contact chamber to allow a minimum 15 minute retention time (for disinfection) as required by Rule 62-600.440(4)b, Florida Administrative Code. The company has informed staff that they have just secured bids, and this will be corrected shortly. Pro forma funding for this project has been included in this rate case. It is recommended that the utility complete this project within 120 days of the date of the Consummating Order, and this Docket be held in monitor status subject to verification of project completion.

The operational conditions at the wastewater treatment plant should be considered satisfactory at that time.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer hearing was held on July 15, 2002, in the Woodlands Community Center which is located within the service area. There were 16 customers in attendance at the meeting. In addition to those 16 customers, the utility manager and his wife also attended the meeting. Six of the customers in attendance provided comments to specific concerns they had with the utility. The major topic of discussion was centered around the customers' lack of trust with the information the utility had given staff. The most prominent doubt was over the information staff had collected from the utility concerning the potential customer/ERC count used in setting the proposed rates. On a related issue, one customer believed that a recently installed water line was secretly serving an adjacent mobile home park (MHP). There were no complaints over the quality of the water or the failure of the utility to respond to water outages/sewer back-ups.

Concerning the service to an adjacent MHP, for one particular cul-de-sac that is located adjacent to County Road 29 and very near Lake Grassy MHP, the utility installed a two inch PVC water line than encircles the outer parameter of the lots along the cul-de-sac. This water main comes very close to the common boundary between the Woodlands service territory and a MHP park known as Lake Grassy. The customers feared that staff had been deceived by the utility, that the MHP was being served by the new two inch line, and that staff's rate calculation was incorrect because of trust in information provided by the utility. On the other hand, the utility claims that the one inch water line running along the inside of the circle (front of the lots) was not sufficiently sized and was causing low water pressure during peak use. The utility told staff that the two inch line was installed to provide better pressure only to those customers within the circle. The utility further stated that Lake Grassy MHP had its own water treatment plant that served the MHP.

Two separate investigations by different staff members were conducted to resolve the customer count and the situation over the

adjacent mobile home park being served by this utility. Staff's investigation did confirm that Lake Grassy MHP has its own water treatment plant serving the residents of Lake Grassy MHP, and they do not get their water from Woodlands. What appears to be causing confusion are four lots that are located along County Road 29 which are just across the fence from the cul-de-sac in question. The owner of Woodlands purchased these four lots around the time the two inch line was installed. When the manager of Woodlands was confronted about water service to those four lots, the utility presented proof that water service was being purchased from Lake Grassy MHP specific to those lots. While those four lots at some point in the future may become connected to the Woodlands water system, at least during the test year, staff has confirmed that those lots were being served drinking water by Lake Grassy MHP.

All things considered, it is recommended that the quality of service provided by Woodlands of Lake Placid should be considered satisfactory; however, the utility should be required to complete the necessary pro forma plant modification at the wastewater treatment plant within 120 days of the issuance of the Consummating Order. The docket should remain open for staff to verify the project as complete.

USED AND USEFUL

ISSUE 2: What portions of utility plant in service serving the territory known as Woodlands of Lake Placid, L.P., are used and useful?

RECOMMENDATION: The water treatment plant is considered to be 100% used and useful, the water distribution system is considered to be 86.9% used and useful with the exception of meters and meter installations (Account No. 334) which should be 100% used and useful, the wastewater treatment plant is considered to be 59% used and useful, and wastewater collection system is considered to be 84.6% used and useful. (DAVIS)

STAFF ANALYSIS:

Water Treatment Plant

The water treatment plant is a closed system with two wells (10 and 6 inch) equipped with 50 and 25 horsepower (hp) pumps, respectively. The smaller pump extracts the ground water table at a rate of 200 gallons per minute (gpm) or 144,000 gallons per 12 hour day (gpd). The wells are at different sites with two hydropneumatic tanks (15,000 gal and 10,000 gal) each with a bottom drain that allows no dead storage. The firm reliable capacity of the plant is determined by calculating the lowest capacity well based on a twelve hour day (144,000 gallons), plus storage volume (15,000 gallons plus 10,000 gallons), minus any dead storage (-0-). The firm reliable capacity of the water treatment plant at Woodlands of Lake Placid is 169,000 gpd.

The average daily flow for the peak month was 34,799 gpd with the highest five (maximum day) average of 77,571 gpd. There are fire hydrants located throughout the service area which must meet a minimum of 500 gpm for a four hour period of time. The customers currently served by the water treatment plant are determined to be 335 ERCs (see below, "water distribution system") with a potential customer base of 403 ERCs. Growth over the last five years has been gradual. Using the regression formula, it is calculated that there will be an overall increase of three ERCs for the next year. Pursuant to Section 367.081(2)(a)2(b), Florida Statutes, three ERCs

over the statutory five year growth period equate to an additional 1,496 gpd demand in water use. No evidence concerning excessive unaccounted for water was found during staff's investigation.

In accordance with the formula approach for calculating used and useful, the water treatment plant is calculated to be 100% used and useful (See Attachment A, page 1 of 4). It is recommended that all water treatment plant accounts be considered 100% used and useful.

Water Distribution System

The system supplies potable water to a variety of customers. The total of potential water customers compared to the existing customers served are:

Description	Potential ERCs	Connected ERCs
165 Privately owned RV lots	132	120
Cozier's Lakeside Home	1	1
33 Customers @ Lake Ridge	33	33
Food Lion Grocery Store	8	8
Lake Grassy Motel	8	8
Shops of Lake Placid (plaza)	8	8
Poolhouse & Clubhouse	8	8
Woodlands Community Center	8	8
Lake Placid Fashion (Salon)	2.5	2.5
7 Bathhouses	7	7
Guardhouse	1	1
Sales Office	1	1
232 Platted Rental RV sites	185.6	129.6
Total ERCs	403	335

Growth over the last five years indicates the utility will add three ERCs in the coming year. This was determined by using the regression formula to project anticipated growth. Three ERCs equates to a 15 ERC growth rate over the statutory five year growth period. In accordance with the formula approach for calculating

used and useful, the water distribution system is determined to be 86.9% used and useful (See Attachment A, page 2 of 4). However, meters and meter installations (Account No. 334) which are being mandated for every connection should be considered 100% used and useful.

Wastewater Treatment Plant

The wastewater treatment plant is permitted by the DEP as a 50,000 gpd Maximum Month Average Daily Flow (MMADF) plant that is operating in the extended aeration mode of treatment with one lift station. The wastewater treatment plant serves only those customers in the Camp Florida Resort, which is very seasonal. The test year flow peaked in the month of February, 2001, with flows at 28,000 gpd.

The customers served by the wastewater treatment plant are determined to be 276 ERCs (see below, "wastewater collection system") with a potential customer base of 344 ERCs. Growth, by the regression formula, indicates an increase of three ERCs for the next year. Three ERCs over the five year statutory growth period is estimated to require an additional 1,522 gpd demand on the wastewater plant. By all appearances, there is no excessive infiltration problem within the collection system serving the Woodlands service area.

In accordance with the formula approach for calculating used and useful, the wastewater treatment plant is calculated to be 59% used and useful (See Attachment A, page 3 of 4).

Wastewater Collection System

The Wastewater collection system differs from the water distribution system in that wastewater service is provided to only those customers within the boundaries of the park. The total of potential wastewater customers compared to the existing customers served are:

Description	Potential ERCs	Connected ERCs
165 Privately owned RV lots	132	120
Cozier's Lakeside Home	1	1
33 Customers @ Lake Ridge	-0-	-0-
Food Lion Grocery Store	-0-	-0-
Lake Grassy Motel	-0-	-0-
Shops of Lake Placid (plaza)	-0-	-0-
Poolhouse & Clubhouse	8	8
Woodlands Community Center	8	8
Lake Placid Fashion (Salon)	-0-	-0-
7 Bathhouses	7	7
Guardhouse	1	1
Sales Office	1	1
232 Platted Rental RV sites	185.6	129.6
Total ERCs	344	276

Using the regression formula, it is estimated that growth for the coming year will be three ERCs. Three ERCs equates to a 15 ERC growth rate over the statutory five year growth period. In accordance with the formula approach for calculating used and useful, the wastewater collection system is determined to be 84.6% used and useful (See Attachment A, page 4 of 4). It is recommended that the water distribution accounts be considered 84.6% used and useful.

ISSUE 3: What is the appropriate average test year rate base for the utility?

RECOMMENDATION: The appropriate average test year rate base for the utility is $218,618 for water and $191,341 for wastewater. The utility should be required to complete all pro forma additions, as discussed in the staff analysis, within 120 days of the issuance of the Consummating Order. (MONIZ)

STAFF ANALYSIS: Pursuant to Order No. PSC-01-1056-PCO-WS, issued February 26, 2002, in Docket No. 990374-WS, Woodlands was granted Water and Wastewater Certificates 620-W and 533-S. The Commission approved temporary rates and charges in that order, but rate base was not established. A rate base audit was conducted by Commission staff for the test year ended December 1, 2001.

According to the information provided to the staff auditor, the utility plant was constructed between 1989-1990 by Jack Clark, Sr., and called Lake Florida Utilities Association. Pursuant to Order No. 20905, issued March 16, 1989, the utility was considered exempt from Commission regulation.

On September 15, 1995, the utility was sold to The Woodlands of Lake Placid, L.P., through a basket purchase, which also included non regulated companies. Since the utility was exempt from Commission regulation prior to the sale, the original cost of the utility plant had not been determined by the Commission. When the staff audit was conducted for the certification docket, it was determined that the utility had not maintained its records from the original construction period. Therefore, the auditor used an alternate method to determine the beginning balances. The auditor visited local engineering and construction companies and was able to obtain the original contracts for the plant construction. These documents did not include the costs for overhead. Therefore, adjustments were made to increase these amounts by six percent for engineering overhead and by ten percent for administrative overhead.

Staff has selected the average historical test year ended December 31, 2001, for this rate case. Rate base components have been adjusted using the methods discussed above. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded UPIS balances of $187,358 for water and $1,007,173 for wastewater. Based on the auditor's plant balances, UPIS should be $453,937 for water and $377,807 for wastewater for the same period. Staff has increased UPIS by $266,579 for water and decreased UPIS by $629,366 for wastewater to reflect UPIS per the staff auditor at December 31, 2000.

Since the audit for the certification docket was for the test year ended December 31, 2000, staff audited the utility's books and records for the test year ended December 31, 2001. In Audit Exception No. 11, staff reported that the utility paid $760 in organization costs for forming the utility company and the costs were recorded in Contractual Services-Professional (Account No. 631). According to the NARUC uniform system of accounts, expenditures incidental to organizing a corporation, partnership, or other enterprise should be capitalized and booked to Organization Costs (Accounts 301/351). Therefore, staff made an adjustment to decrease Contractual Services-Professional, for water, and increase Account 301 by $414 for water and $346 for wastewater.

According to the audit report, $4,573 for installing a water line was recorded in a non-utility account. Per Audit Exception No. 4, the costs for the water line should have been recorded in the utility's plant account for transmission and distribution lines (Account No. 330). Therefore, we have increased Account No. 330 by $4,573 for water, to capitalize the costs of the transmission lines.

During the audit, staff discovered that the utility recorded $552 for meters, in Purchased Power, Account No. 615, which should have been capitalized to UPIS Account No. 334. Therefore, staff has made an adjustment to reduce Purchased Power expense (Account No. 615) by $552 for water and increase UPIS Account No. 330 by $552, to properly record the meter costs for the meters. Additionally, staff has made an averaging adjustment to reduce UPIS by $2,770 for water and $173 for wastewater.

Pro Forma Plant

The utility was required by DEP to install an automatic generator for its water plant at a cost of $8,400 and to make

improvements to its wastewater plant, at an estimated cost of $5,200. The DEP documentation and the bids for both projects were reviewed by the staff engineer and were found to be necessary and prudent. Based on the above, staff has increased UPIS Account 310 by $8,400 for water and UPIS Account 380 by $5,200 for wastewater.

As indicated earlier, the utility is in the Highlands Ridge Water Use Caution Area of SWFWMD. According to its Consumptive Use Permit (CUP), the utility has been required to install meters for all of its connections. As of December 31, 2001, the utility still needed to install 232 meters for its rental lots. However, 70 of the rental lots currently cannot be rented; therefore, staff removed the costs of the meters for these 70 lots from the calculation. Based on the above, staff recommends that an adjustment be made to increase UPIS, Account No. 334, by $27,543 ($105 parts and $65 labor for 162 meters) to allow the utility the costs for purchasing and installing 162 meters for the rental lots.

The above adjustments increase UPIS by $305,291 for water and decrease plant in service by $623,993 for wastewater.

Land: Woodlands recorded land balances of $5,000 for water and $91,112 for wastewater. At the customer meeting, staff was informed of a lawsuit, filed by some of the residents of the Camp Florida Resort, against its parent company, Camper Corral, Inc. The lawsuit resulted in a judgement that declared the Camp Florida Resort Homeowners Association as the owners of the property where Water Plant No 1 is located. After the customer meeting, the utility provided staff with a copy of a quick claim deed that conveyed the property owned by the Homeowners Association to the utility on December 12, 2001, which is subsequent to the date of the judgement.

Pursuant to Section 367.1213, Florida Statutes, a water or wastewater utility under the jurisdiction of the Commission must own the land or possess the right to continued use of the land upon which treatment facilities are located. Since the utility has produced a copy of the deed proving ownership of the land in question, staff believes that it has satisfied the requirements of Section 367.1213, Florida Statutes, and Rule 25-30.037(2)(q), Florida Administrative Code. Therefore, if the residents choose to challenge the validity of the deed, they must do so through the

court system, since the Commission does not have jurisdiction over such matters.

As discussed earlier in this issue, Woodlands' rate base had never been established. To determine the original land values, the auditor gathered information from the official records at the Highlands County Clerk of Court's office. According to the audit workpapers, the land for Water Plant No. 1 should be valued at $2,191 ($9,363 x .234) and the land for Water Plant No. 2 should be valued at $18,396 ($9,363 x 1.965 per acre), with a combined total of $20,598, for both water plants. Staff has determined that the wastewater plant should be valued at $36,000 ($5,057 x 7.91 acres). Based on the above, staff has made adjustments to increase land by $15,598 for water and decrease land by $55,112 for wastewater.

Non-used and Useful Plant: Staff has determined the used and useful percentages for each plant account in Issue No. 2. Applying the non-used and useful percentages to average plant results in average non-used and useful plant of $38,782 for water and $69,109 for wastewater. The average non-used and useful accumulated depreciation is $9,201 for water and $33,022 for wastewater. In addition, staff has reduced non-useful plant by $15,899 for water, to remove CIAC associated with non-used and useful plant and increased it by $2,514 to reflect the non-used and useful accumulated amortization on the non-used and useful CIAC. The above adjustments result in a reduction to rate base of $16,196 for water and $36,087 for wastewater.

Contribution in Aid of Construction (CIAC): The utility recorded a CIAC balance of zero ($0) for water and zero ($0) for wastewater. Staff recalculated CIAC using the utility's approved service availability charge included in its tariff. Based on our calculations, staff recommends CIAC balances of $204,307 for water and $65,600 for wastewater.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of $53,647 for water and $26,308 for wastewater. Consistent with Commission practice, staff has recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation balances for the average test year ended

December 31, 2001, are $118,075 for water and $154,928 for wastewater. Therefore, staff recommends that an adjustment be made to increase accumulated depreciation by $64,386 for water and $128,620 for wastewater to reflect staff's calculated accumulated depreciation.

Staff's averaging adjustment decreases accumulated depreciation by $7,438 for water and by $6,698 for wastewater. Staff has also increased accumulated depreciation by $1,057 for water and $75 for wastewater, to reflect accumulated depreciation on pro-forma plant. Based on the above adjustments, staff recommends an accumulated depreciation balance for the projected test year of $111,652 for water and $148,305 for wastewater.

Amortization of CIAC: The utility did not record CIAC amortization for water or wastewater during the test year. Amortization of CIAC has been calculated by staff using the composite depreciation rate. Staff calculated accumulated amortization for the test year of $36,374 for water and $19,911 for wastewater. An averaging adjustment has been made to decrease CIAC amortization by $3,126 for water and $1,162 for wastewater.

Based on the above, staff's recommended accumulated amortization balance for the average test year ended December 31, 2001, is $33,248 for water and $18,749 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff has calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Based on that formula, staff recommends a working capital allowance of $4,278 (based on O&M of $34,224) for water and $3,404 (based on O&M of $27,232) for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is $218,618 for water and $191,341 for wastewater.

Rate base is shown on Schedule Nos. 1-A and 1-B. Related adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

ISSUE 4: 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 is 11.10% with a range of 10.10% - 12.10%. The appropriate overall rate of return for the utility is 7.18%. (MONIZ)

STAFF ANALYSIS: As disclosed in the staff audit, the utility's debt consists of loans from Hivest Corporation, the utility's parent company. Therefore, the parent company's capital structure has been used to calculate the utility's rate of return. The capital structure consists of the following: $6,000 common stock, $1,234,179 negative retained earnings, and $17,547,808 long term debt. The long term debt contains numerous debt instruments with an overall composite interest rate of 7.18%. Staff made an adjustment of $1,228,179 to remove negative equity.

Using the current leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, the appropriate rate of return on equity for all capital structures with an equity ratio of less than 40% is 11.10%. Since the utility's capital structure is 100% debt, the appropriate return on equity is 11.10%.

Because the utility's capital structure is 100% debt, the overall rate of return should be equal to the weighted average cost of debt of 7.18%. The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.10% with a range of 10.10% - 12.10% and an overall rate of return of 7.18%.

The return on equity and the overall rate of return are shown on Schedule No. 2.

ISSUE 5: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues for this utility are $98,155 for water and $50,544 for wastewater. (MONIZ)

STAFF ANALYSIS: The utility recorded revenues for the 12-month period ended December 31, 2001, of zero ($0) for water and wastewater.

The utility received its certificate by Order No. PSC-02-0250-PAA-WS, issued February 26, 2002, in Docket No. 990374-WS. Pursuant to that order, the utility's existing rates of $22.00 and $13.00 for water and wastewater, respectively, were approved on a temporary basis. Staff has annualized the test year revenues, using the temporary rates times the number of current bills for both water and wastewater. Based on this calculation, staff recommends that test year revenues be increased by $55,387 for water and $25,272 for wastewater.

Additionally, staff recommends that an adjustment be made to impute revenues for the rental lots served by this utility. As discussed in the Case Background, Woodlands provides water and wastewater service to Camp Florida Resort (Resort), a recreational vehicle and camping resort. As early as 1990, the Resort began selling its rental lots. The resort still owns 232 of the 397 lots located in the Resort and continues to rent these. However, according to the utility, for various reasons, it is unable to rent 70 of the 232 unsold lots. The utility provides water and wastewater services to the rental lots, but does not receive any compensation from the renters, since they are not customers of the utility. Since the Resort is the utility customer and receives compensation through the rental fees, it should reimburse Woodlands for the cost of the utility service. Otherwise, the residential customers would be subsidizing the unregulated resort.

Based on the above, staff has imputed test year revenues for the cost of the water and wastewater service that should have been billed to the Resort for its rental lots. Based on our calculations, we have increased revenues by $42,768 (162 x $22 x 12mths) for water and by $25,272 (162 x $13 x 12mths) for wastewater.

Based on the above adjustments, staff's recommended test year revenues are $98,155 for water and $50,544 for wastewater. Test year revenues are shown on Schedule Nos. 3-A and 3-B and the related adjustments are shown on Schedule No. 3-C.

ISSUE 6: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense for this utility is $49,160 for water and $42,054 for wastewater. (MONIZ)

STAFF ANALYSIS: The company recorded operating expenses of $89,848 for water and $25,070 for wastewater for the test year ended December 31, 2001. The utility is a subsidiary of a development company that does not maintain a separate set of books and records. Thus, the books and records did not meet NARUC USOA standards. Staff has made every effort to reclassify the utility's expenses and assign them to the proper NARUC account. Staff has also removed the expenses unrelated to the utility. The utility should provide a statement with its 2002 annual report that it has brought its books and records into compliance with the NARUC USOA.

The company also failed to allocate a proper percentage of its operating expenses between its water and wastewater systems. In Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, Southern States Utilities, Inc., the Commission ordered that the utility's allocation of administrative and general expenses(A&G) should be based on the number of customers. Based on this and Audit Exception No. 10, staff believes the appropriate allocation of expenses should be 54.5% for water and 45.5% for wastewater.

The test year O&M expenses have been reviewed, and invoices, cancelled checks and other supporting documents have been examined. Using these documents and the audit workpapers, staff has made several adjustments to the utility's operating expenses. Staff's adjustments are described below:

Operations and Maintenance Expenses (O&M)

Salaries and Wages - Employees - (601/701) - The utility did not record an amount in this account during the test year. The salaries and wages of the utility's employees were paid by Camp Florida and charged to the utility through contract labor. The auditor interviewed the employees in order to determine the amount of time each employee spent working on utility matters. Per Audit Exception No. 6, staff has increased this account by $14,056 for

water and by $8,865 for wastewater. The allocations are shown below:

Position	Salary	Percent Utility Related	Utility Amount	Water Amount	Wastewater Amount
General Manager	$36,400	25.00%	$9,100	$4,960	$4,141
Sec/Bookkeeper	42,432	9.23%	3,916	2,134	1,782
Accts Rec. Clerk	18,200	12.50%	2,275	1,239	1,035
Repairs/Mtc	17,655	9.23%	1,630	1,222	407
Plant Operator	$20,000	30.00%	$6,000	$4,500	$1,500
Total	$134,687	17.02%	$22,921	$14,056	$8,865

Based on the above, Salaries and Wages expense for the test year should be $14,056 and $8,865 for water and wastewater.

Sludge Hauling (711) - The utility recorded zero ($0) in this account during the test period. According to Audit Exception No. 12, in the utility recorded $1,683 for sludge hauling in the water system's Repairs and Maintenance Account (Account No. 675). Per Audit Exception No. 12, staff reclassified $1,683 in Sludge hauling expense from Account No. 675 to Account 711. Based on the above, staff's recommended balance for Sludge Hauling Expense is $1,683.

Purchased Water (610) - The utility recorded $10,570 in this account during the test year. Staff has made the following adjustments to remove or reclassify the entire amount that was recorded in this account. All amounts transferred to another account, will be discussed in those accounts.

Accounts	Water (610)
Transfers- Reductions	
Chemicals (618/718)	($2,129)
Contracted Services Other (636/736)	6,766
Contracted Services Testing (635/735)	(1,563)
Remove Duplicate payment	(112)
Total of Adjustments	($10,570)

Based on the above, Purchased Water should be reduced by $10,570.

Purchased Power (615/715) - The utility recorded $21,230 for water and $0 for wastewater in this account during the test year. Staff has made numerous adjustments to reclassify expenses.

The following is a summary of the amounts removed or transferred. All amounts transferred to a different account, will be discussed in those accounts.

Accounts	Water (630)	Wastewater (730)
Transfers Reductions		
Chemicals (618/718)	($2,296)	$0
Contracted Services Other (636/736)	(3,614)	0
Contracted Services Testing (635/735)	(1,989)	0
Non/Utility	(5,166)	0
Reallocate	(3,422)	3,422
Capitalized Meters(331/334)	(552)	0
Materials & Supplies (620/720)	(112)	0
Total Adjustments	($17,151)	$3,422

In addition, staff has decreased the Purchased Power Account by $915 for water and by $639 for wastewater, to reflect a

repression adjustment, as discussed in Issue No 10. Based on the above, staff has decreased this account by $18,066 for water and increased it by $2,783 for wastewater. The remaining balance, in this account, after staff's adjustments, is $3,164 for water and $2,783 for wastewater.

Chemicals (618/718) - The utility recorded $0 in the Chemicals account for water and wastewater, during the test year. Per Audit Exception No. 8, staff has increased this account by $643 for water and $1,653 for wastewater, to reclassify chemical costs that were improperly recorded in the Purchased Power (Account No. 643). We also increased this account by $768 for water and $1,361 for wastewater, to reclassify chemicals that were booked to Purchased water (Account No. 610). Staff has decreased this account by $317 for water and by $563 for wastewater to reflect a repression adjustment, as discussed in Issue No. 10. Staff's recommended balance is $1,094 for water and $2,451 for wastewater.

Materials and Supplies (620/720) - The utility recorded $1,320 for water and $0 for wastewater in the Materials and Supplies Account during the test year. Per Audit Exceptions No. 4, staff has increased this account by $112 for water to reclassify the cost for meter couplings from Purchased Power (Account No. 615), by $336 to reclassify pump supplies from Contractual Services-Other (Account No. 636), and by $109 to record meter parts that were not recorded. Staff has decreased this account by $1,290 to remove non-utility expenses.

Based on the above adjustments, this account should be decreased by $733 for water and $0 for wastewater. Staff's recommended balance is $587 for water and $0 for wastewater.

Contractual Services-Professional (631/731) The company recorded $4,686 for water and $0 for wastewater in the Contractual Services-Professional Account for accounting and bookkeeping services during the test year. Staff has decreased this account by $1,697 for water and increased it by $1,697 for wastewater, to reallocate a portion of the accounting and bookkeeping services to wastewater.

According to Audit Exception No. 11, the utility also recorded $760 in organization costs in this account that related to forming

adjustments increase this account by $3,032 for water and $2,627 for wastewater.

Contractual Services-Other (636/736) - The utility recorded $22,409 for water and $0 for wastewater in its contract labor account. Per Audit Exception No. 6, staff is recommending that the $22,409 be reclassified to Salaries and Wages (Account No. 601/701). Based on this, staff has decreased this account by $22,409 to reclassify salaries & wages to Account No. 601/701.

The utility replaced a section of its transmission lines for $2,807, which it booked to Purchased Water (Account No. 610). Per Audit Exception No. 4, staff has reclassified the costs for the line replacement to this account and then amortized it over five years pursuant to Rule 25-30.433(8) Florida Administrative Code. This adjustment decreases this account by $2,246 [$2,807-($2,807/5)] for water.

Staff has also increased this account by $3,210 for water and $3,105 for wastewater, to reflect the reclassification of the costs for the operator services from Purchased Power and Purchased Water (Audit Exception No. 8), and by $60 for water and $247 for wastewater, to reclassify repairs from Account No. 675, per Audit Exception No. 12.

In Audit Exception No. 4, the auditor increased this account by $569 for water to reclassify labor for well repairs from Account No. 615, by $326 for water to reclassify labor charges for repairs to the hydro tank from Account No. 610, by $360 for water to reclassify labor to prime pumps from Account No. 610, and by $80 for water to record labor costs for well repairs. The auditor also increased this account by $150 for water and $75 for wastewater to annualize the costs for the increase to operator services. These adjustments are summarized on the following page:

the utility, which should have been capitalized. Therefore, staff has decreased this account by $760 for water to reclassify organization costs to Account Nos. 301 and 351.

In addition, the utility booked $195, to this account, for obtaining foreign representation, which was non-utility related expenses. Therefore, staff has further reduced this account by $195 to remove non-utility expenses, per Audit Exception No. 11.

Based on the above, staff's adjustments reduce this account by $2,652 for water and increase it by $1,697 for wastewater. After the above adjustments, the remaining balances in this account are $2,034 for water and $1,697 for wastewater, which relate to costs incurred by the utility for accounting and bookkeeping services.

Contractual Services-Testing (635/735) - The utility recorded $0 for water and $0 for 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 Rules 62-550 and 62-551, 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

Test	Frequency	Annual Amount
Bateriologicals	Monthly	$1,200
Nitrate & Nitrite	Annual	240
Inorganic Analysis	3 Years	304
Secondary Chemical Analysis	3 Years	207
Volatile Organic Analysis	3 Years	190
Pesticides & PCB	3 Years	665
Radiochemical Analysis	3 Years	86
Lead & Copper	3 Years	140
Total		$3,032

Wastewater

Test	Frequency	Amount
Sludge Analysis	Annual	$395
BOD/TSS(influent/effluent)	Monthly	1,104
Nitrate	Monthly	624
Fecal Coli	Monthly	504
Total		$2,627

As identified earlier in this issue, staff removed $1,563 in testing costs from Purchased Water, Account No. 610, and reclassified, $664 for water and $899 for wastewater, to this account. Staff also decreased Account No. 615 by $1,989 and increased this account by $740 for water and $1,249 for wastewater to reclassify testing costs. Staff's remaining adjustment increases this account by $1,628 for water and $479 for wastewater, to include the additional costs for the testing required by DEP. Staff's

Accounts (636/736)	Water	Wastewater
To Salaries & Wages (601/701)	($22,409)	$0
From Purchased Water (610)	$2,366	$1,590
From Purchased Power (615)	$2,099	$1,515
From Miscellaneous (675/775)	$60	$247
Amortize Line Costs(net adj)	$561	$0
Record labor costs	$80	$0
Annualize Operator Costs	$150	$75
Total Adjustments	($17,093)	$3,427

Staff's net adjustment to Contractual Services-Other is a decrease of $17,093 for water and an increase of $3,427 for wastewater, which results in test year balances of $5,316 for water and $3,427 for wastewater.

Rent (641/741) - The utility recorded, $1,661 for water and $0 for wastewater in its rent account during the test year. According to the audit report, this amount represented a payment to DEP for a non-utility related dock lease. Therefore, staff has decreased this account by $1,661 for water to remove this expense.

Transportation Expense (650/750) - Per Audit Exception No. 6, the utility did not record transportation expenses during the test year, it was all paid by an affiliated company. However, according to the staff audit, Audit Exception No. 6, one of the utility's affiliate companies paid $7,291 for the lease, fuel, and insurance on a truck for the utility manager. Since the manager also uses his truck for utility business, staff has allocated a portion of the truck expense, using the same percentage that was used to allocate salaries, to the utility. Based on this method, staff has allocated $1,823 (25% X $7,291) of the truck expenses to the utility. Staff's adjustment increases this account by $993 for water and $829 for wastewater.

Insurance General Liability (655/755) - According to Audit Exception No. 6, the utility's general and liability insurance was paid by Camp Florida, an affiliated company, and not recorded on the

utility's books. The invoices, reviewed by staff, included a separate amount of $561 for the utility's portion of the liability insurance. However, the property insurance bill of $9,556 was not itemized. Therefore, per Audit Exception No. 6, staff allocated $791 of the property insurance to the utility by using the liability insurance ratio of 8.28%, which was calculated by dividing the utility's amount of $561 by the total amount of the liability insurance of $6,769.

Based on the above, the utility's portion of the property and liability insurance is $1,353 and staff has allocated $737 for water and $616 for wastewater.

Regulatory Commission Expense (665/765) - The utility recorded $18,254 in this account for water during the test year. Staff has determined that this amount is non-utility related and should be removed. Therefore, staff has decreased this account by $18,254 for water. The utility paid a $500 rate case filing fee per system, pursuant to Rule 25-30.020, Florida Administrative Code. Staff has increased this account by $125 ($1000/4 years) for water and wastewater each to amortise the filing fee over a four-year period. Staff has also increased this account by $24 for water and $20 for wastewater [$1.02($.37 for postage, $.05 for envelopes, $.60 for copying) x (183 water and 150 wastewater customers/4)x 50%] for the costs of mailing the customer notices for this rate case. Staff's recommended adjustments decrease this account by $18,105 for water and increase it by $144 for wastewater, which results in test year balances of $149 for water and $144 for wastewater.

Miscellaneous Expense (675/775) - The company recorded $9,718 for water and $211 for wastewater in miscellaneous expenses. Staff has decreased this account by $1,451 for water to remove non-utility advertising costs, by $747 for water to remove resort entertainment expenses, and by $211 for wastewater to remove non-utility expenses.

The company recorded $6,759 in its repairs and maintenance account. Since the utility's records were combined with its affiliate's books and records, many of the expenses included in the utility's accounts are for non-utility related costs. Staff has reduced this account by $4,443 for water to remove non-utility expenses. Adjustments have also been made to reduce this account

by $1,683 for water to reclassify sludge removal to Account No. 711; by $60 for water to reclassify pump repair costs to Account No. 636; by $247 for water to reclassify lift station repair costs to Account No. 736; and by $336 for water to reclassify pump parts to Account No. 620.

The company recorded $66 in bank charges. Per Audit Exception No. 10, staff has reduced this account by $30 for water and increased it by $30 for wastewater to allocate a portion of the bank charge to wastewater.

The Company recorded $436 in telephone expenses. The staff auditor discovered that all telephone expenses were not recorded. Per Audit exception No. 6, staff has allocated a portion of the telephone expense based on the amount of office space used by the utility compared to its affiliate companies. This adjustment increases this account by $41 for water and $376 for wastewater.

The utility has not been billing its customers because it has been charging fixed rates. Therefore, the billing costs have not been included in test year expenses. However, staff has recommended that Woodlands switch to metered rates and bill its customers monthly. Thus, staff recommends that the billing costs be included in test year expenses. Staff has reviewed the amounts allowed by the Commission in past rate proceedings for utilities this size, and staff believes a cost of $1.00 to process and mail each bill is reasonable to cover administrative costs. Based on staff's calculations, staff recommends that this account be increased by $2,289 (350 x $1.00 x .545) for water and $1,704 (312 x $1.00 x .455) for wastewater.

Staff's adjustments decrease this account by $6,657 for water and increase it by $1,899 for wastewater, which results in test year balances of $3,061 for water and $2,110 for wastewater.

Operation and Maintenance Expense (O&M Summary) - Staff's recommended O&M expense adjustments decrease test year expenses by $55,624 for water and increase test year expenses by $27,021 for wastewater, which results in test year balances of $34,224 for water and $27,232 for wastewater. O&M expenses are shown on schedule 3-D and 3-E.

Depreciation Expense - The utility did not record depreciation expense or amortization expense for water or wastewater during the test year. Staff has recalculated accumulated depreciation using the prescribed rates per Rule 25-30.140, Florida Administrative Code. Based on staff's calculations, test year depreciation expense should be $14,957 for water and $13,404 for wastewater.

Staff has recalculated accumulated amortization using the corresponding depreciation rates as prescribed by Rule 25-30.140, Florida Administrative Code. Based on our calculations, test year amortization expense reduces this account by $6,252 for water and $2,324 for wastewater.

Staff has also reduced this account for non-used and useful depreciation expense by $1,063 for water and by $2,984 for wastewater and increased it by $419, for water non-used and useful amortization expense.

Staff has increased this account by $2,114 for water and $149 for wastewater to reflect depreciation expense on pro-forma plant. Based on the above adjustments, staff's depreciation expense, net of amortization expense, is $10,175 for water and $8,245 for wastewater.

Taxes Other Than Income - The utility recorded $0 for water and $24,859 for wastewater taxes-other-than-income for the test year. Per Audit Exception No. 14, the $24,859 related to property taxes is unrelated to the utility. Based on this, staff has made an adjustment to decrease this account by $24,859.

According to Audit Exception No. 14, the utility's property taxes for the test year should be $453 for water and $3,608 for wastewater. Therefore staff has increased this account by $453 for water and by $3,608 for wastewater to record utility property taxes. Staff has also increased this account by $1,455 for water and $918 for wastewater to record payroll taxes for staff's recommended salaries and by $4,417 for water and $2,274 for wastewater, to include regulatory assessment fees on staff's adjusted test year revenues. Staff has decreased this account by $64 for water and $458 for wastewater to reflect the adjustment to remove property taxes associated with non-used and useful plant.

Based on the above, staff's recommended taxes-other-than-income test year balances are $6,260 for water and $6,341 for wastewater.

Operating Revenues - Revenues have been decreased by $33,297 for water and increased by $5,248 for wastewater to reflect the decrease in revenue required for water and the increase in revenue required to cover expenses and allow the recommended return on investment for wastewater.

Taxes Other Than Income - This expense has been decreased by $1,498 for water and increased by $236 for wastewater, to reflect regulatory assessment fees of 4.5% on the decrease in water revenues and the increase in wastewater 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 $49,162 for water and $42,054 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C and 3-D.

ISSUE 7: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements for water and wastewater are $64,858 and $55,792, respectively. (MONIZ, LINGO)

STAFF ANALYSIS: Based on staff's calculated revenue requirement below, the utility earned in excess of the recommended rate of return on its water system. Since the utility is overearning on its water system a revenue decrease is normally the appropriate action under these circumstances. According to staff's calculations, the appropriate revenue annual decrease is $33,297 (-33.92%) for water and an increase of $5,248(10.38%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 7.18% return on its investment. The Commission's current practice for calculating revenue is as follows:

	Water	Wastewater
Adjusted rate base	$218,618	$191,341
Rate of Return	x .0718	x .0718
Return on investment	15,697	13,739
Adjusted O & M expense	34,224	27,232
Depreciation expense (Net)	10,175	8,245
Taxes Other Than Income	4,762	6,577
Revenue Requirement	$64,857	$55,792
Adjusted Test Year Revenues	$98,155	$50,544
Percent Increase/(Decrease)	(33.92)%	10.38%

However, staff recommends that the entire wastewater revenue requirement increase be allocated to the water system in order to reduce the corresponding recommended decrease to the water system revenue requirement. Pursuant to Order No. PSC-01-1246-PAA-WS, issued in June 4, 2001, in the staff-assisted rate case for Pennbrooke Utilities in Docket No. 001382-WS, the Commission found that a reallocation of the revenue requirement between water and wastewater systems has the same net effect on customers as a

reduction to one system and an increase to the other. In the Lindrick Service Corporation case, in Docket No. 980242-SU, the Commission found in Order No. PSC-99-1883-PAA-SU, issued September 21, 1999, that is was appropriate to net revenue requirements to determine overearings. Also, in the Indiantown Company, Inc.'s case in Docket No. 961364-WS, the Commission found in Order No. PSC-97-1501-FOF-WS, issued November 25, 1997, that a reallocation of revenue requirements was appropriate for overearnings purposes.

Furthermore, the Commission has a Memorandum of Understanding (MOU) with all five Water Management Districts (WMD). Based on the conditions of each utility's Water Use Permit, staff works with each WMD to help each utility meet those conditions. Typically, this is accomplished by staff striving to set water rates that are as conservation-oriented as possible. Staff believes the reallocation of revenue requirements is consistent with the spirit of the MOU, and that it is a logical solution to a scenario in which water rates would otherwise be reduced to a greater extent.

The Woodlands is located in both the Highlands Ridge and Southern Water Use Caution Areas (WUCAs) as designated by the SWFWMD. Staff believes that the greater the water system revenue requirement reduction, the more consumption may be promoted. Designing rates which are more consumption-promoting may be detrimental to the designated WUCAs, and be contrary not only to the SWFWMD's goal of reducing Woodland's consumption, but to the overall statewide goal of designing water rates that reduce consumption to the greatest extent possible.

The Woodland's water and wastewater systems operate under common management. With the exception of the 33 homes receiving water-only service, a reallocation of the wastewater revenue requirement increase to the water system will have the same net effect on the utility's customers. Staff has considered the rate discrimination that will be experienced by the 33 customers, and we believe the minimal rate discrimination will be greatly outweighed by the potentially greater consumption reductions realized from the entire water system customer base (including the 33 customers) from higher water rates. In addition, although the 33 customers will be paying slightly higher water rates than without a reallocation, the average lot size and average square footage of the 33 homes is

greater than the corresponding home sizes in the Resort. Therefore, the 33 homes should theoretically exhibit more discretionary water use per month and, therefore, should potentially realize greater consumption reductions than the homes in the Resort.

Based on the foregoing, we believe the reallocation of revenue requirements is both reasonable and appropriate in this case. A reallocation of the wastewater revenue requirement to the water system eliminates the wastewater system increase while reducing the magnitude of the water system's decrease. This enables staff to design a more conservation-oriented water rate structure than would otherwise be possible if rates were instead based on the water system's full revenue requirement decrease.

Staff has recalculated revenue requirement for rate setting purposes as follows:

	Water	Wastewater
Adjusted rate base	$218,618	$191,341
Rate of Return	x 7.18%	x 7.18%
Return on investment	15,697	13,738
Adjusted O & M expense	34,224	27,232
Depreciation expense (Net)	10,175	8,245
Taxes Other Than Income	4,762	6,577
Reallocation of Wastewater Revenue Increase	5,248	(5,248)
Revenue Requirement	$70,106	$50,544
Projected Test Year Revenues	$98,155	$50,544
Percent Increase/(Decrease)	(28.58)%	0.00%

Revenue requirements are shown on Schedules Nos. 3-A and 3-B.

ISSUE 8: What is the appropriate residential gallonage cap for wastewater service?

RECOMMENDATION: The appropriate residential gallonage cap for wastewater service should be 8,000 gallons for residential customers. (MONIZ)

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 8,000 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 differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

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. When determining the appropriate cap, a comparison of the consolidated factors at the various levels is performed. Decreasing the gallonage cap has the effect of lowering the maximum bill and increasing the cost per 1,000 gallons. The utility currently charges its customers a flat rate for wastewater. Therefore high users have not been paying their fair share for wastewater treatment. For this utility, staff's analysis indicates that residential customers will use approximately 7,200 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 8,000 gallons per month. If usage patterns change, after the utility switches to a metered rate, this gallonage cap will be reexamined in the next rate case.

ISSUE 9: Should the utility's current flat rate structure for its water system be continued, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current flat rate structure for its water system is not appropriate in this case. The water system rate structure should be changed to a traditional base facility charge (BFC)/gallonage charge rate structure. In addition, staff recommends that 19% of the BFC cost recovery be shifted to the gallonage charge, resulting in a pre-repression cost recovery split of 35% from the BFC and 65% from the gallonage charge. (LINGO)

STAFF ANALYSIS: The Woodlands provides both water and wastewater service to privately owned residential lots, general service recreational vehicle (RV) rental lots, and other general service customers located either within or near the entrance to the Camp Florida Resort (Resort). In addition, the utility provides water service only to 33 residential homes in the Hickory Hills and Lake Ridge Estates areas. All residential service (RS) customers are billed a flat fee of $22 per month for water service. The general service (GS) connections other than the RV rental lots are billed $48.40 per month plus $1.00 per 1,000 gallons (kgal) for usage of combined water and wastewater service. The rate structure and rates were approved in the utility's original certificate case by Order No. PSC-02-0250-PAA-WS, issued on February 26, 2002, in Docket No. 990374-WS.

However, the above-referenced Order did not speak to the issue of the GS RV rental lots. As discussed above, the utility provides both water and wastewater service to RV rental lots located within the Resort. As discussed in Issue 5, the utility did not receive compensation from the renters, since they are not customers of the utility. The Resort is the utility customer and receives compensation through the rental fees; therefore, the Resort should reimburse the Woodlands for the cost of providing the utility service. Otherwise, the other customers would be subsidizing the RV rental lot customers in the Resort.

As discussed in the above-referenced Order, Rule 25-30.255(1), Florida Administrative Code, requires that each utility measure

water sold on the basis of metered volume unless a flat rate structure arrangement is approved by the Commission. Although flat rates were approved in the above-referenced Order, that Order also required that a conservation-oriented rate structure be addressed in the instant docket. The utility is located in the Southwest Florida Water Management District (SWFWMD or District) within both the Highlands Ridge and Southern Water Use Caution Areas. The utility was ordered to install meters as a condition of its Water Use Permit issued by the District. As further ordered by the District, by September 1999, the utility was to implement a new water conservation-oriented rate structure approved by this Commission. Based on the foregoing, staff believes it is both necessary and appropriate to change the utility's current flat rate water structure to the traditional BFC/uniform gallonage charge rate structure.

Although all connections have now been metered, staff lacks 12 months of metered data to use in calculating its recommended gallonage charge. In the alternative, staff obtained meter readings from the DEP Monthly Operating Reports (MORs) during the test year for both water treatment plants. Staff then subtracted a 10% allowance for unaccounted-for-water, resulting in total gallons available for sale, which was used as a proxy for total metered gallons sold. The formula is as follows:

	Treated Water from Plant #1
+	Treated Water from Plant #2
=	Total Treated Water
1)	10% Unaccounted for Water
=	Total Water Available for Sale

As discussed in Issue 7, staff recommends that its recommended wastewater revenue requirement increase be allocated to the water system in order to reduce the corresponding recommended decrease to the water system revenue requirement. Based on the reallocation discussed above, staff's preliminary allocation of fixed versus variable revenue requirement cost recovery indicates that the utility would recover 44% ($32,116) via the BFC charge and the remaining 56% ($41,238) via the gallonage charge. This cost recovery allocation is outside the rate design guidelines of the SWFWMD, which prefers that no greater than 40% of revenues be

recovered through the BFC. This agency has a Memorandum of Understanding (MOU) with the SWFWMD, with a stated common objective to foster conservation through a variety of measures, including conservation-promoting rate structures. Although the implementation of an inclining-block rate structure is not appropriate in this instance, we believe that it is appropriate to recommended a conservation adjustment that results in a rate structure that is as conservation-oriented as possible.

When changing rate structures, especially from flat to metered rates, staff believes it is important to recognize and satisfy the equally important rate design goal of revenue stability. Based on staff's anticipated number of pre-repression gallons sold, we performed revenue stability analyses based on conservation adjustments of 0%, 8%, and 19%. We found that the lesser conservation adjustments resulted in average monthly cash inflow surpluses, while a conservation adjustment of 19% resulted in a slight average shortfall in the utility's necessary cash inflows over a 12-month period.

When converting from flat to metered rates, there is typically a substantial reduction in consumption. As will be discussed in a subsequent issue, staff is recommending an overall 30% repression adjustment to mitigate this problem. In fact, on a post-repression basis, there is an average monthly revenue recovery surplus. (Staff's recommended repression adjustment will be discussed in greater detail in the immediately subsequent issue.) Our 19% recommended conservation adjustment is of a magnitude such that the resulting BFC/gallonage charge rate structure is as conservation-oriented as possible without sacrificing the utility's revenue stability.

Based on the foregoing, staff recommends that a continuation of the utility's current flat rate structure for its water system is not appropriate in this case. The water system rate structure should be changed to a traditional base facility charge (BFC)/gallonage charge rate structure. In addition, staff recommends that 19% of the BFC cost recovery be shifted to the gallonage charge, resulting in a pre-repression cost recovery split of 35% from the BFC and 65% from the gallonage charge.

ISSUE 10: Are adjustments to the water and wastewater systems to reflect repression of consumption appropriate in this case, and, if so, what are the appropriate repression adjustments?

RECOMMENDATION: Yes, repression adjustments of 4,861 kgal to the water system and 3,889 kgal to the wastewater system are appropriate in this case. 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 four water utilities that converted from a flat rate structure to a traditional BFC/gallonage charge rate structure. The specific consumption reductions were 60%, 60%, 50%, and 44%, respectively.

It is Commission practice to apply a repression adjustment to RS customers only. Although staff was able to calculate a reasonable estimate of total metered gallons sold, staff lacked the detailed, 12-month data that would separate the consumption between RS and GS customers. As mentioned in Issue 9, the utility's GS customers, with the exception of its GS RV customers, were already being billed on a BFC/gallonage charge rate structure. The challenge for staff in this case was to determine a reasonable estimate of residential consumption based on just five months of metered data provided by the utility since the installation of the meters. Staff's analysis of residential consumption is contained on Attachment B, located immediately at the end of this issue.

As shown on Attachment B, for each month of February through June, there are summary columns indicating the total amount of consumption (labeled as column (a)) and the total number of billed rendered (column (b)). Unfortunately, both staff and the utility believe some of the meter readings are abnormal and, therefore, unreliable. Therefore, staff had to devise a method of calculating consumption in spite of this problem.

Staff evaluated each customer's individual consumption readings for the February through June period. If all of the readings appeared consistent for that particular customer, staff accepted the consumption readings for that customer as normal. However, meter readings that appeared inconsistent or abnormal based on an individual's monthly consumption patterns was counted as an abnormal meter reading. As mentioned, this analysis was performed for every customer during the five-month period.

Once this process was completed, staff then tallied the number of abnormal meter readings in each month. As indicated on Line 1(b) of Attachment B, there were 10 such readings in February, 8 in March, 6 in both April and May, and 4 in June. We did not include the associated abnormal consumption in our initial monthly consumption calculations. Instead, staff totaled the remaining "normal" consumption each month (shown on Line 2(a)) and the corresponding number of "normal" bills (Line 2(b)), and calculated an average consumption per bill (shown on Line 3(a)). To completely ignore the consumption associated with an unreliable meter reading would be inappropriate. Therefore, the consumption associated with each bill that had been discounted as abnormal was added to normal consumption, based on the number of abnormal bills per month times the average normal consumption in that month (Line 5(a)). The resulting total monthly consumption is the sum of the [normal consumption] + [number of abnormal bills times the average consumption per bill] as shown on (Line 6(a)). The total number of bills rendered each month equals the sum of the abnormal plus the normal bills, and is indicated on Line 6(b).

A review of the total adjusted consumption on Line 6(a) for each month indicates a dramatic reduction in June, which would indicate that the seasonality due to customer migration for this utility is during the months of January through May (five months). However, staff lacks January meter readings, so a proxy for January consumption had to be calculated. At this time, it is important to consider different <u>types</u> of seasonality in the analysis before estimating January consumption.

As indicated by the first horizontal arrow at the top of Attachment B, consumption seasonality due to weather is typically present during the months of March through October, while

seasonality associated with a migrating customer base for this utility appears to end in May. This would be consistent with a January through May seasonal customer base. Since February consumption is not typically increased due to weather, February was selected as a proxy for January consumption. As shown at **[A]** on Attachment B, the resulting total seasonal consumption for the utility is estimated to be 9,879,850 gallons.

In part **[B]** of the Attachment, staff estimates the nonseasonal consumption. Based upon our professional experience, as well as literature and anecdotal evidence, seasonal consumption is typically 1.25 times to 1.5 times greater than nonseasonal consumption. In this case, a ratio of 1.61 was calculated by comparing average monthly seasonal consumption to June nonseasonal consumption. Staff does not believe this ratio is unreasonable and used it to calculate total nonseasonal consumption. Finally, in part **[C]** of the Attachment, total annual consumption is calculated to be 16,016,403 gallons.

Based on staff's recommended revenue requirement, rate structure and conservation adjustment, the pre-repression recommended rates are a BFC of $6.47 and a gallonage charge of $2.18. When compared to the current monthly flat rate of $22, those customers using 7 kgal or less would receive price decreases ranging from 71% to 1%, while consumption levels between 7 kgal and 10 kgal would receive price increases ranging from 9% to 29%. Since both price increases and decreases exist for consumption at or below 10 kgal, staff does not believe it is appropriate to consider the number of gallons billed in this range in our repression calculation.

Based on the residential consumption calculation, the average monthly consumption per ERC for Woodlands' residential customers is approximately 8.7 kgal. The typical square footage of RS homes within the Resort ranges from approximately 500 ft^2 to 900 ft^2, which should make sustained repression of 50% to 60% possible. Based on the meter readings provided by the utility, staff's calculation of a reasonable number of gallons billed above 10 kgal is approximately 9,722 kgal, representing 61% of the total gallons billed to the utility's residential customers. This results in an overall repression adjustment of 30%.

Staff believes it is appropriate in erring toward a more conservative repression adjustment, while still maintaining the revenue stability of the utility. Based on our recommended 19% conservation adjustment and a 50% repression adjustment applied to those gallons above 10 kgal, the resulting BFC/gallonage charge split is 37%/63%, with base facility charges for a 5/8" meter of $6.46 and a gallonage charge is $2.62. As discussed in the previous issue, although the revenue stability analysis indicates that, on a pre-repression basis, staff's recommended rate design will result in a slight average monthly cash inflow shortfall, when the same analysis is performed on a post-repression basis, the utility will experience an average monthly cash inflow surplus. Therefore, staff believes that the BFC/gallonage charge rate structure is as conservation-oriented as possible without sacrificing the utility's revenue stability.

Therefore, it is staff's opinion that a 50% repression adjustment be made to residential consumption above 10 kgal. The resulting recommended reduction in consumption is 4,861 kgal for the water system and a corresponding adjustment of 3,889 kgal for the wastewater system. In order to monitor the effects of both the changes 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.

WOODLANDS OF LAKE PLACID, L. P.
DOCKET NO. 020010-WS
HISTORICAL TEST YEAR ENDED DECEMBER 31, 2001

ATTACHMENT B

CALCULATION OF RESIDENTIAL CONSUMPTION

CONSUMPTION SEASONALITY DUE TO WEATHER: MARCH - OCTOBER

CONSUMPTION SEASONALITY DUE TO CUSTOMER BASE: CUSTOMERS IN PARK JANUARY - MAY

Line No.	Explanation of Calculation	(a) February Consumption (gals)	(b) No. of Bills	(a) March Consumption (gals)	(b) No. of Bills	(a) April Consumption (gals)	(b) No. of Bills	(a) May Consumption (gals)	(b) No. of Bills	(a) June Consumption (gals)	(b) No. of Bills
L 1 (b)	Number of bills associated with abnormal meter readings		10		8		6		6		4
L 2 (a)	Total remaining consump	1,682,510		1,889,776		2,108,694		2,110,980		1,198,850	
L 2 (b)	and bills during month		181		183		185		185		187
L3 (a) = L2 (a) / L2 (b)	Avg remaining cons / bill	9,296		10,327		11,398		11,411		6,411	
L4 (a) = L2 (a)	Total remaining consump	1,682,510		1,889,776		2,108,694		2,110,980		1,198,850	
L5 (a) = L1 (b) x L3 (a)	+ (Number abnormal bills x avg remaining cons / bill)	92,956		82,613		68,390		68,464		25,644	
L6 (a) = L4 (a) + L5 (a)	= Total adjusted cons	1,775,466		1,972,389		2,177,084		2,179,444		1,224,494	
6 (b) = 1 (b) + 2 (b)	Total bills		191		191		191		191		191

[A] Total adjusted consump Feb - May **8,104,384**
+ February as January proxy **1,775,466**
= Total seasonal consumption **9,879,850**

[B] Seasonal consumption typically 1.5 times nonseasonal consumption. Seasonal differential in this case =

Average consumption Jan - May **1,975,970**
/ June consump = seas custs gone **1,224,494**
1.61 **OK**

[C] *Total seasonal consumption* **9,879,850**
+ Nonseasonal consumption @ (seasonal consumption / 1.61) **6,136,553**
= Total annual residential consump **16,016,403**

ISSUE 11: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenues of $70,106 for water and $50,544 for wastewater excluding miscellaneous service charges, as shown in the staff analysis. 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. (MONIZ, LINGO)

STAFF ANALYSIS: As discussed in Issue No. 7, the appropriate revenue requirement is $70,106 for the water system and $50,544 for the wastewater system. As discussed in Issue 9, staff recommends that the water system rate structure be changed to a traditional BFC/gallonage charge rate structure with a pre-repression 35%/65% BFC/gallonage charge cost recovery split. As discussed in Issue 10, staff recommends that the appropriate repression adjustment is 4,861 kgal for the water system and 3,889 kgal for the wastewater system.

Staff's wastewater rates have been calculated based on 80% of the projected water used by residential customers less a repression adjustment and actual usage for the general service customers. Schedules of the rates and rate structure in effect at the end of the test year and staff's recommended rates and rate structure are as follows:

Monthly Rates - Water

Residential Service

Meter Sizes	Existing Rates	Staff's Rates
Base Facility Charge		
5/8" x 3/4"(RV's)	$22.00	$5.17
5/8" x 3/4"(Single Family)	$22.00	$6.46
Gallonage Charge (Per 1,000 Gallons)	n/a	$2.62

Monthly Rates - Water

General Service

Meter Sizes	Existing Rates	Staff's Rates
Base Facility Charge		
5/8" x 3/4" RV/Lot Rentals	$22.00	$5.17
5/8" x 3/4"	$48.40	$6.46
3/4"	$48.40	$9.69
1"	$48.40	$16.15
1 1/2"	$48.40	$32.30
2"	$48.40	$51.68
3"	N/A	$103.36
4"	N/A	$161.50
6"	N/A	$323.00
Gallonage Charge (Per 1,000 Gallons)	$1.00	$2.62

Monthly Rates - Wastewater

RESIDENTIAL

	Existing Rates	Staff's Rates
Base Facility Charge		
Meter Size:		
All Meter Sizes	$13.00	$5.74
Gallonage Charge		
Per 1,000 Gallons	N/A	$1.61
(8,000 gallonage cap)		

Monthly Rates - Wastewater

GENERAL SERVICE

	Existing Rates	Staff's Rates
Base Facility Charge Meter Sizes		
5/8" x 3/4"/RV/Lot	$13.00	$5.74
5/8" x 3/4"	$13.00	$8.61
1"	N/A	$14.36
1 1/2"	N/A	$28.72
2"	$13.00	$45.95
3"	N/A	$91.89
4"	N/A	$143.58
6"	N/A	$287.16
Gallonage Charge Per 1,000 Gallons	N/A	$1.93

As discussed in Issue 7, staff is not recommending a rate increase for the wastewater system, but that it be absorbed into the reduction in the revenue requirement from the water system. Approximately 37% ($25,980) of the water and 46.09% ($23,294) of the wastewater system 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 63% ($44,126) for water and 53.91% ($27,250) for wastewater 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 water and wastewater rates at 3,000, 5,000, and 10,000 gallons.

Gallons	Existing Rates		Recommended Rates (RVs)		Recommended Rates (Single Family)	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
3000	$22.00	$13.00	$13.03	$10.57	$14.32	$10.57
5000	$22.00	$13.00	$18.27	$13.79	$19.56	$13.79
10000	$22.00	$13.00	$31.37	$18.61	$32.66	$18.61

If the Commission approves staff's recommendation, these rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision and 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 shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates become effective for service rendered prior to the stamped approval date.

ISSUE 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedules 4 and 4A, 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. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (MONIZ)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of the annual revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $156 and $150 for water and wastewater, respectively. Using the utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues results in the rate decreases as shown on Schedules Nos. 4 and 4A.

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

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

ISSUE 13: In the event of a protest of the Proposed Agency Action (PAA) Order, should any amount of annual water revenues be held subject to refund?

RECOMMENDATION: Yes. In the event of a protest of the PAA Order, the utility should be allowed to continue collecting current rates as temporary rates. However, in order to protect utility customers from potential overearnings, the utility should hold $33,298 (33.92%) of annual service revenues subject to refund. In the event of a protest, the security should be in the form of a bond or letter of credit. Alternatively, the utility could establish an escrow agreement with an independent financial institution. If security is provided through an escrow agreement, the utility should escrow 33.92% of its monthly water service revenues. By no later than the twentieth day of each month, the utility should file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (MONIZ, ECHTERNACHT)

STAFF ANALYSIS: Staff's recommended test year revenues of $98,155 and operating expenses of $50,659 result in water operating income of $47,496, which reflects a 21.73% rate of return. Staff has calculated a decrease of $33,298 (33.92%) in the utility's annual water service revenues which would provide the utility an opportunity to earn an overall rate of return of 7.18%. In the event of a protest of the PAA Order, the utility should be allowed to continue collecting existing rates as temporary rates. However, in order to protect utility customers from potential overearnings, the utility should hold $33,298 (33.92%) of its annual water service revenues subject to refund.

The appropriate security to guarantee the amount subject to refund should be in the form of a bond or letter of credit. Assuming an eight-month time frame for staff to complete the hearing process, the potential refund amount would be $22,199, plus interest. Alternatively, the utility could establish an escrow agreement with an independent financial institution. If security is provided through an escrow agreement, the utility should escrow 33.92% of its monthly water service revenues. By no later than the twentieth day

of each month, the utility should file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

The security should be in the form of a bond or letter of credit in the amount of $16,042. 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 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 any refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Also, by no later than the twentieth day of each month, the utility should file a report showing the amount of revenues collected each month and the amount of revenues collected to date relating to the amount subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

ISSUE 14: Should Woodlands be ordered to refund the revenues collected from its unauthorized rate increase and if so, what is the amount and how should it be distributed?

RECOMMENDATION: Yes. The utility should refund the revenues collected from its unauthorized rate increase. The utility should credit $6.29 or 62.86% of the unauthorized rate increase for water collected from January 1998 until the effective date of the final rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The refund and the accrued interest should be paid only to those water customers who paid the unauthorized rates from January 1998 until the implementation of the Commission approved final rates. The utility should be allowed to make refunds over the same amount of time it collected its unauthorized rates. In no instance should maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and should be borne by, the utility. The utility should provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds in accordance with Rule 25-30.360(8), Florida Administrative Code. (MONIZ).

STAFF ANALYSIS: As discussed in the Case Background, prior to January 1998, the utility charged its residential customers in the park a fixed rate of $25 for water and wastewater service and its residential customers outside the park $22 for water service. During January 1998, it increased the rate from $25 to $35 for its water and wastewater customers. Pursuant to Order No. PSC-02-0250-PAA-WS, issued February 26, 2002, in Docket No. 990374-WS, the Commission granted Woodlands its water and wastewater certificates and allowed it to collect its current rates on a temporary basis. However, in that same order, the Commission required the utility to hold revenues subject to refund from the time of its unauthorized rate increase through the pendency of the staff assisted rate case. The Commission found that the utility would be required to make refunds to its customers if, in the staff assisted rate case, the utility was found to have exceeded its authorized rate of return for the interim collection period. For this utility, the interim collection period is the time from the its implementation of the unauthorized rate increase, January 1998, until the implementation of the Commission approved final rates.

In this proceeding the test period for establishment of prospective rates was the average test year ended December 31, 2001, with pro forma adjustments for known and measurable changes in 2002. The utility has not made any major plant additions, nor has it had significant changes in its operating expenses or the number of customers, since it implemented its unauthorized rate increase, in January 1998. Additionally, the utility's prior years were unaudited and staff has made numerous adjustments to the utility's balances test year balances. Based on the above, staff believes the December 31, 2001, test year is representative of the prior years and should be used as a proxy for determining the utility's earnings during the interim collection period.

The final revenue requirement should be adjusted for items not representative of the period the unauthorized rates were in effect. Staff's adjustments for pro forma plant and the related adjustments for accumulated depreciation and depreciation expense have been removed from the calculation. Staff's calculations are shown below:

	Water	Wastewater
Adjusted rate base	$183,732	$186,216
Rate of Return	x .0718	x .0718
Return on investment	13,192	13,370
Adjusted O & M expense	34,223	27,232
Depreciation expense (Net)	8,061	8,096
Taxes Other Than Income	4,544	6,553
Revenue Requirement	60,021	55,251
Projected Test Year Revenues	98,155	50,544
Excess Earnings	$38,134	0.00%
Percent Increase/(Decrease)	(38.85)%	9.31%

Based on the above calculations, staff has determined that excess earnings of $38,144 were present throughout the interim collection period, for the water system. However, as indicated above, staff's calculations do not reflect excess earnings for this

period for wastewater. Therefore, staff is not recommending the utility be required to make refunds for wastewater.

During January 1998, Woodlands increased the rate it was charging its water and wastewater customers residing in the park from $25 to $35. The residential customers outside the park continued to be charged $22 for water service. Pursuant to Order No. PSC-02-0250-PAA-WS, the Commission set the utility's temporary rates at $22 for water and $13 for wastewater, which is the amount of the unauthorized rate increase implemented in January 1998. This results in an overearnings of $190,670 for the time period the unauthorized rates were being charged. Staff compared the $190,670 to $69,065 [$6.29 x (60 months x 183 water customers), which is the amount held subject to refund, pursuant to Order No. PSC-02-0250-PAA-WS. Therefore, the amount held subject to refund is $6.29 (62.86%) for water and $3.71 (37.14%) for wastewater. Since the amount held subject to refund is less than the amount of the utility's excess earnings, the utility should only refund the amount held subject to refund.

The refunds should be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The refund and the accrued interest should be paid only to those water customers who paid the unauthorized rates from January 1998 through the implementation of the Commission approved final rates. This includes only the 150 residential customers that own lots in the park and the 33 residential customers outside the park. In no instance should maintenance and administrative costs associated with any refund be borne by the customers; the costs are the responsibility of, and should be borne by, the utility. The utility should provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), Florida Administrative Code.

Pursuant to Rule 25-30.360(2), Florida Administrative Code, the refunds should be made within 90 days of the Commission's order unless a different time frame is prescribed by the Commission. However, in this case staff believes that if the utility is required to make refunds in accordance with the above rule, the magnitude of the refund will most likely bankrupt the utility. Therefore, staff

recommends the utility be allowed to credit each water customers' bill by $6.29, which equates to $1,151 (183 bills x 6.29) per month for the same amount of time it collected its unauthorized rates.

ISSUE 15: 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 five months from the Consummating Order to allow staff time to verify the completion of the pro forma plant items as described in Issue No. 3. Once staff has verified that this work has been completed, the docket should be closed administratively. Additionally, staff should continue to monitor the required refunds for the duration of the refund period. If the utility fails to meet the requirements of the refund, at any point in time during the refund period, a new docket should be opened to address possible violations of the refund ordered. (MONIZ, ECHTERNACHT)

STAFF ANALYSIS: Staff has recommended that the utility complete pro forma items described in Issue No. 3. 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 five months from the Consummating Order to allow staff time to verify the completion of the pro forma plant items as described in Issue No. 3. Once staff has verified that the work has been completed, the docket should be closed administratively. Staff should continue to monitor the required refunds for the duration of the refund period. If the utility fails to meet the requirements of the refund, at any point in time during the refund period, a new docket should be opened to address possible violations of the refund ordered. (MONIZ, ECHTERNACHT)

WATER TREATMENT PLANT - USED AND USEFUL DATA
Docket No. 020010-WS - Woodlands of Lake Placid

1) **Firm Reliable Capacity of Plant**	169,000	gallons per day
2) **5 Maximum Day Average From Maximum Month**	77,571	gallons per day
3) **Average Daily Flow**	34,799	gallons per day
4) **Fire Flow Capacity**	120,000	gallons per day
A) Required Fire Flow: 500 gallons per minute for 4 hours		
5) **Growth**		
A) Test Year Customers in ERCs	335	Begin
	335	End
	335	Average
B) Customer Growth based on average fluctuations in the peak month for rented units.	3	ERCs
C) Statutory Growth Period	5	years
(B)x(C)x[(3)/(A)]	1,496	ERCs
6) **Excessive Unaccounted Water**	N/A	gallons per day
A) Total Unaccounted for Water	N/A	gallons per day
B) Reasonable Amount (10% of 3)	3,480	gallons per day
C) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 100%

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 020010-WS - Woodlands of Lake Placid

1)	**Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion)	403	ERCs
2)	**Test year connections**		
	A) Beginning of Test Year	335	ERCs
	B) End of Test Year	335	ERCs
	C) Average Test Year	335	ERCs
3)	**Growth**	15	ERCS
	A) Customer growth based on average fluctuations in the peak month for rented units.	3	ERCS
	B) Statutory Growth Period	5	Years

(a)x(b) = 15 ERCs allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 86.9% Used and Useful

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 020010-WS - Woodlands of Lake Placid

1)	**Permitted Capacity of Plant (MMADF)**	50,000	gallons per day
2)	**Maximum Daily Flow**	49,400	gallons per day
3)	**Max Month Average Daily Flow (MMADF)**	28,000	gallons per day
4)	**Growth**	1,522	gallons per day

A) Test year Customers in ERCS:

Beginning	276
Ending	276
Average	276

B) Customer Growth based on average fluctuations in the peak month for the rented units. 3 ERCS

C) Statutory Growth Period 5 Years

(b x c) x [3/(a)]= 1,522 gallons per day for growth

5)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
	A) Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	N/A	
	B) Reasonable Amount	5,897	gallons per day
	(500 g.p.d. per inch dia pipe per mile)		
	C) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 59% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 020010-WS - Woodlands of Lake Placid

1)	Capacity of System (Number of potential ERCS)	344	ERCs
2)	Test year connections		
	a) Beginning of Test Year	276	ERCs
	b) End of Test Year	276	ERCs
	c) Average Test Year	276	ERCs
3)	Growth	15	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	3	ERCs
	b) Statutory Growth Period	5	Years

(a) x (b) = 15 ERCs allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 84.6% Used and Useful

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 020010-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$187,358	$305,291	$492,649
2. LAND & LAND RIGHTS	5,000	15,598	$20,598
3. NON-USED AND USEFUL COMPONENTS	0	(16,196)	($16,196)
4. CIAC	0	(204,307)	($204,307)
5. ACCUMULATED DEPRECIATION	(53,647)	(58,005)	($111,652)
6. AMORTIZATION OF CIAC	0	33,248	$33,248
7. WORKING CAPITAL ALLOWANCE	0	4,278	$4,278
8. WATER RATE BASE	$138,711	$79,907	$218,618

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 020010-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST-MENTS	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$1,007,173	($623,993)	$383,180
2. LAND & LAND RIGHTS	91,112	(55,112)	$36,000
3. NON-USED AND USEFUL COMPONENTS	0	(36,087)	($36,087)
4. CIAC	0	(65,600)	($65,600)
5. ACCUMULATED DEPRECIATION	(26,308)	(121,997)	($148,305)
6. AMORTIZATION OF CIAC	0	18,749	$18,749
7. WORKING CAPITAL ALLOWANCE	0	3,404	$3,404
8. WASTEWATER RATE BASE	$1,071,977	($880,636)	$191,341

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 020010-WS PAGE 1 OF 1
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. To adjust plant to agree with auditor's balance (AE 2)	$266,579	($629,366)
2. Capitalize Organization Costs (AE 11 Adj 20)	$414	$346
3. Capitalize Meters (AE 4 ADJ 6)	$552	$0
4. Capitalize Transmission Lines (AE 4 ADJ 6)	4,573	0
5. Averaging adjustment	(2,770)	(173)
6. Proforma Plant	35,943	5,200
Total	$305,291	($623,993)
LAND		
To agree with auditor's balance (AE 2)	$15,598	($55,112)
NON-USED AND USEFUL PLANT		
1. To reflect non-used & useful plant	($38,782)	($69,109)
2. To reflect non-used & useful accumulated depreciation	9,201	33,022
3. To reflect non-used & useful CIAC	15,899	0
4. To reflect non-used & useful accumulated amortization	(2,514)	0
Total	($16,196)	($36,087)
CIAC		
CIAC based on Audit (AE 4)(1st audit)	($204,307)	($65,600)
ACCUMULATED DEPRECIATION		
1. Depreciation adjustment per Rule 25-30.140 FAC	($64,386)	($128,620)
2. Averaging adjustment	7,438	6,698
3. Proforma Plant	(1,057)	(75)
Total	($58,005)	($121,997)
AMORTIZATION OF CIAC		
1. To adjust amortization of CIAC based on composite rates	$36,374	$19,911
2. Averaging adjustment	(3,126)	(1,162)
Total	$33,248	$18,749
WORKING CAPITAL ALLOWANCE		
To reflect 1/8 of test year O & M expenses.	$4,278	$3,404

WOODLANDS OF LAKE PLACID
TEST YEAR ENDING 12/31/01
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 020010-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	$6,000	$0	$6,000					
2. RETAINED EARNINGS	(1,234,179)	0	(1,234,179)					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	($1,228,179)	$1,228,179	0	0	0	0.00%	11.10%	0.00%
6. LONG TERM DEBT-PARENT CO	17,547,808	0	17,547,808	(17,137,849)	409,959	100.00%	7.18%	7.18%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$16,319,629	$1,228,179	$17,547,808	($17,137,849)	$409,959	100.00%		7.18%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.10%	12.10%
OVERALL RATE OF RETURN	7.18%	7.18%

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 SCHEDULE OF WATER OPERATING INCOME				SCHEDULE NO. 3-A DOCKET NO. 020010-WS	
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$0	$98,155	$98,155	($33,298) -33.92%	$64,857
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	89,848	(55,625)	34,223	0	34,223
3. DEPRECIATION (NET)	0	10,175	10,175	0	10,175
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	6,260	6,260	(1,498)	4,762
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$89,848	($39,189)	$50,659	($1,498)	$49,160
8. OPERATING INCOME/(LOSS)	($89,848)		$47,496		$15,697
9. WATER RATE BASE	$138,711		$218,618		$218,618
10. RATE OF RETURN	-64.77%		21.73%		7.18%

DOCKET NO. 020010-WS
DATE: October 3, 2002

WOODLANDS OF LAKE PLACID
TEST YEAR ENDING 12/31/01
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 020010-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$0	$50,544	$50,544	$5,248 10.38%	$55,792
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	211	27,021	27,232	0	27,232
3. DEPRECIATION (NET)	0	8,245	8,245	0	8,245
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	24,859	(18,518)	6,341	236	6,577
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$25,070	$16,748	$41,818	$236	$42,054
8. OPERATING INCOME/(LOSS)	($25,070)		$8,726		$13,738
9. WASTEWATER RATE BASE	$1,071,977		$191,341		$191,341
10. RATE OF RETURN	-2.34%		4.56%		7.18%

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 020010-WS PAGE 1 OF 3
OPERATING REVENUES		
Annualize test year revenues	$55,387	$25,272
Impute Revenues on rental lots	42,768	25,272
Total	$98,155	$50,544
OPERATION AND MAINTENANCE EXPENSES		
Salaries and Wages Employees (601/ 701)		
Record Salaries and Wages per auditor (AE 6/adj 10)	$14,056	$8,865
Sludge Removal Expense (711)		
Reclassified from Misc Exp (675) (ADJ 25)	$0	$1,683
Purchased Water(610)		
a.Reclassify to chemicals to Accts (618/718)(AE 8/ADJ 11)	($2,129)	$0
b.Reclassify operator services Accts (636/736)(AE 8/ADJ 11)	(3,271)	0
c.Reclassify operator services Accts (635/735)(AE 8/ADJ 11)	(1,563)	0
d.Reclassfiy Repairs to Acct (636) (AE 4 Adj 6)	(687)	0
e.Reclassify line replacement costs to Acct (636)(AE 4/ADJ 6)	(2,808)	0
f. Remove duplicate payment (AE 4/ADJ 6)	(112)	0
Subtotal	($10,570)	$0
Purchased Power (615/ 715)		
a.Reclassify chemicals to Accts (618/718)(AE 8/ADJ 11)	($2,296)	$0
b.Reclassify operator services (636/736)(AE 8/ADJ 11)	(3,045)	0
c.Reclassify operator services (635/735)(AE 8/ADJ 11)	(1,989)	0
d. Remove non-utility costs (AE 7/ADJ 9,18)(-4398-767)	(5,166)	0
e. Allocate Purchased Power (AE 7/ADJ 9)	(3,422)	3,422
f. Capitalize Meters Accts (331/334)(AE 4/ADJ 6)	(552)	0
g. Reclassify to Pump Repairs to Acct (636)(AE 4/ADJ 6)	(569)	0
h. Reclassify to meter couplings to Acct (620)(AE 4/ADJ 6)	(112)	0
i Repression Adjustment	(915)	(639)
Subtotal	($18,066)	$2,783
Chemicals (618/ 718)		
a.Reclassified from Purch Power Acct (615)(AE 8 ADJ 11)(a)	$643	$1,653
b.Reclassified from Purch Water Acct (610)(AE 8 ADJ 11)(a)	768	1,361
c. Repression Adjustment	(317)	(563)
Subtotal	$1,094	$2,451
Materials & Supplies (620/ 720)		
a. Reclassified meter couplings from Acct (615)(AE 4/adj 6)	$112	$0
b. Reclassified pump parts from Acct (636) (AE 4/adj 6)	336	0
a. Record meter parts(AE 4/adj 6)	109	0
d. Remove non/utility expenses(Adj 19)	(1,290)	0
Subtotal	($733)	$0

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 020010-WS PAGE 2 OF 3
(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
Contractual Services - Prof (631/ 731)		
a. Allocate Acct & Bk services to wastewater (AE 5)	($1,697)	$1,697
b. Remove costs related to foreign representation (AE 11 Adj 20)	(195)	0
c. Capitalize Organization Costs Acct(301/351) (AE 11 ADJ 20)	(760)	0
Subtotal	($2,652)	$1,697
Contractual Services - Testing (635/ 735)		
a. Reclassify testing costs from Acct (615) (AE 8/Adj 11)	$740	$1,249
b. Reclassify testing costs from Acct (610) (AE 8/Adj 11)	664	899
c. Include additional costs for DEP required testing per staff engineer	1,628	479
Subtotal	$3,032	$2,627
Contractual Services - Other (636/ 736)		
a. Reclassify operator services Acct (615) (AE 8/Adj 11)	$1,530	$1,515
b. Reclassify operator services Acct (610) (AE 8/Adj 11)	1,680	1,590
c. Remove contract labor costs as salaries Acct (601/701)(AE 6/ADJ 10)	(22,409)	0
d. Include costs for line replacement (AE 4/ADJ6)(Lagrow)	2,807	0
e. Amortize line replacement costs (5 years) (AE 4/ADJ6)(Lagrow)	(2,246)	0
e. Reclassify pump repairs from Acct (675) (AE 12/ADJ 25)	60	247
f. Reclassify labor for motor repairs from Acct (615) (AE 4/Adj 6)(Lagrow)	569	0
g. Reclassify repairs to hydro tank from Acct (610) (AE 4/Adj 6)(Lagrow)	326	0
g. Reclassify labor to prime pumps from Acct (610) (AE 4/Adj 6)(Lagrow)	360	0
h. Record contract labor for well repairs (AE 4/Adj 6)(Lagrow)	80	0
i. Increased costs for operator services(AE 8/Adj 11)	150	75
Subtotal	($17,093)	$3,427
Rents (640/ 740)		
a.Remove non/utility rental expenses (AE 9/Adj 15)	($1,661)	$0
Transportation Expense (650/ 750)		
Allocate truck expenses (AE 6/Adj 31)	$993	$829
Insurance Expenses (655/ 755)		
Allocate property and general liability insurance to utility(AE 6/adj 8)	$737	$616
Regulatory Expense (665/ 765)		
a.To remove non regulatory expenses	($18,254)	$0
b.Include Rate Case Expense	149	144
Subtotal	($18,105)	$144
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

WOODLANDS OF LAKE PLACID
TEST YEAR ENDING 12/31/01
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 020010-WS
PAGE 3 OF 3

	WATER	WASTEWATER
Miscellaneous Expense (675/ 775)		
Remove Advertising Expenses (Adj 16)	(1,451)	0
Remove resort entertainment expense (ADJ 22)	(747)	0
Remove nonutility expenses(AE 12 ADJ 25,29)	0	(211)
Remove nonutility repair & maintenance expenses(AE 12 ADJ 25,29)	(4,433)	0
Reallocate bank charges (AE 10/adj 21)	(30)	30
Record telephone expenses (AE 10/ADJ)	41	376
Reclassify sludge removal to Acct (711) (AE 12 Adj 25)	(1,683)	0
Reclassify Pump repairs to Acct (636) (AE 4)	(60)	0
Reclassify Lift Station repairs to Acct (736) (AE 4)	(247)	0
Reclassify pump repairs to Acct (620) (AE 4 ADJ 6) (LAGROW)	(336)	0
Record billing costs @$1 per customer	2,289	1,704
Subtotal	($6,657)	$1,899
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($55,625)	$27,021
DEPRECIATION EXPENSE		
a. Test year depreciation calculated per 25-30.140, FAC	$14,957	$13,404
b. Test year CIAC amortization calculated by staff	(6,252)	(2,324)
c. Non-used and useful depreciation expense	(1,063)	(2,984)
c. Non-used and useful amort expense	419	0
e. Depreciation Expense on proforma plant	2,114	149
Total	$10,175	$8,245
TAXES OTHER THAN INCOME		
Remove non utility expensesAE 14/Adj 32)	$0	($24,859)
Record property taxes 14/Adj 32)	$453	$3,608
Non-Used & Useful Property Taxes	($64)	($458)
Adjust RAF's to Annualized Revenue	$4,417	$2,274
Record Payroll Taxes	1,455	918
Total	$6,260	($18,518)

WOODLANDS OF LAKE PLACID
TEST YEAR ENDING 12/31/01
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
DOCKET NO. 020010-WS

	TOTAL PER UTILITY	STAFF ADJUST-MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$14,056	$14,056
(603) SALARIES AND WAGES - OFFICERS	0	0	$0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	$0
(610) PURCHASED WATER	10,570	(10,570)	$0
(615) PURCHASED POWER	21,230	(18,066)	$3,164
(616) FUEL FOR POWER PRODUCTION	0	0	$0
(618) CHEMICALS	0	1,094	$1,094
(620) MATERIALS AND SUPPLIES	1,320	(733)	$587
(630) CONTRACTUAL SERVICES - BILLING	0	0	$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,686	(2,652)	$2,034
(635) CONTRACTUAL SERVICES - TESTING	0	3,032	$3,032
(636) CONTRACTUAL SERVICES - OTHER	22,409	(17,093)	$5,316
(640) RENTS	1,661	(1,661)	$0
(650) TRANSPORTATION EXPENSE	0	993	$993
(655) INSURANCE EXPENSE	0	737	$737
(665) REGULATORY COMMISSION EXPENSE	18,254	(18,105)	$149
(670) BAD DEBT EXPENSE	0	0	$0
(675) MISCELLANEOUS EXPENSES	9,718	(6,657)	$3,061
	89,848	(55,625)	34,223

WOODLANDS OF LAKE PLACID
TEST YEAR ENDING 12/31/01
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 020010-WS

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$0	$8,865	$8,865
(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	0	1,683	$1,683
(715) PURCHASED POWER	0	2,783	$2,783
(716) FUEL FOR POWER PRODUCTION	0	0	$0
(718) CHEMICALS	0	2,451	$2,451
(720) MATERIALS AND SUPPLIES	0	0	$0
(730) CONTRACTUAL SERVICES - BILLING	0	0	$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	1,697	$1,697
(735) CONTRACTUAL SERVICES - TESTING	0	2,627	$2,627
(736) CONTRACTUAL SERVICES - OTHER	0	3,427	$3,427
(740) RENTS	0	0	$0
(750) TRANSPORTATION EXPENSE	0	829	$829
(755) INSURANCE EXPENSE	0	616	$616
(765) REGULATORY COMMISSION EXPENSES	0	144	$144
(770) BAD DEBT EXPENSE	0	0	$0
(775) MISCELLANEOUS EXPENSES	211	1,899	$2,110
	211	27,021	27,232

RECOMMENDED RATE REDUCTION SCHEDULE

WOODLANDS OF LAKE PLACID — **SCHEDULE NO. 4**
TEST YEAR ENDING 12/31/01 — **DOCKET NO. 020010-WS**

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

MONTHLY WATER RATES

		MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:			
Residential			
5/8"X3/4" (0.8 ERC) RV's	$	5.17	$ 0.02
5/8"X3/4" (1 ERC) Single Family Homes	$	6.46	$ 0.02
General Service			
5/8"X3/4" (0.8 ERC) Lot Rentals	$	5.17	$ 0.02
5/8"X3/4" (1 ERC) Park Commercial Property	$	6.46	$ 0.02
3/4"	$	9.69	$ 0.03
1"	$	16.15	$ 0.05
1-1/2"	$	32.30	$ 0.09
2"	$	51.68	$ 0.15
3"	$	103.36	$ 0.30
4"	$	161.50	$ 0.47
6"	$	323.00	$ 0.94
RESIDENTIAL & GENERAL SERVICE			
GALLONAGE CHARGE (PER 1,000 GALLONS)	$	2.62	$ 0.01

RECOMMENDED RATE REDUCTION SCHEDULE

WOODLANDS OF LAKE PLACID — **SCHEDULE NO. 4A**
TEST YEAR ENDING 12/31/01 — **DOCKET NO. 020010-WS**

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

MONTHLY WASTEWATER RATES

	MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
RESIDENTIAL		
BASE FACILITY CHARGE:		
Meter Sizes:		
All Meter Sizes	$ 5.74	$ 0.02
GALLONAGE CHARGE:		
PER 1,000 GALLONS (8,000 gallon cap)	$ 1.61	$ 0.01
GENERAL SERVICE		
BASE FACILITY CHARGE:		
Meter Sizes:		
5/8"X3/4" (0.8 ERC) Lot Rentals	$ 4.59	$ 0.02
5/8"X3/4" (1 ERC) Park Commercial Property	$ 5.74	$ 0.02
3/4"	$ 8.61	$ 0.03
1"	$ 14.36	$ 0.05
1-1/2"	$ 28.72	$ 0.10
2"	$ 45.95	$ 0.16
3"	$ 91.89	$ 0.31
4"	$ 143.58	$ 0.49
6"	$ 287.16	$ 0.97
GALLONAGE CHARGE:		
PER 1,000 GALLONS	$ 1.93	$ 0.01