

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P.

DOCKET NO. 020010-WS

In re: Application for certificates to operate a water and wastewater utility in Highlands County by The Woodlands of Lake Placid, L.P., and for deletion of portion of wastewater territory in Certificate No. 361-S held by Highlands Utilities Corporation.

DOCKET NO. 990374-WS  
ORDER NO. PSC-02-1739-PAA-WS  
ISSUED: December 10, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman  
J. TERRY DEASON  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI  
RUDOLPH "RUDY" BRADLEY

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST,  
AND  
NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING A DECREASE IN WATER RATES,  
AN INCREASE IN WASTEWATER RATES, AND  
REFUND OF UNAUTHORIZED RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that actions discussed herein, except for the motion to cancel proposed agency action, the reduction of rate case expense, the collection of rates as temporary rates in the event of protest, and the closure of the docket, are preliminary in nature and will become final unless a person whose interests are substantially

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affected filed a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

#### 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 our 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. We 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. Our 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 this 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 pending the completion of this staff assisted rate case. The order stated that conservation rates would be considered by this 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. We have the authority to consider this rate case under Section 367.0814, Florida Statutes. Rate base has not yet been established for this utility. We have audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate setting. Our staff engineer 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. We selected the historical test year ending 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. We also conducted informal afternoon meetings with customer representatives. Prior to the customer meeting, we 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 us. The most prominent doubt was over the information we 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.

On October 14, 2002, we received a letter, from the utility requesting that the statutory time frame be waived and the item be deferred until November 19, 2002, to allow additional time to review our staff's recommendation. During conversations with utility representatives, we were told that the utility's assets had been sold to Highvest Corporation, an affiliate company. On October 17, 2002, we received an Objection or in the Alternative Motion to Cancel Proposed Agency Action. This filing was received from Highvest Corporation, who states that it is now the owner of the water and wastewater facilities formerly owned by The Woodlands. In support of its objection, Highvest Corporation indicates that it owns the facilities by virtue of a recent foreclosure. Therefore, since ownership has changed since the completion of our analysis in this instant SARC, there was a complete change of factual circumstances and it is premature for the Commission to consider this matter at this time. Further, Highvest Corporation indicates that the facts supporting the proposed Final Agency Action have changed. This recent filing indicated that an application for Sale, Assignment or Transfer of Certificate or Facilities would be filed within seven days.

We disagree and find that it is imperative that this docket go forward. In Order No. PSC-02-0250-PAA-WS, issued February 26, 2002, in Docket No. 990374-WS, we approved the existing rates on a temporary basis until a change in rates is approved. This order further indicated that the issue of a conservation rate structure would be addressed in this instant docket. Further, rate base was not set in the certification docket. More importantly, we determined that the utility implemented an unauthorized rate increase in 1998 and specifically indicated that the utility shall hold the amount of the unauthorized rate increase from the date of implementation through the pendency of the SARC. We indicated that the utility was not required to make a refund at that time.

We do not believe that the subsequent sale of Woodlands to Highvest Corporation has any bearing on the facts of this instant case. The findings herein are directly related to the period the unauthorized rates were collected, as well as, the test year. Further, we find that the water system is overearning and that the appropriate rates must be established pursuant to Section 367.081, Florida Statutes. The rates approved in this SARC shall be charged until such time as the utility files a subsequent rate proceeding.

Our preliminary analysis of the sale of Woodlands to Highvest Corporation indicates that although the assets may have been sold through foreclosure, this sale may not have been an arms-length transaction.

The Woodlands of Lake Placid, L.P., is a registered limited partnership in the State of Florida. The database of the Florida Department of State, Division of Corporations, as well as the utility's 2001 Annual Report, indicate that the General Partner of Woodlands is Camper Corral, Inc. Further, the SARC application and annual report indicate that the other partner and manager is Mr. Anthony Cozier, with Mr. John Lovelette as the General Manager. The database of the Florida Department of State, Division of Corporations also indicates that the President of Camper Corral, Inc. is Anthony Cozier. Finally, this database indicates that President and Director of Highvest Corporation is Anthony Cozier. The Vice President of Highvest Corporation is John Lovelette. Mrs. Theresa Lovelette is also listed as the secretary of Highvest Corporation and is also the secretary/bookkeeper of Woodlands. We will further address the fact that the officers are the same for these related corporations in a future transfer docket.

We find that the sale of the Woodlands to Highvest Corporation has no significant relevance to this staff assisted rate case and we shall proceed with this SARC docket based upon the following:

- our preliminary analysis that there are related parties involved in the sale of the utility's assets
- we are approving salaries for both the Vice President and Secretary of Highvest Corporation
- we are approving that the capital structure of Highvest Corporation be used
- the utility is charging temporary rates
- we are approving a refund of past overearnings

MOTION TO CANCEL PROPOSED AGENCY ACTION

As previously discussed, Highvest Corporation filed a Motion to Cancel Proposed Agency Action on October 17, 2002, which was prior to our vote in this docket. We find that, at this time, any ruling on this motion would be premature. Prior to a vote by this Commission, there is no proposed agency action upon which an

objection may be filed. Within 21 days of the issuance of this Proposed Agency Action Order, a substantially affected party may protest any of the proposed actions undertaken herein. The Commission cannot grant the relief requested by the motion prior to the expiration of this 21 day protest period. Accordingly, the subject of the motion is not ripe, and no ruling is required.

#### CONSOLIDATION

Rule 28-106.108, Florida Administrative Code, provides that:

If there are separate matters which involve similar issues of law or fact, or identical parties, the matters may be consolidated if it appears that consolidation would promote the just, speedy, and inexpensive resolution of the proceedings, and would not unduly prejudice the rights of a party.

Docket Nos. 990374-WS and 020010-WS involve the same party, Woodlands of Lake Placid, L.P. Also, the two cases are dependant on each other, since several issues from the certification docket must be resolved in this docket. Therefore the dockets involve the same or similar issues of fact, law, and policy: whether the utility was overearning during the time its unauthorized rates were in effect, and if so, the appropriate amount and disposition of the refund. In addition, we set temporary rates in Docket No. 990374-WS, which shall be made permanent in the consolidated dockets.

We find that consolidation of the dockets will promote the just, speedy, and inexpensive resolution of both proceedings and will not prejudice the rights of any party.

#### QUALITY OF SERVICE

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.

Our analysis 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 the 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, we have 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 ten 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.

Based on the foregoing, we find that the current quality of product for both the water and wastewater systems is 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.

##### 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 us 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. The utility shall 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.

Based on the foregoing, we find that the utility plant in service is satisfactory.

#### 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 commented on 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 us. The most prominent doubt was over the information we 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

that 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 believed that we had been deceived by the utility, that the MHP was being served by the new two-inch line, and that our rate calculation was incorrect because lack 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 asserted 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. Our 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, we have confirmed that those lots were being served drinking water by Lake Grassy MHP.

All things considered, we find that the quality of service provided by Woodlands of Lake Placid is satisfactory; however, the utility shall complete the necessary pro forma plant modification at the wastewater treatment plant within 120 days of the issuance of the Consummating Order. Additionally, this docket shall remain open for our staff to verify the project as complete.

USED AND USEFUL

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 from 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-). For this utility, the firm reliable capacity of the water treatment plant is determined to be 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 1,558 gpd demand in water use. No evidence concerning excessive unaccounted for water was found during our investigation.

In accordance with the formula found in Attachment A, page 1 of 4, the used and useful for the water treatment plant shall be 100%. In conclusion, we find that all water treatment plant accounts shall be 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:

<u>Description</u>	Potential <u>ERCs</u>	Connected <u>ERCs</u>
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	<u>185.6</u>	<u>129.6</u>
Total ERCs	<u>403</u>	<u>335</u>

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, we find the water distribution system is 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 shall 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 average flows at 28,000 gpd.

The number of 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. There does not appear to be an excessive infiltration problem occurring within the collection system serving the Woodlands service area. Thus, we find the wastewater treatment plant is 59% used and useful. The formula used is shown on the calculation found in 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:

<u>Description</u>	Potential <u>ERCs</u>	Connected <u>ERCs</u>
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	<u>185.6</u>	<u>129.6</u>
Total ERCs	<u>344</u>	<u>276</u>

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 found in Attachment A, page 4 of 4, the used and useful for the wastewater collection systems shall be 84.6%. Accordingly, we find that the wastewater collection system accounts shall be 84.6% used and useful.

RATE BASE

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. We approved temporary rates and charges in that order, but rate base was not established. A rate base audit was conducted by our staff for the test year ended December 31, 2001.

According to the information provided to our 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 when it was first constructed.

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 this Commission. When the 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.

We 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. We increased UPIS by \$266,579 for water and decreased UPIS by \$629,366

for wastewater to reflect UPIS per the auditor at December 31, 2000.

Since the audit for the certification docket was for the test year ended December 31, 2000, we audited the utility's books and records for the test year ended December 31, 2001. In Audit Exception No. 11, we 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 National Association of Regulatory Utility Commissioners (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, we 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 increased Account No. 330 by \$4,573 for water, to capitalize the costs of the transmission lines.

During the audit, we 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, we 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, we made an averaging adjustment to reduce UPIS by \$2,770 for water and \$173 for wastewater.

#### Pro Forma Plant

The utility was required by the 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 our staff engineer and were found to be necessary and



prudent. Based on the above, we 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 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, we removed the costs of the meters for these 70 lots from the calculation. Based on the above, we increased 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, we were 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 us 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 this 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, we find that Woodlands 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 this Commission does not have jurisdiction over such matters.

As discussed earlier, 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 ( $\$9,363 \times .234$ ) and the land for Water Plant No. 2 should be valued at \$18,396 ( $\$9,363 \times 1.965$  per acre), with a combined total of \$20,598, for both water plants. We determined that the wastewater plant shall be valued at \$36,000 ( $\$5,057 \times 7.91$  acres). Based on the above, we increased land by \$15,598 for water and decreased land by \$55,112 for wastewater.

Non-used and Useful Plant: We previously determined the used and useful percentages for each plant account. 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, we 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. We recalculated CIAC using the utility's approved service availability charge included in its tariff.

We calculated CIAC balances to be \$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 our practice, we recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation balances for the average test year ending December 31, 2001, are \$118,075 for water and \$154,928 for wastewater. Accordingly, we increased accumulated depreciation by \$64,386 for

water and \$128,620 for wastewater to reflect our calculated accumulated depreciation.

Our averaging adjustment decreases accumulated depreciation by \$7,438 for water and by \$6,698 for wastewater. Additionally, we 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, we approve the accumulated depreciation balance for the projected test year to be \$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 using the composite depreciation rate. We calculated accumulated amortization for the test year of \$36,374 for water and \$19,911 for wastewater. An averaging adjustment was made to decrease CIAC amortization by \$3,126 for water and \$1,162 for wastewater.

Based on the above, the 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, we calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Applying that formula, we allow a working capital allowance of \$4,295 (based on O&M of \$34,362) for water and \$3,454 (based on O&M of \$27,632) for wastewater.

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$218,635 for water and \$191,391 for wastewater.

Rate base is shown on Schedule Nos. 1-A and 1-B. Related adjustments are shown on Schedule No. 1-C. The schedules are attached hereto and incorporated herein by reference.

COST OF CAPITAL

As disclosed in Audit Disclosure No. 4, the majority of the utility's debt comes from Highvest Corporation or other affiliate companies. Therefore, Highvest Corporation'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%. We 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 the approved rate base. The approved return on equity is 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, attached hereto and incorporated herein by reference.

NET OPERATING INCOME

Test Year Revenues

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. We annualized the test year revenues, using the

temporary rates times the number of current bills for both water and wastewater. Based on this calculation, test year revenues have been increased by \$55,387 for water and \$25,272 for wastewater.

Additionally, an adjustment was made to impute revenues for the rental lots served by this utility. As previously discussed, 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 shall reimburse Woodlands for the cost of the utility service. Otherwise, the residential customers will be subsidizing the unregulated resort.

We 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 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 foregoing, we approve test year revenues of \$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. The schedules are attached hereto and incorporated herein by reference.

#### Operating Expenses

The utility 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 Uniform System of Accounts (USOA) standards. We made every effort to reclassify the utility's expenses and assign them to the proper NARUC account. We 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 utility 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., this 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, we find that the appropriate allocation of expenses should be 54.50% for water and 45.50% 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, we have made several adjustments to the utility's operating expenses. Our 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, we increased this account by \$14,056 for water and \$8,865 for wastewater. The allocations are shown below:

<u>Position</u>	<u>Salary</u>	<u>Percent Utility Related</u>	<u>Utility Amount</u>	<u>Water Amount</u>	<u>Wastewater Amount</u>
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	<u>\$20,000</u>	<u>30.00%</u>	<u>\$6,000</u>	<u>\$4,500</u>	<u>\$1,500</u>
Total	<u>\$134,687</u>	<u>17.02%</u>	<u>\$22,921</u>	<u>\$14,056</u>	<u>\$8,865</u>

Based on the foregoing, Salaries and Wages expense for the test year are \$14,056 and \$8,865 for water and wastewater, respectively.

Sludge Hauling (711) - The utility recorded zero (\$0) in this account during the test period. According to Audit Exception No. 12, 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, we reclassified \$1,683 in Sludge hauling expense from Account No. 675 to Account 711. Based on the above, we find that the balance for Sludge Hauling Expense is \$1,683.

Purchased Water (610) - The utility recorded \$10,570 in this account during the test year. We 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.

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

Based on the above, Purchased Water is 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. We 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.

<u>Accounts</u>	Water <u>(630)</u>	Wastewater <u>(730)</u>
<u>Transfers Reductions</u>		
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)	<u>(112)</u>	<u>0</u>
Total Adjustments	<u>(\$17,151)</u>	<u>\$3,422</u>

In addition, we decreased the Purchased Power Account by \$812 for water and by \$568 for wastewater, to reflect a repression adjustment. Accordingly, we decreased this account by \$17,963 for water and increased it by \$2,854 for wastewater. As such, balances for this account are \$3,267 for water and \$2,854 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, we 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). In addition, we decreased this account by \$281 for water and by \$234 for wastewater to reflect a repression adjustment as discussed later in this Order. As such, balances for this account are \$1,130 for water and \$2,780 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, we 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.



We decreased this account by \$1,290 to remove non-utility expenses.

Based on the above adjustments, this account is decreased by \$733 for water and \$0 for wastewater. As such, balances for this account are \$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. We 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 the utility, which should have been capitalized. Therefore, we 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, we further reduced this account by \$195 to remove non-utility expenses, per Audit Exception No. 11.

Based on the above, our adjustments reduce this account by \$2,652 for water and increase it by \$1,697 for wastewater. As such, balances for 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 both water and wastewater in this account during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Chapters 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

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Bacteriological	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	<u>140</u>
Total		<u>\$3,032</u>

Wastewater

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

As discussed previously, we removed \$1,563 in testing costs from Purchased Water, Account No. 610, and reclassified, \$664 for water and \$899 for wastewater, to this account. We 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. Our 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. Total adjustments in this account result in an increase of \$3,032 for water and \$2,627 for wastewater.

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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, we reclassified \$22,409 to Salaries and Wages (Account No. 601/701). Thus, we 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, we 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.

We 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 as follows:

<u>Accounts (636/736)</u>	<u>Water</u>	<u>Wastewater</u>
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	<u>\$150</u>	<u>\$75</u>
Total Adjustments	<u>(\$17,093)</u>	<u>\$3,427</u>

Our 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, we 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 because it was paid by an affiliated company. However, according to the 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, we allocated a portion of the truck expense, using the same percentage that was used to allocate salaries, to the utility. Based on this method, we allocated \$1,823 (25% X \$7,291) of the truck expenses to the utility. As such, our 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, which were reviewed by us,

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, we 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. As such, we 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. We determined that this amount is non-utility related and should be removed. Therefore, we 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. We increased this account by \$125 each for water and wastewater to amortize the filing fee over a four-year period ( $\$1000/4$  years). We also increased this account by \$24 for water and \$20 for wastewater [ $\$1.02$  ( $\$.37$  for postage,  $\$.05$  for envelopes,  $\$.60$  for copying)  $\times$  (183 water and 150 wastewater customers/4)  $\times$  50%] for the costs of mailing the customer notices for this rate case. Our adjustments decrease this account by \$18,105 for water and increase it by \$144 for wastewater. As such, balances for this account are \$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. We 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. We reduced this account by \$4,443 for water to remove non-utility expenses. Adjustments were also 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, we 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 auditor discovered that all telephone expenses were not recorded. Per Audit exception No. 6, we 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, we find that Woodlands shall switch to metered rates and bill its customers monthly. Thus, we find that the billing costs be included in test year expenses. We reviewed the amounts allowed by this Commission in past rate proceedings for utilities this size, and we determined that a cost of \$1.00 to process and mail each bill is reasonable to cover administrative costs. Based on our calculations, we determined an increase in this account of \$2,289 (350 x \$1.00 x .545) for water and \$1,704 (312 x \$1.00 x .455) for wastewater.

Our adjustments decrease this account by \$6,657 for water and increase it by \$1,899 for wastewater. As such, balances for this account are \$3,061 for water and \$2,110 for wastewater.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustments are a decrease test year expenses of \$55,486 for water and an increase test year expenses of \$27,421 for wastewater. Our approved O&M test year balances are \$34,362 for water and \$27,632 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E, attached hereto and incorporated herein by reference.

Depreciation Expense - The utility did not record depreciation expense or amortization expense for water or wastewater during the test year. We recalculated accumulated depreciation using the prescribed rates per Rule 25-30.140, Florida Administrative Code. Test year depreciation expense is \$14,957 for water and \$13,404 for wastewater.

We 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.

We also reduced this account by \$1,063 for water and by \$2,984 for wastewater to reflect non-used and useful depreciation expense. We further increased this account by \$419 to reflect water non-used and useful amortization expense.

We increased this account by \$2,114 for water and \$149 for wastewater to reflect depreciation expense on pro-forma plant. Based on the foregoing, depreciation expense, net of amortization expense, is \$10,175 for water and \$8,245 for wastewater.

Taxes Other Than Income - The utility recorded taxes other than income of \$0 for water and \$24,859 for wastewater for the test year. Per Audit Exception No. 14, the \$24,859 related to property taxes is unrelated to the utility. Based on this, we decreased 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, we increased this account by \$453 for water and by \$3,608 for wastewater to record utility property taxes. We further increased this account by \$1,455 for water and \$918 for wastewater to record payroll taxes for the approved salaries and by \$4,417 for water and \$2,274 for wastewater, to include regulatory assessment fees on the adjusted test year revenues. We 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 foregoing, we approve taxes other than income test year balances of \$6,260 for water and \$6,341 for wastewater.

Operating Revenues - Revenues have been decreased by \$33,151 for water and increased by \$5,671 for wastewater to reflect the decrease in revenue required for water and the increase in revenue required to cover expenses and allow the approved return on investment for wastewater.

Taxes-Other-Than-Income - This expense has been decreased by \$1,492 for water and increased by \$255 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 these adjustments to the audited test year operating expenses results in approved operating expenses of \$49,306 for water and \$42,473 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. The schedules are attached hereto and incorporated herein by reference.

#### REVENUE REQUIREMENT

Based on our 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 necessary. According to our calculations, the utility shall be allowed an annual decrease of \$33,151 (-33.77%) for water and an increase of \$5,671 (11.22%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 7.18% return on its investment. The calculations are as follows:



	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$218,635	\$191,391
Rate of Return	x .0718	x .0718
Return on investment	15,698	13,742
Adjusted O & M expense	34,362	27,632
Depreciation expense (Net)	10,175	8,245
Taxes Other Than Income	4,769	6,596
Revenue Requirement	<u>\$65,004</u>	<u>\$56,215</u>
Adjusted Test Year Revenues	<u>\$98,155</u>	<u>\$50,544</u>
Percent Increase/(Decrease)	<u>(33.77)%</u>	<u>11.22%</u>

Revenue requirements are shown on Schedules Nos. 3-A and 3-B, attached hereto and incorporated herein by reference.

#### RATES AND CHARGES

##### Wastewater Gallonage Cap

The approved rates for wastewater service shall 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.

Our current 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, we set 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, our analysis indicates that residential customers will use approximately 6,330 gallons of water per month once the new base facility/gallage rate structure is initiated.

Considering the above factors and that the utility serves a mobile home retirement community with seasonal customers, the wastewater gallage cap for residential customers shall be set at 8,000 gallons per month. If usage patterns change after the utility switches to a metered rate, this gallage cap will be reexamined in the next rate case.

#### Rate Structure

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 temporarily 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 previously, 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 us. 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, we find it is 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, we lack 12 months of metered data to use in calculating our approved gallonage charge. In the alternative, we obtained meter readings from the DEP Monthly Operating Reports (MORs) during the test year for both water treatment plants. We 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
+	<u>Treated Water from Plant #2</u>
=	Total Treated Water
-	<u>10% Unaccounted for Water</u>
=	Total Water Available for Sale

Our preliminary allocation of fixed versus variable revenue requirement cost recovery indicates that the utility would recover 48% (\$31,958) via the BFC charge and the remaining 52% (\$34,201) 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 find that it is

appropriate to approve a conservation adjustment that results in a rate structure that is as conservation-oriented as possible.

When converting from flat to metered rates, there is typically a substantial reduction in consumption. As will be discussed in further detail, we approve an overall 27% repression adjustment to residential consumption to mitigate this problem. Our 19% approved conservation adjustment is of a magnitude such that the resulting BFC/gallage charge rate structure is as conservation-oriented as possible without sacrificing the utility's revenue stability.

Based on the foregoing, we find 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 shall be changed to a traditional base facility charge (BFC)/gallage charge rate structure. In addition, we find that 19% of the BFC cost recovery be shifted to the gallage charge, resulting in a pre-repression cost recovery split of 39% from the BFC and 61% from the gallage charge.

#### Repression Adjustment

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/gallage charge rate structure. The specific consumption reductions were 60%, 60%, 50%, and 44%, respectively.

It is our practice to apply a repression adjustment to Residential (RS) customers only. Although we were able to calculate a reasonable estimate of total metered gallons sold, we lacked the detailed, 12-month data that would separate the consumption between RS and its different type of General Service (GS) customers. As stated previously, the utility's GS customers, with the exception of its GS RV customers, were already being billed on a BFC/gallage charge rate structure. The challenge for us 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. Our analysis of residential consumption is contained on Attachment B, located on page 42, and incorporated herein by reference.

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 bills rendered associated with the consumption (column (b)). Unfortunately, this Commission and the utility believe some of the meter readings are abnormal and, therefore, unreliable. As such, we had to devise a method of calculating consumption in spite of this problem.

We evaluated each customer's individual consumption readings for the February through June period. If all of the readings appeared consistent for that particular customer, we 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, we 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, we 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, we lack January meter readings, so a proxy for January

consumption had to be calculated. At this time, it is important to consider different types 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, we estimate 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. We do not find 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 the approved revenue requirement, rate structure and conservation adjustment, the pre-repression approved rates are a BFC of \$6.44 and a gallonage charge of \$1.86. When compared to the current monthly flat rate of \$22, those RS customers inside the Camp Florida Resort, using 9 kgal or less would receive price decreases ranging from 77% to 1%, while consumption levels between 9 kgal and 13 kgal would receive price increases ranging from 8% to 33%. Since both price increases and decreases exist for consumption at or below 13 kgal, we do 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 residential service homes within the Resort ranges from approximately 500 ft<sup>2</sup> to 900 ft<sup>2</sup>, which should make sustained repression of 50% possible.

Based on the meter readings provided by the utility, our calculation of the number of gallons billed above 13 kgal represents 54% of the total gallons billed to the utility's residential customers. This results in an overall repression adjustment of 27%.

Based on the approved 19% conservation adjustment and a 50% repression adjustment applied to those gallons above 13 kgal, the resulting BFC/gallongage charge split is 40%/60%, with base facility charge for a 5/8" meter of \$6.44 and a gallongage charge is \$2.25.

Accordingly, we find that a 50% repression adjustment be made to residential consumption above 13 kgal. The resulting reduction in consumption is 4,318 kgal for the water system and a corresponding adjustment of 3,454 kgal for the wastewater system. In order to monitor the effects of both the changes in rate structure and the approved revenue change, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenue billed. These reports shall 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 approved rates go into effect.

### Rates

The appropriate revenue requirement is \$65,004 for the water system and \$56,215 for the wastewater system. As discussed previously, we find that the water system rate structure shall be changed to a traditional BFC/gallongage charge rate structure with a post-repression 40%/60% BFC/gallongage charge cost recovery split. Additionally, the appropriate repression adjustment is 4,318 kgal for the water system and 3,454 kgal for the wastewater system.

Our 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 the approved rates and rate structure are as follows:

MONTHLY RATES - WATER

RESIDENTIAL SERVICE

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Approved Rates</u>
<u>Base Facility Charge</u>		
5/8" x 3/4" (RV's)	\$22.00	\$5.15
5/8" x 3/4" (Single Family)	\$22.00	\$6.44
<u>Gallonage Charge</u> (Per 1,000 Gallons)	n/a	\$2.25

MONTHLY RATES - WATER

GENERAL SERVICE

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Approved Rates</u>
<u>Base Facility Charge</u>		
5/8" x 3/4" RV/Lot Rentals	\$22.00	\$5.15
5/8" x 3/4"	\$48.40	\$6.44
3/4"	\$48.40	\$9.66
1"	\$48.40	\$16.10
1 1/2"	\$48.40	\$32.20
2"	\$48.40	\$51.52
3"	\$48.40	\$103.04
4"	\$48.40	\$161.00
6"	\$48.40	\$322.00
<u>Gallonage Charge</u> (Per 1,000 Gallons)	\$1.00	\$2.25



MONTHLY RATES - WASTEWATER

RESIDENTIAL

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Approved Rates</u>
<u>Base Facility Charge</u>		
All Meter Sizes	\$13.00	\$6.33
<u>Gallorage Charge</u>		
Per 1,000 Gallons (8,000 gallonage cap)	N/A	\$1.76

MONTHLY RATES - WASTEWATER

GENERAL SERVICE

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Approved Rates</u>
<u>Base Facility Charge</u>		
5/8" x 3/4"/RV/Lot	\$13.00	\$6.33
3/4"	\$13.00	\$9.50
1"	N/A	\$15.83
1 1/2"	N/A	\$31.67
2"	\$13.00	\$50.67
3"	N/A	\$101.34
4"	N/A	\$158.35
6"	N/A	\$316.69
<u>Gallorage Charge</u>		
Per 1,000 Gallons	N/A	\$2.11

As discussed previously, we approve a rate decrease for the water system and a rate increase for the wastewater system. Approximately 40% (\$25,886) of the water and 46% (\$25,690) 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 60% (\$39,118) for water and 54% (\$30,525) 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.

<u>Gallons</u>	<u>Existing Rates</u>		<u>Approved Rates (RVs)</u>		<u>Approved Rates (Single Family)</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
3,000	\$22.00	\$13.00	\$11.90	\$11.61	\$13.19	\$11.61
5,000	\$22.00	\$13.00	\$16.40	\$15.12	\$17.69	\$15.12
10,000	\$22.00	\$13.00	\$27.65	\$23.91	\$28.94	\$23.91

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 shall be approved upon our staff's verification that the tariffs are consistent with our 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.

Four-Year Rate Reduction

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 shall 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 will result in the rate decreases as shown on Schedules Nos. 4 and 4A, attached hereto and incorporated herein by reference.

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

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

#### TEMPORARY RATES IN THE EVENT OF A PROTEST

Our approved test year revenues of \$98,155 and operating expenses of \$50,798 result in water operating income of \$47,357, which reflects a 21.66% rate of return. We calculated a decrease of \$33,151 (33.77%) 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 shall continue collecting existing rates as temporary rates. However, in order to protect utility customers from potential overearnings, the utility shall hold \$33,151 (33.77%) of its annual water service revenues subject to refund.

We calculated an increase of \$5,671 (11.22%) for the wastewater system. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, the rates approved herein shall be implemented as temporary rates. The approved rates collected by the utility shall be subject to the refund provisions discussed below.

The appropriate security to guarantee the amount subject to refund shall be in the form of a bond or letter of credit. Assuming an eight-month time frame for us to complete the hearing process, the potential refund amount would be \$22,101 and \$3,781,

plus interest for water and wastewater, respectively. Alternatively, the utility may establish an escrow agreement with an independent financial institution. If security is provided through an escrow agreement, the utility shall escrow 33.77% of its monthly water service revenues and 11.22% of its monthly service wastewater revenues. By no later than the twentieth day of each month, the utility shall 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. If a refund is ultimately required, the refund shall be paid with interest calculated pursuant to Rule 25-30.360, Florida Administrative Code.

The security shall be in the form of a bond or letter of credit in the amount of \$22,367 for water and \$3,826 for wastewater. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without 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 shall the maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Also, by no later than the twentieth day of each month, the utility shall 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. If a refund is ultimately required, the

refund shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

REFUND OF UNAUTHORIZED RATES

As previously discussed, 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, this 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, we 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. Accordingly, the amount held subject to refund is \$6.29 per month for water and \$3.71 per month for wastewater. We 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 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 we have made numerous adjustments to the utility's test year balances. Based on the above, we find that the December 31, 2001, test year is representative of the prior years and shall be used as a proxy for determining the utility's earnings during the interim collection period.

The final revenue requirement shall be adjusted for items not representative of the period the unauthorized rates were in effect. Our adjustments for pro forma plant and the related adjustments for

accumulated depreciation and depreciation expense have been removed from the calculation. Our calculations are shown below:

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$183,731	\$186,248
Rate of Return	x .0718	x .0718
Return on investment	13,192	13,370
Adjusted O & M expense	34,213	27,488
Depreciation expense (Net)	8,061	8,096
Taxes Other Than Income	4,544	6,565
Revenue Requirement	<u>60,010</u>	<u>55,519</u>
Projected Test Year Revenues	<u>98,155</u>	<u>50,544</u>
Excess Earnings	<u>\$38,134</u>	<u>0.00%</u>
Percent Increase/(Decrease)	<u>(38.86)%</u>	<u>9.85%</u>

Based on the above calculations, we determined that annual excess earnings of \$38,134 were present throughout the interim collection period, for the water system. However, as indicated above, our calculations do not reflect excess earnings for this period for wastewater. As such, we are not requiring the utility 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, this 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 water overearnings of \$190,670 for the time period the unauthorized rates were being charged. We compared the \$190,670 to \$69,065 [ $\$6.29 \times (60 \text{ months} \times 183 \text{ water customers})$ ], which is the amount held subject to refund for water, pursuant to Order No. PSC-02-0250-PAA-WS. Since the amount held subject to refund is less than the amount of the utility's excess earnings, the utility shall only refund the amount held subject to refund.

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The refunds shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The refund and the accrued interest shall be paid only to those water customers who paid the unauthorized rates from January 1998 through the implementation of the 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 shall maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. The utility shall provide refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The utility shall 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 shall be made within 90 days of the Consummating Order unless a different time frame is prescribed by this Commission. Due to the uncertainty of the continued ownership and service by this utility, we are requiring that the refunds be made in accordance with Rule 25-30.360(2), Florida Administrative Code. However, we have concerns that if the utility is required to make refunds in accordance with the above rule, the magnitude of the refund will have a significant impact on its financial viability. Therefore, if Highvest Corporation can provide assurance that it will assume this liability, the utility should 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, which will allow the customers to be reimbursed for the amount the utility overearned.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Woodlands of Lake Placid, L.P.'s application for increased water and wastewater rates is hereby granted in part and denied in part as set forth in the body of this Order. It is further

ORDERED that no ruling is required on Highvest Corporation's Motion to Cancel Proposed Agency Action. It is further

ORDERED that Docket Nos. 020010-WS and 990374-WS shall be consolidated. It is further



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ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

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

ORDERED that Woodlands of Lake Placid, L.P. is hereby authorized to charge the rates and charges as set forth in the body of this Order. It is further

ORDERED that the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenue billed. These reports shall 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 approved rates go into effect. It is further

ORDERED that in the event of a protest filed by any party, the Woodlands of Lake Placid, L.P. shall continue charging the existing water rates as temporary rates. It is further

ORDERED that pursuant to Section 367.0814(7), Florida Statutes, the wastewater rates approved herein shall be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security. If the rates are implemented on a temporary basis, the rates collected by the utility shall become subject to the refund provisions set forth in the body of this Order. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund. It is further

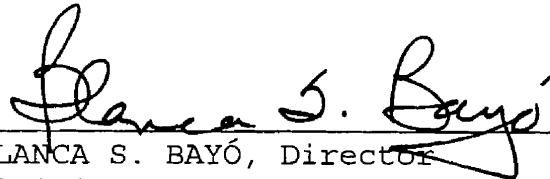
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Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event no timely protest is received upon the expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. It is further

ORDERED that in the event this Order becomes final, these dockets shall be closed administratively once our staff has verified that the matters specified herein have been completed.

By ORDER of the Florida Public Service Commission this 10th day of December, 2002.



BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

ORDERED that the rates shall not be implemented until notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the utility shall complete all pro forma additions, as set forth in the body of this Order, within 120 days of the issuance of the Consummating Order. It is further

ORDERED Woodlands of Lake Placid, L.P. shall make refunds of the unauthorized water rate increase in the amount of \$6.29 a month collected from January 1998 until the effective date of the final rates. If no protest is received by a substantially affected party, these refunds shall be made with interest as required by Rule 25-30.360(4), Florida Administrative Code, within 90 days of the effective date of the Consummating Order. It is further

ORDERED that the utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. The refund and accrued interest shall be made to customers who paid the unauthorized rates from January 1998 until the implementation of the final rates. It is further

ORDERED that the utility is hereby put on notice that it may only charge rates and charges that have been approved by this Commission. It is further

ORDERED that the provisions of this Order, except for those regarding the motion to cancel proposed agency action, the reduction of rate case expense, collection of rates as temporary rates in the event of protest, and the closure of the docket, are issued proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak

As identified in the body of this order, our action herein, except for the motion to cancel proposed agency action, the reduction of rate case expense, collection of rates as temporary rates in the event of protest, and the closure of the docket, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 31, 2002. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter, which includes the motion to cancel proposed agency action, the reduction of rate case expense, collection of rates as temporary rates in the event of protest, and the closure of the docket, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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Our decision not to rule on the Motion to Cancel Proposed Agency Action is procedural in nature.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

**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)]		
	1,558	gallons per day
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) <b>Capacity of System</b> (Number of Potential Customers, ERCs or Lots Without Expansion)	403	ERCs
2) <b>Test year connections</b>		
A) Beginning of Test Year	335	ERCs
B) End of Test Year	335	ERCs
C) Average Test Year	335	ERCs
3) <b>Growth</b>	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**

$$[2+3]/(1) = 86.9\% \text{ Used and Useful}$$

**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**

$$[(3)+(4)-(5)]/(1) = 59\% \text{ Used and Useful}$$



**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**

$$[(2)+(3)]/(1) = 84.6\% \text{ Used and Useful}$$

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		(a) March		(a) April		(a) May		(a) June	
		Consumption (gals)	No. of Bills	Consumption (gals)	No. of Bills	Consumption (gals)	No. of Bills	Consumption (gals)	No. of Bills	Consumption (gals)	No. of Bills
L 1 (b)	Number of bills associated with abnormal meter readings		10		8		6		6		4
L 2 (a) L 2 (b)	Total remaining consump and bills during month	1,682,510	181	1,889,776	183	2,108,694	185	2,110,980	185	1,198,850	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 + February as January proxy = Total seasonal consumption				8,104,384 1,775,466 9,879,850			
[B]				Seasonal consumption typically 1.5 times nonseasonal consumption. Seasonal differential in this case =							
				Average consumption Jan - May / June consump = seas custs gone				1,975,970 1,224,494 1.61		OK	
[C]				Total seasonal consumption + Nonseasonal consumption @ (seasonal consumption / 1.61) = Total annual residential consump				9,879,850 6,136,553 16,016,403			

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	\$4,295	\$4,295
8. WATER RATE BASE	<u>\$138,711</u>	<u>\$79,924</u>	<u>\$218,635</u>

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 ADJUSTMENTS	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	<u>3,454</u>	<u>\$3,454</u>
8. WASTEWATER RATE BASE	<u>\$1,071,977</u>	<u>(\$880,586)</u>	<u>\$191,391</u>

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	
	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
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	<u>\$305,291</u>	<u>(\$623,993)</u>
<b><u>LAND</u></b>		
To agree with auditor's balance (AE 2)	<u>\$15,598</u>	<u>(\$55,112)</u>
<b><u>NON-USED AND USEFUL PLANT</u></b>		
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	<u>(\$16,196)</u>	<u>(\$36,087)</u>
<b><u>CIAC</u></b>		
CIAC based on Audit (AE 4)(1st audit)	<u>(\$204,307)</u>	<u>(\$65,600)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
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	<u>(\$58,005)</u>	<u>(\$121,997)</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
1. To adjust amortization of CIAC based on composite rates	\$36,374	\$19,911
2. Averaging adjustment	(3,126)	(1,162)
Total	<u>\$33,248</u>	<u>\$18,749</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
To reflect 1/8 of test year O & M expenses.	<u>\$4,295</u>	<u>\$3,454</u>

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 ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
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	(17,137,782)	410,026	100.00%	7.18%	7.18%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	<u>\$16,319,629</u>	<u>\$1,228,179</u>	<u>\$17,547,808</u>	<u>(\$17,137,782)</u>	<u>\$410,026</u>	<u>100.00%</u>		<u>7.18%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.10%</u>	<u>12.10%</u>	
OVERALL RATE OF RETURN						<u>7.18%</u>	<u>7.18%</u>	

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	(\$33,151) -33.77%	\$65,004
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	89,848	(55,486)	34,362	0	34,362
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	(1,492)	4,769
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$89,848	(\$39,050)	\$50,798	(\$1,492)	\$49,306
8. OPERATING INCOME/(LOSS)	(\$89,848)		\$47,357		\$15,698
9. WATER RATE BASE	\$138,711		\$218,635		\$218,635
10. RATE OF RETURN	-64.77%		21.66%		7.18%

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	<u>\$0</u>	<u>\$50,544</u>	<u>\$50,544</u>	<u>\$5,671</u> 11.22%	<u>\$56,215</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	211	27,421	27,632	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	255	6,596
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$25,070</u>	<u>\$17,148</u>	<u>\$42,218</u>	<u>\$255</u>	<u>\$42,473</u>
8. OPERATING INCOME/(LOSS)	<u>(\$25,070)</u>		<u>\$8,326</u>		<u>\$13,742</u>
9. WASTEWATER RATE BASE	<u>\$1,071,977</u>		<u>\$191,391</u>		<u>\$191,391</u>
10. RATE OF RETURN	<u>-2.34%</u>		<u>4.35%</u>		<u>7.18%</u>



**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	<u>42,768</u>	<u>25,272</u>
Total	<u>\$98,155</u>	<u>\$50,544</u>

OPERATION AND MAINTENANCE EXPENSES

Salaries and Wages Employees (601/ 701)

Record Salaries and Wages per auditor (AE 6/adj 10)	<u>\$14,056</u>	<u>\$8,865</u>
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Sludge Removal Expense (711)

Reclassified from Misc Exp (675) (ADJ 25)	<u>\$0</u>	<u>\$1,683</u>
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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)	<u>(112)</u>	<u>0</u>
Subtotal	<u>(\$10,570)</u>	<u>\$0</u>

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	<u>(812)</u>	<u>(568)</u>
Subtotal	<u>(\$17,963)</u>	<u>\$2,854</u>

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	<u>(281)</u>	<u>(234)</u>
Subtotal	<u>\$1,130</u>	<u>\$2,780</u>

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
c. Record meter parts (AE 4/adj 6)	109	0
d. Remove non/utility expenses (Adj 19)	<u>(1,290)</u>	<u>0</u>
Subtotal	<u>(\$733)</u>	<u>\$0</u>

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	
<u>(O &amp; M EXPENSES CONTINUED)</u>	<u>WATER</u>	<u>WASTEWATER</u>
<b>Contractual Services - Prof (631/ 731)</b>		
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)	<u>(760)</u>	<u>0</u>
Subtotal	<u>(\$2,652)</u>	<u>\$1,697</u>
<b>Contractual Services - Testing (635/ 735)</b>		
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	<u>1,628</u>	<u>479</u>
Subtotal	<u>\$3,032</u>	<u>\$2,627</u>
<b>Contractual Services - Other (636/ 736)</b>		
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
f. Reclassify pump repairs from Acct (675) (AE 12/ADJ 25)	60	247
g. Reclassify labor for motor repairs from Acct (615) (AE 4/Adj 6)(Lagrow)	569	0
h. Reclassify repairs to hydro tank from Acct (610) (AE 4/Adj 6)(Lagrow)	326	0
i. Reclassify labor to prime pumps from Acct (610) (AE 4/Adj 6)(Lagrow)	360	0
j. Record contract labor for well repairs (AE 4/Adj 6)(Lagrow)	80	0
k. Increased costs for operator services(AE 8/Adj 11)	<u>150</u>	<u>75</u>
Subtotal	<u>(\$17,093)</u>	<u>\$3,427</u>
<b>Rents (640/ 740)</b>		
a. Remove non/utility rental expenses (AE 9/Adj 15)	<u>(\$1,661)</u>	<u>\$0</u>
<b>Transportation Expense (650/ 750)</b>		
a. Allocate truck expenses (AE 6/Adj 31)	<u>\$993</u>	<u>\$829</u>
<b>Insurance Expenses (655/ 755)</b>		
a. Allocate property and general liability insurance to utility(AE 6/adj 8)	<u>\$737</u>	<u>\$616</u>
<b>Regulatory Expense (665/ 765)</b>		
a. To remove non regulatory expenses	(\$18,254)	\$0
b. Include Rate Case Expense	<u>149</u>	<u>144</u>
Subtotal	<u>(\$18,105)</u>	<u>\$144</u>
<b>(O &amp; M EXPENSES CONTINUED ON NEXT PAGE)</b>		

**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**

	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>Miscellaneous Expense (675/ 775)</u></b>		
a. Remove Advertising Expenses (Adj 16)	(1,451)	0
b. Remove resort entertainment expense (ADJ 22)	(747)	0
c. Remove nonutility expenses(AE 12 ADJ 25,29)	0	(211)
d. Remove nonutility repair & maintenance expenses(AE 12 ADJ 25,29)	(4,433)	0
e. Reallocate bank charges (AE 10/adj 21)	(30)	30
f. Record telephone expenses (AE 10/ADJ)	41	376
g. Reclassify sludge removal to Acct (711) (AE 12 Adj 25)	(1,683)	0
h. Reclassify Pump repairs to Acct (636) (AE 4)	(60)	0
i. Reclassify Lift Station repairs to Acct (736) (AE 4)	(247)	0
j. Reclassify pump repairs to Acct (620) (AE 4 ADJ 6) (LAGROW)	(336)	0
k. Record billing costs @\$1 per customer	<u>2,289</u>	<u>1,704</u>
<b>Subtotal</b>	<b><u>(\$6,657)</u></b>	<b><u>\$1,899</u></b>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>(\$55,486)</u></b>	<b><u>\$27,421</u></b>
<b><u>DEPRECIATION EXPENSE</u></b>		
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)
d. Non-used and useful amort expense	419	0
e. Depreciation Expense on proforma plant	<u>2,114</u>	<u>149</u>
<b>Total</b>	<b><u>\$10,175</u></b>	<b><u>149</u></b>
<b><u>TAXES OTHER THAN INCOME</u></b>		
a. Remove non utility expensesAE 14/Adj 32)	\$0	(\$24,859)
b. Record property taxes 14/Adj 32)	\$453	\$3,608
c. Non-Used & Useful Property Taxes	(\$64)	(\$458)
d. Adjust RAF's to Annualized Revenue	\$4,417	\$2,274
e. Record Payroll Taxes	<u>1,455</u>	<u>918</u>
<b>Total</b>	<b><u>\$6,260</u></b>	<b><u>(\$18,518)</u></b>

WOODLANDS OF LAKE PLACID TEST YEAR ENDING 12/31/01 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSES		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	(17,963)	\$3,267
(616) FUEL FOR POWER PRODUCTION	0	0	\$0
(618) CHEMICALS	0	1,130	\$1,130
(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	<u>9,718</u>	<u>(6,657)</u>	<u>\$3,061</u>
	<u>89,848</u>	<u>(55,486)</u>	<u>34,362</u>

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	2,854	\$2,854	
(716) FUEL FOR POWER PRODUCTION	0	0	\$0	
(718) CHEMICALS	0	2,780	\$2,780	
(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	<u>211</u>	<u>1,899</u>	<u>\$2,110</u>	
	<u>211</u>	<u>27,421</u>	<u>27,632</u>	

**RECOMMENDED RATE REDUCTION SCHEDULE**

**WOODLANDS OF LAKE PLACID  
 TEST YEAR ENDING 12/31/01**

**SCHEDULE NO. 4  
 DOCKET NO. 020010-WS**

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

**MONTHLY WATER RATES**

	<u>MONTHLY PRELIMINARY RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<b>BASE FACILITY CHARGE:</b>		
<b><u>Residential</u></b>		
5/8"X3/4" (0.8 ERC) RV's	\$5.15	\$0.01
5/8"X3/4" (1 ERC) Single Family Homes	\$6.44	\$0.02
<b><u>General Service</u></b>		
5/8"X3/4" (0.8 ERC) Lot Rentals	\$5.15	\$0.01
5/8"X3/4" (1 ERC) Park Commercial Property	\$6.44	\$0.02
3/4"	\$9.66	\$0.03
1"	\$16.10	\$0.05
1-1/2"	\$32.20	\$0.09
2"	\$51.52	\$0.15
3"	\$103.04	\$0.30
4"	\$161.00	\$0.47
6"	\$322.00	\$0.93
<b>RESIDENTIAL &amp; GENERAL SERVICE GALLONAGE CHARGE (PER 1,000 GALLONS)</b>	<b>\$2.25</b>	<b>\$0.01</b>

<b>RECOMMENDED RATE REDUCTION SCHEDULE</b>		
<b>WOODLANDS OF LAKE PLACID</b>	<b>SCHEDULE NO. 4A</b>	
<b>TEST YEAR ENDING 12/31/01</b>	<b>DOCKET NO. 020010-WS</b>	
<b><u>CALCULATION OF RATE REDUCTION AMOUNT</u></b>		
<b><u>AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS</u></b>		
<b><u>MONTHLY WASTEWATER RATES</u></b>		
	<b>MONTHLY PRELIMINARY RATES</b>	<b>MONTHLY RATE REDUCTION</b>
<b><u>RESIDENTIAL</u></b>		
<b>BASE FACILITY CHARGE:</b>		
<b>Meter Sizes:</b>		
<b>All Meter Sizes</b>	<b>\$6.33</b>	<b>\$0.02</b>
<b>GALLONAGE CHARGE:</b>		
<b>PER 1,000 GALLONS (8,000 gallon cap)</b>	<b>\$1.76</b>	<b>\$0.01</b>
<b><u>GENERAL SERVICE</u></b>		
<b>BASE FACILITY CHARGE:</b>		
<b>Meter Sizes:</b>		
<b>5/8"X3/4" (0.8 ERC) Lot Rentals</b>	<b>\$6.33</b>	<b>\$0.02</b>
<b>3/4"</b>	<b>\$9.50</b>	<b>\$0.03</b>
<b>1"</b>	<b>\$15.83</b>	<b>\$0.05</b>
<b>1-1/2"</b>	<b>\$31.67</b>	<b>\$0.11</b>
<b>2"</b>	<b>\$50.67</b>	<b>\$0.17</b>
<b>3"</b>	<b>\$101.34</b>	<b>\$0.34</b>
<b>4"</b>	<b>\$158.35</b>	<b>\$0.53</b>
<b>6"</b>	<b>\$316.69</b>	<b>\$1.06</b>
<b>GALLONAGE CHARGE:</b>		
<b>PER 1,000 GALLONS</b>	<b>\$2.11</b>	<b>\$0.01</b>