

State of Florida



Public Service Commission
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DATE: November 17, 2005

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Biggins, Edwards, Lingo, Rendell) *db* *RE* *RL* *ED* *RM*
Office of the General Counsel (Vining) *AV*

RE: Docket No. 050274-WS – Application for staff-assisted rate case in Pasco County by Silver Fox Utility Company LLC d/b/a Timberwood Utilities.

AGENDA: 11/29/05 – Regular Agenda – Proposed Agency Action Except Issues 11 and 13– Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050274.RCM.DOC

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Case Background

Silver Fox Utility Company LLC d/b/a Timberwood Utilities (Timberwood) is a Class C water and wastewater utility serving 159 water and wastewater customers in Pasco County. The utility is in the Southwest Florida Water Management District (SWFWMD) and is in a critical water use caution area. The utility purchases bulk water from Pasco County and resells it to the utility's customers. The utility's 2004 annual report lists total gross revenues of \$15,314 for water and \$38,355 for wastewater with net operating losses of \$23,720 for water and \$18,936 for wastewater.

Pursuant to Order No. PSC-05-0682-FOF-WS, issued June 20, 2005, in Docket 050062-WS, In re: Joint Application for transfer of Mink Associates II, LLC d/b/a Timberwood Utilities, holder of Certificate Nos. 524-W and 459-S to Silver Fox Utility Company LLC d/b/a Timberwood Utilities, in Pasco County this utility was transferred to Silver Fox Utility Company LLC d/b/a Timberwood Utilities. The utility's rate base was last established by Order No. PSC-01-1167-PAA-WS, issued May 22, 2001, in Docket No. 001513-WS, In re: Application for transfer of Certificate Nos. 524-W and 459-S in Pasco County from Arbor Oaks I, LLC & Arbor Oaks II, LLC, both Delaware Limited Liability Companies d/b/a Timberwood Utilities, to Mink Associates I, LLC, a Florida Limited Liability Company d/b/a Timberwood Utilities. On April 18, 2005, Timberwood filed its application for a staff assisted rate case. The official filing date was established as June 15, 2005.

A customer meeting was held on October 13, 2005 in Zephyrhills, Florida. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes.

Discussion of Issues

Issue 1: Should the quality of service provided by Timberwood be considered satisfactory?

Recommendation: Yes. The utility's overall quality of service is satisfactory. (Edwards)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints. Below, staff addresses each of these three components.

Quality of Utility's Product

The water and wastewater treatment systems at Arbor Oak Mobile Home Park are under the jurisdiction of DEP (Tampa Bay district office). The utility does not have a water treatment plant since it purchases water from Pasco County and resells it to its customers. According to DEP's records, Timberwood's wastewater treatment system currently is in compliance with all of DEP's regulatory standards. Therefore, staff believes that the water and wastewater effluent quality is satisfactory.

Operating Condition of the Wastewater Facilities

On August 3, 2005, DEP conducted a Compliance Evaluation Inspection at the Timberwood facility to determine compliance with wastewater requirements and, overall, the facility was in compliance. Based on the above, staff believes that the operating condition of the wastewater facilities should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

The utility did not have a list of customer complaints received during the test year. Staff reviewed the Commission's records and found no complaints on file for the last 5 years. In addition, staff reviewed the DEP records and found no customer complaints on file. On October 13, 2005, staff conducted a customer meeting in Zephyrhills, Florida, at the Arbor Oak Clubhouse. In the afternoon, staff met at the clubhouse with several members of the Homeowners' Association. During the meeting, customers had numerous questions and concerns regarding the current owner's affiliation with the previous owners, brown water running down the streets from the wastewater treatment plant, and how the rate increase would affect the fixed income residents. Staff explained that there is no visible affiliation between the previous and current owners of the utility. Staff also discussed how consumption-based rates are set. This included the proration of the base facility charge based on meter size, conservation rate

structures, the residential wastewater gallonage cap, and the gallonage charge differential between residential and general service customers. These same issues were discussed at the evening session of the customer meeting.

Approximately fifty-five (55) persons attended the evening customer meeting, and nine (9) people spoke. The main concerns addressed at the evening meeting pertained to the level of the final requested increase, how wastewater usage is measured, and how customers are billed for water and wastewater if a break occurs on the customer's side of the meter while he or she is away. In addition, customers complained about brown water running down the street from the wastewater treatment plant and plant odor. Staff address the customers' concerns below:

Final rates, Wastewater measure, & Customer billing

Staff explained the rate making process to the customers, which encompasses how final rates are determined, how the base facility charges applies to all customers and the application of the 80% water assumption (80% of the customer's water usage goes to the wastewater treatment plant). Staff's explanations were well received and the customers indicated that staff had addressed their questions regarding the matters listed above.

Plant Odor

One customer complained of odors coming from the wastewater treatment plant. On six (6) separate occasions, staff visited the wastewater facilities and each time there were no strong odors emanating from the wastewater plant. Staff believes that the odors that the customers referenced are consistent with normal odors that may be encountered when one is close to a wastewater treatment plant during times of high flow. Recently, the utility received a complaint regarding odor emanating from the plant. The plant operator resolved this issue by turning on the air to the digester and subsequently had the septic hauler empty the digester.

Brown Water

During the evening meeting, two customers stated that brown water was running down the street, on two separate occasions. To investigate this concern, staff contacted the utility's plant operator for an explanation. On October 21, 2005, the operator stated that on two occasions (during the last 5 years) the plant overflowed. On the first occasion, due to a large crack in the tank, the final aeration basin was leaking mixed liquor to the ground. The operator used hydraulic cement to repair the crack. On the other occasion, a rag was blocking the adductor pipe between the second and third aeration basins which caused solids to reach the ground; the blockage was jettted free and the plant's fluid levels returned to normal. According to the utility and the customers, on both occasions the brown water incidents were resolved in a timely manner.

It appears that the utility promptly responds to customer complaints. Therefore, staff recommends that the utility's response to customer complaints should be considered satisfactory.

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Summary

Based on staff's analysis of the water and wastewater facilities, it appears that all systems are operating properly and in compliance with DEP standards. In addition, staff believes that the utility is actively attempting to respond promptly to customers concerns. Therefore, staff recommends that the utility's overall quality of service should be considered satisfactory.

Issue 2: What are the used and useful percentages for the utility's wastewater treatment plant, water distribution system, and wastewater collection system?

Recommendation: Timberwood's used and useful percentages (U&U) should be as follows:

Wastewater Treatment Plant	100%
Water Distribution and Wastewater Collection Systems	100%

(Edwards)

Staff Analysis: Staff has analyzed the utility's facilities and our recommendations are discussed below.

Water Treatment Plant – Used and Useful (U&U)

As previously stated, Timberwood does not have a water treatment plant. The utility resells bulk water and consists of a consecutive water system. The utility's service territory is built out, and there is no potential expansion.

Wastewater Treatment Plant-Used and Useful (U&U)

According to DEP permit (No. FLA012822), the wastewater treatment plant operates as an existing 0.025 million gallons per day (mgd) three month average daily flow (TMMADF) plant. In addition, it is a type three extended aeration domestic wastewater treatment plant.

Staff calculated the plant's U&U percentage by taking the test year's three month maximum average daily flows (TMMADF) (January, February, & March 04) of 16,922 gpd and 0 gallons allowance for growth minus 0 gpd for infiltration and inflow (I&I). Staff then divided this amount by the plant's DEP permitted capacity of 25,000 gpd. This results in the wastewater treatment plant being 67.6% used and useful. (See Attachment A)

Pursuant to Rule 25-30.432, Florida Administrative Code, the issue of an allowance for growth was taken in consideration by staff. After carefully reviewing the utility's plant and its service territory, staff discovered that the plant was designed to provide service to the Arbor Oak community only and the service territory was built out. In addition, the utility's records indicate that there has been no growth, in its service territory, during the last 5 years (2000 - 2005). Therefore, staff concluded that a regression analysis was not warranted and an allowance for growth should not be included in the U&U percentage calculation.

Based on the above, the wastewater treatment plant is calculated to be 67.6% U&U. However, a careful review of the utility's plant and service territory revealed that the plant was designed to provide service to only the Arbor Oak community, the service area is built out, and there is no potential for expansion. Pursuant to Rule 25-30.432, Florida Administrative Code, the Commission will also consider other factors such as the extent to which the area served by the plant is built out. Therefore, staff recommends that the wastewater treatment plant should be considered 100% U&U.

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Water Distribution and Wastewater Collection Systems

As previously stated, staff has reviewed the two systems and found that the systems were designed to provide services to only the Arbor Oak community, the service area is built out, and there is no potential for expansion. In addition, only one vacant lot exists and all of the lots are metered. Therefore, staff recommends that the U&U percentage for both distribution and collection systems should be considered 100%. (See Attachment A-1)

Summary

Staff recommends 100% used and useful for Timberwood's wastewater treatment plant, as well as the collection and water distribution systems.

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

Recommendation: The appropriate average test year rate base for Timberwood Utilities is \$11,911 for water and \$45,093 for wastewater. (Biggins)

Staff Analysis: The utility's rate base was last established by Order No. PSC-01-1167-PAA-WS, issued May 22, 2001, in Docket No. 001513-WS, In re: Application for transfer of Certificate Nos. 524-W and 459-S in Pasco County from Arbor Oaks I, LLC & Arbor Oaks II, LLC, both Delaware Limited Liability Companies d/b/a Timberwood Utilities, to Mink Associates I, LLC, a Florida Limited Liability Company d/b/a Timberwood Utilities.

Staff selected a test year ended December 31, 2004, for this rate case. Rate base components, established by Order No. PSC-01-1167-PAA-WS, have been updated through December 31, 2004, using information obtained from staff's audit and engineering reports.

A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded \$65,727 for water and \$195,972 for wastewater for the test year ended December 31, 2004. Staff has made an adjustment to decrease water by \$690 to reflect plant additions and retirement since the establishment of rate base by the aforementioned order. Staff also made an adjustment to decrease water by \$31 to reflect an averaging adjustment. Staff made no adjustment to wastewater. These adjustments result in UPIS of \$65,006 for water and \$195,972 for wastewater.

Land: The utility recorded \$10,152 for wastewater. Per Order PSC-01-1167-PAA-WS, issued May 22, 2001, in Docket No. 001513, the land on which the wastewater treatment plant is located was approved at a value of \$10,152 and included in rate base by this Commission. The current owner, Silver Fox Utility Company, purchased this utility with a closing date of January 28, 2004, contingent on the Commission's approval. However, the application for transfer was not applied for with the Commission until January 26, 2005. The land ownership continues to reside with a prior owner, Mink I. Mink II, the seller in Docket 050062-WS, had a 99 year lease agreement dated August 26, 2002, with Mink I. The current owner, Silver Fox, filed an executed copy of this lease assignment. Therefore, staff has decreased wastewater rate base by \$10,152 to reflect the fact that the land is now leased.

Accumulated Depreciation: The utility recorded \$31,665 for water and \$117,568 for wastewater for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has decreased water by \$1,642 and wastewater by \$1,733 to reflect depreciation calculated per staff. Staff has also decreased water by \$893 and wastewater by \$3,294 to reflect an averaging adjustment.

These adjustments result in accumulated depreciation of \$29,130 for water and \$112,541 for wastewater.

Amortization of CIAC: The utility recorded \$24,913 for water and \$47,957 for wastewater amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$1,809 for water and \$6,847

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for wastewater to reflect year end amortization of \$26,722 for water and \$54,804 for wastewater as calculated by staff. Staff has decreased this account by \$814 for water and \$1,599 for wastewater to reflect an averaging adjustment.

Staff's net adjustments to this account results in Amortization of CIAC of \$25,908 for water and \$53,205 for wastewater.

Acquisition Adjustment: The utility recorded \$74,528 for water and \$201,503 for water and wastewater Acquisition Adjustment. As stated in Order No. PSC-01-1167-PAA, issued May 22, 2001, in Docket No. 001513-WS, there was no acquisition adjustment since the purchase price was equal to rate base. Therefore, staff has made an adjustment to decrease water by \$74,528 and wastewater by \$201,503 to reflect the removal of an acquisition adjustment not approved by the Commission.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$3,710 (based on O&M of \$29,681) for water and \$3,622 (based on O&M of \$28,973) for wastewater. Working capital has been increased by \$3,710 for water and \$3,622 for wastewater to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is a positive \$11,911 for water and a positive \$45,093 for wastewater.

Rate base is shown on Schedule Nos. 1-A & 1-B.

Cost of Capital

Issue 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

Recommendation: The appropriate return on equity is 8.88% with a range of 7.88% - 9.88%. The appropriate overall rate of return is 8.88%. (Biggins, Hudson)

Staff Analysis: The utility recorded long term debt in the amount of \$400,492. The notes payable consist of loans from the shareholders to the utility. There are no written agreements, interest, or terms of back payment. Pursuant to Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, In re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation.

...No cost is assigned to the long term debt and no debt instrument was available. The debt is from the utility's parent company. Therefore, we find that it is appropriate to characterize the long term debt as other common equity rather than long-term debt given the related party status of the "debt".

Therefore, consistent with the aforementioned order, the loan was reclassified to other common equity.

Using the leverage formula approved by Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 8.88%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 8.88% with a range of 7.88 – 9.88% and an overall rate of return of 8.88%.

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

Net Operating Income

Issue 5: What is the appropriate test year revenue?

Recommendation: The appropriate test year revenue for this utility is \$15,864 for water and \$39,419 for wastewater. (Biggins, Lingo)

Staff Analysis: Per Audit Exception No. 1 the utility has recorded commercial revenues in the amount of \$3,070 for water and \$6,989 for wastewater during the test year ended December 31, 2004. Per Audit Exception No. 2, the utility recorded residential revenues in the amount of \$12,244 for water and \$31,366 for wastewater. Staff has recalculated these amounts based on the tariff rates. Based on the utility's billing analysis and current tariffed rates, staff determined that test year revenue is \$15,864 for water and \$39,419 for wastewater. Staff has increased water revenues by \$550 (\$15,864-\$15,314) and wastewater by \$1,064 (\$39,419-\$38,355), to reflect the recalculation of revenues.

Staff recommends test year revenue of \$15,864 for water and \$39,419 for wastewater.

Test year revenue is shown on Schedule Nos. 3-A & 3-B. The related adjustments are shown on Schedule No. 3-C.

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

Recommendation: The appropriate amount of operating expenses for this utility is \$32,075 for water and \$37,394 for wastewater. (Biggins)

Staff Analysis: The utility recorded operating expenses of \$39,035 for water and \$57,290 for wastewater during the test year ended December 31, 2004. The utility improperly classified several of its expenses. Staff has reallocated these expenses to the appropriate accounts.

The utility provided the staff auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the test year ended December 31, 2004. Staff has determined the appropriate operating expenses for the test year and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Sludge Removal Expense – (711) – The utility recorded \$0 in this account during the test year. The utility paid a total of \$2,828 to remove 29,000 gallons of sludge and clean the lift station. Staff's engineer determined the number of gallons to be reasonable for this utility. The utility recorded the expense in the wrong account. Therefore, staff has increased this account by \$2,828 to reflect this amount being reclassified from Account No. 736.

Purchased Water – (610) – The utility recorded \$21,370 in this account during the test year. Staff made an adjustment to increase this account by \$1,641 to reflect the increase of purchased water from Pasco County. Staff also made an adjustment to decrease this account by \$6,344 to reflect a repression adjustment as discussed in Issue No. 9. Staff recommends purchased water for the test year of \$16,667.

Purchased Power – (715) – The utility recorded \$2,605 in this account during the test year. Staff decreased this account by \$844 to reflect a repression adjustment as discussed in Issue 9. Staff recommends purchased power for the test year of \$1,761.

Chemical Expense – (718) – The utility recorded \$414 in this account during the test year. Staff decreased this account by \$134 to reflect a repression adjustment as discussed in Issue 9. Staff recommends chemical expense for the test year of \$280.

Contractual Services - Billing – (630/730) – The utility recorded \$1,914 for water and \$1,864 for wastewater in this account during the test year. Staff reclassified \$750 for water and \$750 for wastewater rate case filing fee to Account No. 665 and Account 765, respectively. Staff decreased this account by \$663 for water and \$663 for wastewater to reflect the removal of unsupported office expenses.

Staff's net adjustment to these accounts is a decrease in the amount \$1,413 for water and \$1,413 for wastewater.

Contractual Services - Professional – (631/731) – The utility recorded \$6,690 for water and \$18,261 for wastewater in these accounts during the test year. Staff has made an adjustment to decrease water by \$750 and wastewater by \$5,266 to reflect the unreasonable charges by Excel Engineering. Excel Engineering charges the utility to prepare annual reports, index and pass through filings, and regulatory assessment fees. Staff believes these amounts are unreasonable and are not prudent because the utility also employs a Certified Public Accountant (CPA) to perform similar duties. Staff believes the CPA could handle the filing of the annual reports and regulatory assessment fees. Staff believes the engineering data included in the annual report can be provided to the CPA by the plant operator. Staff believes the utility can prepare its own index and pass through applications. Staff believes that in order to lower cost, charges for these expenses should not be allowed.

Staff reclassified \$900 for water to Account No. 665 and \$5,870 for wastewater to Account No. 765 to reflect rate case expense recorded in the wrong account. Staff decreased water by \$750 and wastewater by \$1,660 to reflect fees related to the transfer of the utility. Staff also made an adjustment to decrease water by \$1,623 to reflect wastewater related expenses. Staff increased wastewater by \$1,623 to reflect expenses recorded as water expenses. Staff decreased wastewater by \$2,896 ($\$3620/5=\$724-\3620) to reflect the application permit fee and property tax issues amortized over 5 years, consistent with Rule 25-30.433(8), Florida Administrative Code.

Staff's net adjustment to these accounts is a decrease in the amount of \$4,023 for water and \$14,069 for wastewater.

Contractual Services - Testing – (735) – The utility recorded \$0 for 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 the Florida Administrative Code and enforced by DEP.

Staff made an adjustment to increase wastewater by \$1,455 to reflect all DEP required testing reclassified from Account No. 736.

Contractual Services - Other – (636/736) – The utility recorded \$220 for water and \$18,166 for wastewater to these accounts during the test year. Staff has reclassified \$1,455 for DEP required testing expenses to Account No. 735. Staff reclassified \$2,828 of sludge hauling expense to Account No. 711. Staff has removed \$252 for meters already included in Account No. 334 per Audit Exception No. 3. Staff increased wastewater by \$250 to reflect appropriate test year grounds keeping. Staff decreased wastewater by \$3,540 to reflect water related expenses and increased water by \$3,540 to reflect the water related expense recorded in wastewater.

Staff's total adjustment for these accounts is an increase of \$3,540 for water and a decrease of \$7,825 for wastewater.

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Rents – (640/740) – The utility recorded \$3,000 for water and \$3,000 for wastewater in this account during the test year. Per Audit Exception No. 6 these amounts were for the lease of a vehicle for the president, David Bollinger. Staff has made an adjustment to decrease water by \$3,000 and wastewater by \$3,000, to reflect the reclassification to account No. 650 and 750, respectively.

Rule 25-30.433(10), Florida Administrative Code specifies that a utility is required to own the land on which the utility treatment facilities are located, or possess the right to continued use of the land, such as by holding a 99-year lease. On April 14, 2005, Silver Fox Utility Co. d/b/a Timberwood Utilities entered into a 99-year lease agreement. By Order No. PSC-04-1464-PAA-SU, issued December 21, 2004, in Docket No. 040300-SU, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek utilities, the Commission found that the appropriate rent amount for the land shall be the annual rate of return, based on the utility's current capital structure, times the original cost of the land in service. Staff's recommended rate of return is 8.88%. Therefore, staff has determined rent for the land to be \$901 (\$10,152 x 8.88%).

Staff recommends rent expense of \$901 for wastewater and \$0 for water.

Transportation Expense – (650/750) – The utility recorded \$0 for water and wastewater in this account during the test year. Per Audit Exception No. 6 the utility is charged \$6,000 a year for the lease of a vehicle for the president David Bollinger. This amount is divided evenly between water and wastewater. Staff made an adjustment in the amount of \$3,000 for water and \$3,000 for wastewater to reflect the reclassification from Account Nos. 640 and 740. Mr. Bollinger is responsible for four other business entities, besides the utility. Therefore, staff believes that this amount should be reduced to allocate only ¼ of the cost to the utility- $\$6,000/4=\$1,500$ to be allocated between water and wastewater equally. Staff made an adjustment in the amount of \$2,250 ($\$3,000-\750) for water and \$2,250 ($\$3,000-\750) to reflect the proper allocation of transportation expense.

Staff's total adjustment for this account is a net increase of \$750 for water and \$750 for wastewater.

Insurance Expense – (655/755) – The utility recorded \$257 for water and \$257 for wastewater. Mr. Bollinger is responsible for four other business entities besides the utility. Therefore, staff believes that this amount should be reduced to allocate only ¼ of the cost to the utility- $\$1,161/4=\290 to be allocated between water and wastewater equally. Staff made an adjustment in the amount of \$112 ($\$257-\145) and wastewater by \$112 ($\$257-\145) to reflect the proper allocation of car insurance expense.

Staff's total adjustment for this account is a decrease of \$112 for water and \$112 for wastewater.

Regulatory Commission Expense – (665/765) – The utility recorded \$0 in this account during the test year for water and wastewater. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. Staff has reclassified a rate case filing fee of \$750 for water and \$750 for wastewater from Account Nos. 630 and 730 respectively. Staff

reclassified rate case expenses in the amount of \$900 for water and \$5,870 for wastewater from Account Nos. 631 and 731 respectively. Staff decreased water by \$616 and wastewater by \$5,586 to reflect the amortizing of rate case expenses over four years and to properly allocate the expense between water and wastewater. Staff's net adjustment to this account is an increase of \$1,034 for water and \$1,034 for wastewater.

Miscellaneous Expense – (775) – The utility recorded \$0 in this account for the test year. The utility is requesting pro forma in the amount of \$2,915 for wastewater to reflect the separate metering of the lift station. Staff made an adjustment to increase wastewater in the amount of \$583 (\$2,915/5) for pro forma costs to reflect the separate metering of the lift station amortized over five years.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is a decrease of \$7,927 for water and \$19,846 for wastewater. Staff's recommended O&M expenses are \$29,681 for water and \$28,973 for wastewater. O&M expenses are shown on Schedule Nos. 3-D & 3-E.

Depreciation Expense – The utility recorded depreciation expense net of CIAC amortization of \$600 (\$2,011 Depreciation Expense and \$1,410 Amortization of CIAC) for water and \$4,728 (\$7,167 Depreciation Expense and \$2,438 Amortization of CIAC) for wastewater during the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff decreased depreciation expense by \$33 for water and \$579 for wastewater to reflect staff's calculated depreciation. Staff calculated amortization of CIAC based on composite rates. Staff decreased this account by \$219 for water and \$761 for wastewater to reflect staff's calculated amortization of CIAC. Net depreciation expense is \$348 for water and \$3,388 for wastewater.

Taxes Other Than Income – The utility recorded taxes other than income of \$827 for water and \$3,743 for wastewater during the test year. Staff increased water by \$714 and wastewater by \$1,774 to reflect the recalculation of regulatory assessment fees. Staff decreased water by \$272 and wastewater by \$573 to reflect the appropriate test year property taxes. Staff's total adjustment to this account is an increase of \$442 for water and \$1,201 for wastewater.

Operating Revenues – Revenues have been increased by \$17,269 for water and \$1,979 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – The expense has increased by \$777 for water and \$89 for wastewater to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the test year operating expenses results in staff's calculated operating expenses of \$32,075 for water and \$37,394 for wastewater.

Staff's recommended operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Revenue Requirement

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$33,133 for water and \$41,398 for wastewater. (Biggins)

Staff Analysis: The utility should be allowed an annual increase of \$17,269 (108.86%) for water and \$1,979 (5.02%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn an 8.88% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$11,9111	\$45,093
Rate of Return	x .0888	x .0888
Return on Rate of Return	\$1,058	\$4,004
Adjusted O & M expense	\$29,681	\$28,973
Depreciation expense (Net)	\$348	\$3,388
Amortization	\$0	\$0
Taxes Other Than Income	\$2,046	\$5,033
Income Taxes	\$0	\$0
Revenue Requirement	<u>\$33,133</u>	<u>\$41,398</u>
Adjusted Test Year Revenues	<u>\$17,269</u>	<u>\$1,979</u>
Percent Increase/(Decrease)	<u>108.86%</u>	<u>5.02%</u>

Revenue requirements are shown on Schedule No. 3-A and 3-B.

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Issue 8: Are continuations of the utility's current rate structures for its water and wastewater systems appropriate in this case, and, if not, what are the appropriate rate structures for the respective water and wastewater systems?

Recommendation: Yes, the utility's current rate structures for its water and wastewater systems should be continued. The base facility charge (BFC) cost recovery percentage for the water system should be set at 45%, while the respective BFC cost recovery percentage for the wastewater system should be set at 52%. (Lingo)

Staff Analysis: Staff's analysis of this issue, including our resulting conclusions and recommendations, is contained on Attachment B.

Issue 9: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments for the water and wastewater systems and the resulting kgals for rate setting for the respective systems?

Recommendation: Yes, repression adjustments are appropriate for both the water and wastewater systems. Residential consumption should be reduced by 37.1%, resulting in a consumption reduction of approximately 1.393 kgals. The resulting total water consumption for rate setting is 2.818 kgals, or 33.1% less than total test year gallons. Residential wastewater consumption, capped at 6 kgal, should also be reduced by 37.1%, resulting in a consumption reduction of approximately 1.220 kgals. The resulting total wastewater consumption for rate setting is 2.524 kgals, or 32.6% less than billed test year wastewater consumption. In order to monitor the effects of the changes in revenues, the utility should prepare monthly reports for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, the reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: Staff recommends a reduction in both water and wastewater consumption for rate setting to reflect the effects of repression. Staff's analysis of this issue, including its resulting conclusions and recommendations, is contained on Attachment C.

Issue 10: What are the appropriate rates for the system?

Recommendation: The recommended rates should be designed to produce revenues of \$33,133 for water and \$41,398 for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (Lingo, Biggins)

Staff Analysis: The recommended rates should be designed to produce revenue of \$33,133 for water and \$41,398 for wastewater. Staff has calculated rates using test year number of bills and consumption. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Staff's calculated rates also include a 6,000 gallon per month cap for residential wastewater customers.

Schedules of the utility's current rates and staff's recommended are as follows:

Monthly Rates – Water General Service Base Facility Charge		
<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$3.13	\$7.81
3/4"	\$4.68	\$11.72
1"	\$7.81	\$19.53
1 1/2"	\$15.61	\$39.05
2"	\$24.98	\$62.48
3"	\$49.94	\$117.15
4"	\$78.04	\$195.25
6"	\$156.07	\$390.50
Gallage Charge Per 1,000 Gallons	\$2.34	\$6.44

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Monthly Rates – Water
 Residential Service
 Base Facility Charge

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$3.13	\$7.81
3/4"	\$4.68	\$11.72
1"	\$7.81	\$19.53
1 1/2"	\$15.61	\$39.05
2"	\$24.98	\$62.48
3"	\$49.94	\$117.15
4"	\$78.04	\$195.25
6"	\$156.07	\$390.50
Gallonage Charge Per 1,000 Gallons	\$2.34	\$6.44

Monthly Rates – Wastewater
 General Service
 Base Facility Charge

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$10.47	\$11.27
3/4"	\$15.71	\$16.91
1"	\$26.18	\$28.18
1 1/2"	\$52.36	\$56.35
2"	\$83.78	\$90.16
3"	\$167.58	\$169.05
4"	\$261.83	\$281.75
6"	\$523.65	\$563.50
Gallonage Charge Per 1,000 Gallons	\$6.18	\$9.20

Monthly Rates – Wastewater

<u>Meter Sizes</u>	<u>Residential Service</u> <u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
Base Facility Charge		
All Meter Sizes	\$10.47	\$11.27
Gallonge Charge		
Per 1,000 Gallons	\$5.16	\$7.66
(6,000 Gallon Cap)		

Based on staff's recommended rates, the utility would recover approximately 45% (\$14,909) of water and 52% (\$21,527) of wastewater system revenue from the base facility charge, and the remaining 55% (\$18,223) for water and 48% (\$19,871) for wastewater would be recovered from the gallonage charge.

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

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

Issue 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4 and 4A to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Biggins)

Staff Analysis: Section 367.0816, Florida Statutes, requires that rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is \$1,083 annually for both water and wastewater. 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 Schedule Nos. 4 and 4A.

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

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

Issue 12: Should the utility be authorized to collect late payment fees, and if so what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to collect a \$5.00 late fee. The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided no protest is filed and customers have been noticed. (Biggins)

Staff Analysis: Staff believes that the purpose of a late payment charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of \$5.00 in the following instances: Order No. PSC-98-1585- FOF-WU, issued November 25, 1998, in Docket No. 980445-WU, In re: Application for Staff Assisted Rate Case in Osceola County by Morningside Utility, Inc.; Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS, In re: Request for Approval of a Late Payment Charge by WP Utilities, Inc. in Palm Beach County, Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU, In re: Request to Establish Late Fee in Columbia County by Consolidated Water Works, Inc.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc., that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit. In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers. Staff believes that the goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

It appears that the majority of utilities who have Commission approved late fees charge \$5.00. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Based on the above, staff believes that \$5.00 is a reasonable fee for Timberwood.

Therefore, staff recommends that, consistent with the orders cited above, a \$5.00 late payment should be approved. The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff

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sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment charge should become effective on the stamped approval date of the tariff sheets, provided no protest is filed and customers have been noticed.

Issue 13: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$11,770 for water and \$1,349 for wastewater. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

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

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Issue 14: Should this docket be closed?

Recommendation: Yes. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order, and the docket should be closed. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open. (Vining)

Staff Analysis: Yes. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order, and the docket should be closed. If a protest is filed within 21 days of the issuance of the order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open.

Attachment A

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

Docket No. 050274-WS – Silver Fox Utility Company llc d/b/a Timberwood Utilities

1)	Permitted Capacity of Plant (3-Maximum Monthly Average Daily Flow)	25,000	Gallons per day
2)	3-Month Average Daily Flow for Maximum Month January, February & March 2004	16,922	Gallons per day
3)	Growth (3b x 3c) x 2/3a	0	Gallons per day
	a) Test Year Average ERCs	155	ERCs
	b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c) Statutory Growth Period	5	Years
	(b) x (c) x [2/(a)] =	0	
	d) Gallons per day per Average ECR		gpd/ERC
4)	Excessive Infiltration or Inflow (I&I)	0	Gallons per day
	a) Allowable I& I	0	Gallons per day
	b) Est. I&I treated (less return)	0	Gallons per day
	c) Percentage of excess of wastewater treated	0	Percent

USED AND USEFUL FORMULA

$$[(2) + (3)-(4)] / (1) = 68\% \text{ Used and Useful}$$

Note: This facility is built out; therefore, it is 100% U&U.

Attachment A-1			
WATER DISTRIBUTION AND WASTEWATER COLLECTION SYSTEMS AND USEFUL DATA			
Docket No.050274-WS Silver Fox Util. Co. LLC d/b/a Timberwood Utility.			
1)	Capacity of System (Number of potential ERCs without expansion)	166	ERCs
2)	Test year connections	166	
	A) Beginning of Test Year		ERCs
	B) End of Test Year		ERCs
	C) Average Test Year		ERCs
3)	Growth (A x B)	0	ERCS
	A) Customer growth based on average fluctuations in the peak month for rented units.	0	ERCS
	B) Statutory Growth Period	5	Years
USED AND USEFUL FORMULA			
$[2 + 3] / 1 = 100\%$ Used and Useful			

The water distribution and wastewater collection systems are built out; therefore, it is 100% U&U.

TIMBERWOOD UTILITIES, INC.
HISTORICAL TEST YEAR ENDED 12/31/04

Attachment B
Page 1 of 4

DETERMINATION OF APPROPRIATE RATE STRUCTURES

CURRENT RATES:

- (1) The utility's current water rate structure consists of a monthly base facility charge (BFC) / uniform gallonage charge rate structure. The BFC for a 5/8" x 3/4" meter is \$3.13, and the gallonage charge is \$2.34 for each 1,000 gallons (kgal) used. The corresponding wastewater rate structure also consists of a BFC / gallonage charge rate structure. The BFC for a 5/8" x 3/4" meter is \$10.47. The general service gallonage charge is \$6.18 per kgal for all kgals used, while the residential service gallonage charge is \$5.16, capped at 6 kgal of use per month.

WATER RATE STRUCTURE

PRIOR ORDERS AND PRACTICES WITH WATER MANAGEMENT DISTRICTS:

- (2) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates. This guideline was discussed in the most recent fully litigated water cases before the Commission. (See: Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 143-144.) Due to the Commission's MOU with the Districts, the Commission follows this guideline whenever possible. (See: Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In Re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In Re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pp. 23, 28; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In Re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc., p. 27; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82.)
- (3) The Commission's preferred rate structure had traditionally been the BFC / uniform gallonage charge rate structure. However, over the past several years, based in large part on requests made by the Water Management Districts, the Commission has been implementing the inclining-block rate structure as the rate structure of choice. (See: Order No. PSC-03-0647-PAA-WS, issued May 28, 2003 in Docket No. 020407-WS, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 31-32; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000 in Docket No. 990535-WU, In Re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), p. 37; Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 in Docket No. 000295-WU, In Re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., p. 25; Order No. PSC-02-1733-PAA-WU, issued December 9, 2002 in Docket No. 011677-WU, In Re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company, p. 19.)

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

**PRIOR ORDERS
AND PRACTICES
WITH WATER
MANAGEMENT
DISTRICTS (cont.):**

- (4) The utility is located in Pasco County in the Southwest Florida Water Management District (SWFWMD or District). This utility is not required to obtain a Consumptive Use Permit (CUP) from the District because it purchases all of its water from another entity that possesses a permit (Pasco County).
- (5) Approximately 33% of the residential customers' bills are captured at 1 kgal or less, while the utility's residential customers' average monthly water consumption is approximately 1.993 kgal. Approximately 95% of residential bills and 82% of residential consumption are captured at 5 kgal or less. These figures represent a very seasonal residential customer base. (The utility's overall average monthly water consumption for its combined residential and general service customer base is only slightly greater -- at 2.193 kgal.) The Commission typically does not design a rate structure more conservation-oriented than the traditional BFC / gallonage charge rate structure when such high seasonality is combined with such low residential average monthly water use. Therefore, the current BFC / gallonage rate structure should be continued.
- (6) The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. Therefore, an important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less. (See: Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In Re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., p. 83; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 143-144.)

**PRE-REPRESSION
BFC COST
RECOVERY:**

- (7) As shown in column (B) of Table 1 on the following page, based on standard accounting allocations (i.e., before any conservation adjustment is made), the pre-repression BFC allocation is 25%, representing very close to the minimum percentage allocation based on Commission practice. Conversely, the gallonage charge allocation is 75%. These allocations result in the gallonage charge being **26% greater** than the BFC for a 5/8" x 3/4" meter. Designing rates in this fashion, especially with a seasonal customer base, increases the potential for both revenue instability and revenue shortfalls. This is undesirable from a rate design perspective. Therefore, it is necessary to make a **negative** conservation adjustment, whereby cost recovery is shifted from the gallonage charge to the BFC. A negative conservation adjustment has been made in prior Commission cases. (See: Order No. PSC-02-1114-PAA-WS, In Re: Application for staff assisted rate case in Polk County by Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities, Holder of Certificate Nos. 598W and 513S, pp. 30-31.)
- (8) Although not shown on Table 1, based on the magnitude of the negative conservation adjustments reflected in columns (C) and (D), the resulting gallonage charges are also greater than the BFC for a 5/8" x 3/4" meter.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

PRE-REPRESSION PRICE INCREASES AT VARIOUS NEGATIVE CONSERVATION ADJUSTMENTS (CA)					
Negative Conservation Adjustment Percentages and Resulting BFC Allocations					
(A)	(B)	(C)	(D)	(E)	(F)
Monthly Consumption	CA 0% BFC 25%	CA (18)% BFC 30%	CA (36)% BFC 34%	CA (54)% BFC 39%	CA (69)% BFC 42%
0 kgal	66.5%	96.2%	126.2%	156.2%	181.2%
2 kgal	148.3%	149.2%	150.2%	151.5%	152.2%
4 kgal	168.8%	162.4%	156.2%	150.3%	145.0%
6 kgal	178.1%	168.5%	158.9%	149.7%	141.7%
10kgal	186.9%	174.2%	161.5%	149.2%	138.6%
15 kgal	191.8%	177.4%	163.0%	148.9%	136.9%

**PRE-REPRESSION
BFC COST
RECOVERY (cont):**

- (9) Furthermore, as shown on Schedule No. 3-A, the utility's net operating income is \$1,058, or slightly greater than 3% of the total water revenue requirement of \$33,133. These figures are indicative of a utility with an extremely low cash operating margin. In other words, virtually the entire water revenue requirement is necessary to cover operating expenses. In cases such as these, staff does not believe it is appropriate or desirable to design cost recovery such that the gallonage charge is greater than the BFC charge for a 5/8" x 3/4" meter.
- (10) In this instance, the goal of designing rates which minimize the price increases at 5 kgal or less is in conflict with the desirability of reducing revenue instability and revenue shortfalls. The utility's revenue stability is of greater importance: it provides greater assurance to the utility of meeting its cash requirements, thereby ensuring more reliable service to customers. Therefore, BFC allocation percentages in columns (B) through (D) were removed from consideration.
- (11) The remaining two pre-repression rate designs are illustrated in columns (E) and (F) above. Staff believes the rate design illustrated in column (E) best represents a balancing of revenue stability and, to the extent possible, minimizing price increases at nondiscretionary levels of consumption.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

POST-REPRESSION (12) As will be discussed in Issue 9, staff's recommended repression adjustment for the water system is 1,393.4 kgals. After the pre-repression revenue requirement is adjusted to reflect the effect of the recommended repression adjustment on purchased water expense, the fallout change is that the BFC cost recovery allocation percentage increases to 45%.

BFC COST RECOVERY:

RECOMMENDATION: Therefore, the utility's current BFC / uniform gallonage charge rate structure should be continued. The BFC cost recovery percentage should be 45%.

WASTEWATER RATE STRUCTURE:

COMMISSION PRACTICE: (13) It is Commission practice to set the residential wastewater gallonage cap such that approximately 80% of the kgals are captured at or below the cap. In addition, the general service gallonage charge is set at a level 1.2 times the corresponding residential rate. There is no cap on general service wastewater gallonage.

ANALYSIS: (14) The utility's current residential wastewater gallonage cap of 6 kgal captures approximately 88% of billed usage, which is above Commission-practice level. A residential cap at this level is typical for a service area comprised predominantly of manufactured housing units, or in situations in which there are very few people per household. Both these circumstances exist for Timberwood.

(15) Based on the initial accounting allocations of BFC vs. gallonage charge cost recovery, the BFC recovers 52% of the recommended revenue requirement. Staff recommends that this percentage be continued.

RECOMMENDATION: Based on the foregoing, staff recommends that the utility's current wastewater rate structure remain unchanged. The BFC cost recovery percentage should be 52%.

DETERMINATION OF APPROPRIATE REPRESSION ADJUSTMENT

[A] PRICE ELASTICITY FOR TIMBERWOOD:

- (1) Based on a review of staff's database of utilities receiving price increases and decreases, there were no utilities whose pre-repression parameters (prior price, prior usage, and percentage price increase) matched those of Timberwood.
- (2) In situations in which there are no matches, staff uses a proportional relationship to estimate repression. This relationship represents the overall average change in quantity demanded for those utilities receiving both water and a wastewater increases and whose BFC / uniform gallonage charge rate structure for its water system remained unchanged. For utilities receiving concomitant water and wastewater increases, the proportional equation is:

$$\begin{aligned} 29\% \text{ price increase} &= \text{Timberwood pre-repression price incr of } 151.5\% \\ -6.6\% \text{ cons reduction} &= \text{Timberwood anticipated cons reduction of } X\% \\ \\ -34.4\% &= \text{Timberwood's anticipated consumption reduction} \end{aligned}$$

- (3) In addition to the proportional relationship discussed in (2) above, when the current price of an average residential water bill is \$8 or less, there is another proportional equation that may be used:

$$\begin{aligned} 54.3\% \text{ price increase} &= \text{Timberwood pre-repression price incr of } 151.5\% \\ -14.3\% \text{ cons reduction} &= \text{Timberwood anticipated cons reduction of } X\% \\ \\ -39.8\% &= \text{Timberwood's anticipated consumption reduction} \end{aligned}$$

- (4) Timberwood's average anticipated consumption reduction based on (2) and (3) above is -37.1%.

$$\begin{aligned} (5) \text{ Timberwood's price elasticity} &= \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}} \\ &= \frac{-37.1\%}{151.5\%} \\ &= -.245 \end{aligned}$$

[B] ANTICIPATED CHANGE IN QUANTITY DEMANDED FOR TIMBERWOOD:

- (6) Timberwood's price elasticity = $\frac{\text{Percentage change in quantity demanded}}{151.5\%}$
- $$\begin{aligned} 1.253 \text{ kgal} &= \text{New avg quantity demanded per residential customer} \\ -0.740 \text{ kgal} &= \text{Anticipated change in quantity demanded per residential customer} \end{aligned}$$

**DETERMINATION OF APPROPRIATE REPRESSION ADJUSTMENT
(cont.)**

[C] RECOMMENDATION: POST-REPRESSION KGALS FOR RATESETTING

(1) Water System:

Current residential kgals	=	3,754.726 kgals
Change in quantity demanded	x	-37.1%
Residential kgals repressed	=	-1,393.443 kgals
New residential kgals	=	2,361.283 kgals
Current general service kgals	+	456.416 kgals
Water kgals for rate setting	=	2,817.699 kgals
Overall water repression %	=	-33.1%

(2) Wastewater System:

Current residential kgals	=	3,287.266 kgals	capped at 6 kgal
Change in quantity demanded	x	-37.1%	
Residential kgals repressed	=	1,219.961 kgals	
New residential kgals	=	2,067.305 kgals	
Current general service kgals	+	456.416 kgals	
Wastewater kgals for rate setting	=	2,523.721 kgals	
Overall water repression %	=	-32.6%	

TIMBERWOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/04
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 050274-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$65,727	(\$721)	\$65,006
2. LAND & LAND RIGHTS	0	\$0	\$0
3. CIAC	(53,583)	\$0	(\$53,583)
4. ACCUMULATED DEPRECIATION	(31,665)	2,535	(\$29,130)
5. AMORTIZATION OF CIAC	24,913	995	\$25,908
6. Net Acquisition Adjustment	74,528	(\$74,528)	\$0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	3,710	<u>\$3,710</u>
8. WATER RATE BASE	\$79,920	(\$68,009)	\$11,911

TIMBERWOOD UTILITIES, INC. TEST YEAR ENDING 12/31/04 SCHEDULE OF WASTEWATER RATE BASE			SCHEDULE NO. 1-B DOCKET NO. 050274-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$195,972	\$0	\$195,972
2. LAND & LAND RIGHTS	10,152	(10,152)	\$0
3. CIAC	(95,165)		(\$95,165)
4. ACCUMULATED DEPRECIATION	(117,568)	5,027	(\$112,541)
5. AMORTIZATION OF CIAC	47,957	5,248	\$53,205
6. Net Acquisition Adjustment	201,503	(201,503)	\$0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	3,622	<u>\$3,622</u>
8. WASTEWATER RATE BASE	\$242,851	(\$197,758)	\$45,093

TIMBERWOOD UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/04		DOCKET NO. 050274-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect the Recalc. of plant from previous order	(\$690)	\$0
2.	To reflect averaging adjustment	(\$31)	\$0
	Total	<u>(\$721)</u>	<u>\$0</u>
<u>LAND</u>			
1.	To reduce land rent (utility has a 99 year lease agreement)	\$0	(\$10,152)
	Total	<u>\$0</u>	<u>(\$10,152)</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	Depreciation Adjustment Per Rule 25-30.140 FAC	\$1,642	\$1,733
2.	Averaging Adjustment	\$893	\$3,294
	Total	<u>\$2,535</u>	<u>\$5,027</u>
<u>AMORTIZATION OF CIAC</u>			
1.	To adjust Amortization of CIAC based on composite rates	\$1,809	\$6,847
2.	Averaging Adjustment	(\$814)	(\$1,599)
	Total	<u>\$995</u>	<u>\$5,248</u>
<u>NET ACQUISITION</u>			
1.	To reflect acquisition adjustment included not approved by Commission	(\$74,528)	(\$201,503)
	Total	<u>(\$74,528)</u>	<u>(\$201,503)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
1.	To reflect 1/8 of test year O & M expenses.	\$3,710	\$3,622

TIMBERWOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/04
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 050274-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	(78,505)	78,505	0					
3. PAID IN CAPITAL	0	400,492	400,492					
4. TREASURY STOCK			<u>0</u>					
5. TOTAL COMMON EQUITY	(\$78,505)	\$478,997	400,492	(\$343,488)	57,004	100.00%	8.88%	8.88%
6. LONG TERM DEBT	400,492	(400,492)	0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>		0.00%
TOTAL LONG TERM DEBT	400,492	(400,492)	0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>		<u>0.00%</u>
9. TOTAL	<u>\$321,987</u>	<u>\$78,505</u>	<u>\$400,492</u>	(\$343,488)	<u>\$57,004</u>	<u>100.00%</u>		<u>8.88%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY							<u>7.88%</u>	<u>9.88%</u>
OVERALL RATE OF RETURN							<u>7.88%</u>	<u>9.88%</u>

**TEST YEAR ENDING 12/31/04
 TIMBERWOOD UTILITIES, INC.
 SCHEDULE OF WATER OPERATING INCOME**

**SCHEDULE NO. 3-A
 DOCKET NO. 050274-WS**

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$15,314</u>	<u>\$550</u>	<u>\$15,864</u>	<u>\$17,269</u> 108.86%	<u>\$33,133</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	37,608	(7,927)	29,681	0	29,681
3. DEPRECIATION (NET)	600	(252)	348	0	348
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	827	442	1,269	777	2,046
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$39,035</u>	<u>(\$7,737)</u>	<u>\$31,298</u>	<u>\$777</u>	<u>\$32,075</u>
8. OPERATING INCOME/(LOSS)	<u>(\$23,721)</u>		<u>(\$15,434)</u>		<u>\$1,058</u>
9. WATER RATE BASE	<u>\$79,920</u>		<u>\$11,911</u>		<u>\$11,911</u>
10. RATE OF RETURN	<u>-29.68%</u>		<u>-129.58%</u>		<u>8.88%</u>

**TEST YEAR ENDING 12/31/04
 TIMBERWOOD UTILITIES, INC.
 SCHEDULE OF WASTEWATER OPERATING INCOME**

SCHEDULE NO. 3-B DOCKET NO. 050274-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$38,355</u>	<u>\$1,064</u>	<u>\$39,419</u>	<u>\$1,979</u> 5.02%	<u>\$41,398</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	48,819	(19,846)	28,973	0	28,973
3. DEPRECIATION (NET)	4,728	(1,340)	3,388	0	3,388
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,743	1,201	4,944	89	5,033
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$57,290</u>	<u>(\$19,985)</u>	<u>\$37,305</u>	<u>\$89</u>	<u>\$37,394</u>
8. OPERATING INCOME/(LOSS)	<u>(\$18,935)</u>		<u>\$2,114</u>		<u>\$4,004</u>
9. WASTEWATER RATE BASE	<u>\$242,851</u>		<u>\$45,093</u>		<u>\$45,093</u>
10. RATE OF RETURN	<u>-7.80%</u>		<u>4.69%</u>		<u>8.88%</u>

TIMBERWOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/04
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 050274-WS
PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. a. To reflect the appropriate test year revenue	\$550	\$1,064
	<u>\$0</u>	<u>\$0</u>
Subtotal	<u>\$550</u>	<u>\$1,064</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Sludge Removal Expense (711)		
a. To reclassify from Acct. 736 to 711		\$2,828
Total		<u>\$2,828</u>
2. Purchase Water (610)		
a. To reflect increase in purchase water	\$1,641	
b. Repression Adjustment	(\$6,344)	
Total	<u>(\$4,703)</u>	<u>\$0</u>
3. Purchased Power (615/ 715)		
a. Repression Adjustment		(\$844)
Subtotal	<u>\$0</u>	<u>(\$844)</u>
4. Chemicals (618/ 718)		
a. Repression Adjustment	0	(\$134)
Subtotal	<u>\$0</u>	<u>(\$134)</u>
5. Contractual Services - Billing (630/ 730)		
a. Reclassify Rate Case Filing Fee from Acct 630 to 665 & 730 to 765	(\$750)	(\$750)
b. To remove unsupported office expense	(\$663)	(\$663)
Subtotal	<u>(\$1,413)</u>	<u>(\$1,413)</u>
6. Contractual Services- Professional (631/731)		
a. To reflect inappropriate AR Index, Reg Fee Charges	(\$750)	(\$5,266)
a. Reclassify rate case expense from acct. 631/665 & 731/765	(\$900)	(\$5,870)
b. To remove transfer fees recorded in Acct 631 & 731	(\$750)	(\$1,660)
c. Remove wastewater related expenses	(\$1,623)	\$1,623
d. Amortize permit fee and prop tax issue over 5 years (3620/5)		(\$2,896)
Subtotal	<u>(\$4,023)</u>	<u>(\$14,069)</u>
7. Contractual Services - Testing (635/ 735)		
a. To reclassify DEP Required Testing recorded in wastewater 736	\$0	\$1,455
Subtotal	<u>\$0</u>	<u>\$1,455</u>
8. Contractual Services - Other (636/ 736)		
a. Reclassify DEP required testing from 736 to 735)		(\$1,455)
b. Reclassify sludge removal expense to Acct 711		(\$2,828)
c. To remove meters included in acct 334 (Audit Exception 3)		(\$252)
d. To increase to reflect appropriate test year Grounds Keeping		\$250
e To reflect water related expenses		(\$3,540)
f. To reflect expenses recorded as wastewater expenses	<u>\$3,540</u>	
Subtotal	<u>\$3,540</u>	<u>(\$7,825)</u>

TIMBERWOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/04
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 050274-WS
PAGE 2 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
9. Rents (640/ 740)		
a. To reclassify from acct 640 to 650 & 740 to 750	(\$3,000)	(\$3,000)
c. To reflect land rental lease agreement (10152*11.78%)		\$901
Subtotal	<u>(\$3,000)</u>	<u>(\$2,099)</u>
10 Transportation Expense (650/750)		
a. To reflect the reclassification from 640 to 650 & 740 to 750	\$3,000	\$3,000
b. To reflect the improper allocation use of lease vehicle (500/4)=1500/2	(\$2,250)	(\$2,250)
Subtotal	<u>\$750</u>	<u>\$750</u>
11. Insurance Expense(655/755)		
a. To reflect the improper allocation of ins exp(1161/4)=290/2	<u>(\$112)</u>	<u>(\$112)</u>
12. Regulatory Expense (665/ 765)		
a. To reclassify rate case filing fee from acct 630 to 665 & 730 to 765	\$750	\$750
b. To reclassify rate case expenses from Acct 631 & 731	\$900	\$5,870
b. Amortize Rate Case Filing Fee over 4 years (\$8270/4)	(\$616)	(\$5,586)
Subtotal	<u>\$1,034</u>	<u>\$1,034</u>
13. Miscellaneous Expense (675/ 775)		
a. To reflect pro forma to separate metering of lift station (2915/5)		\$583
Subtotal	<u>\$0</u>	<u>\$583</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$7,927)</u>	<u>(\$19,846)</u>
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, FAC	(\$33)	(\$579)
2. Non-used and useful depreciation	0	0
3. To reflect test year CIAC amortization calculated by staff	(\$219)	(\$761)
Total	<u>(\$252)</u>	<u>(\$1,340)</u>
TAXES OTHER THAN INCOME		
1. To reflect Rafs	\$714	\$1,774
2. To reflect the appropriate property tax	(\$272)	(\$573)
Total	<u>\$442</u>	<u>\$1,201</u>

TIMBERWOOD UTILITIES, INC.
TEST YEAR ENDING 12/31/04
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$4,157	\$0	\$4,157
(603) SALARIES AND WAGES - OFFICERS	0	0	\$0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	\$0
(610) PURCHASED WATER	21,370	(4,703) [1]	\$16,667
(615) PURCHASED POWER	0	0	\$0
(616) FUEL FOR POWER PRODUCTION	0	0	\$0
(618) CHEMICALS	0	0	\$0
(620) MATERIALS AND SUPPLIES	0	0	\$0
(630) CONTRACTUAL SERVICES - BILLING	1,914	(1,413) [2]	\$501
(631) CONTRACTUAL SERVICES - PROFESSIONAL	6,690	(4,023) [3]	\$2,667
(635) CONTRACTUAL SERVICES - TESTING	0	0	\$0
(636) CONTRACTUAL SERVICES - OTHER	220	3,540 [4]	\$3,760
(640) RENTS	3,000	(3,000) [5]	\$0
(650) TRANSPORTATION EXPENSE	0	750 [6]	\$750
(655) INSURANCE EXPENSE	257	(112) [7]	\$145
(665) REGULATORY COMMISSION EXPENSE	0	1,034 [8]	\$1,034
(670) BAD DEBT EXPENSE	0	0	\$0
(675) MISCELLANEOUS EXPENSES	<u>0</u>	<u>0</u>	<u>\$0</u>
	37,608	(7,927)	29,681

TIMBERWOOD UTILITIES, INC. TEST YEAR ENDING 12/31/04 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 050274-WS		
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$4,157	\$0		\$4,157
(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	2,828	[1]	\$2,828
(715) PURCHASED POWER	2,605	(844)		\$1,761
(716) FUEL FOR POWER PRODUCTION	0	0		\$0
(718) CHEMICALS	414	(134)		\$280
(720) MATERIALS AND SUPPLIES	95	0		\$95
(730) CONTRACTUAL SERVICES - BILLING	1,864	(1,413)	[2]	\$451
(731) CONTRACTUAL SERVICES - PROFESSIONAL	18,261	(14,069)	[3]	\$4,192
(735) CONTRACTUAL SERVICES - TESTING	0	1,455	[4]	\$1,455
(736) CONTRACTUAL SERVICES - OTHER	18,166	(7,825)	[5]	\$10,341
(740) RENTS	3,000	(2,099)	[6]	\$901
(750) TRANSPORTATION EXPENSE	0	750	[7]	\$750
(755) INSURANCE EXPENSE	257	(112)	[8]	\$145
(765) REGULATORY COMMISSION EXPENSES	0	1,034	[9]	\$1,034
(770) BAD DEBT EXPENSE	0	0		\$0
(775) MISCELLANEOUS EXPENSES	<u>0</u>	<u>583</u>	[10]	<u>\$583</u>
	<u>48,819</u>	<u>(19,846)</u>		<u>28,973</u>

Docket No. 050274-WS
 Date: November 17, 2005

RECOMMENDED RATE REDUCTION SCHEDULE

TIMBERWOOD UTILITIES, INC.
 TEST YEAR ENDING 12/31/04

SCHEDULE NO. 4
 DOCKET NO. 050274-WS

CALCULATION OF RATE REDUCTION AMOUNT

AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>BASE FACILITY CHARGE:</u>		
Meter Size:		
5/8"X3/4"	\$ 7.81	0.26
3/4"	11.72	0.38
1"	19.53	0.64
1-1/2"	39.05	1.28
2"	62.48	2.04
3"	117.15	3.83
4"	195.25	6.29
6"	390.50	12.76
<u>GALLONAGE CHARGE</u>		
PER 1,000 GALLONS	\$ 6.44	0.21

RECOMMENDED RATE
 REDUCTION SCHEDULE
 TEST YEAR ENDING 12/31/04
 TIMBERWOOD UTILITIES, INC.

SCHEDULE NO. 4A
 DOCKET NO. 050274-WS

CALCULATION OF RATE REDUCTION AMOUNT

AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

		<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>RESIDENTIAL</u>			
BASE FACILITY CHARGE:			
Meter Size: All Meter Sizes	\$	11.27	0.29
GALLONAGE CHARGE:			
PER 1,000 GALLONS (6,000 gallon cap)	\$	7.66	0.20
<u>GENERAL SERVICE</u>			
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	\$	11.27	0.29
3/4"		16.91	0.44
1"		28.18	0.74
1-1/2"		56.35	1.47
2"		90.16	2.36
3"		169.05	4.42
4"		281.75	7.37
6"		563.50	14.74
GALLONAGE CHARGE:			
PER 1,000 GALLONS	\$	9.20	0.24