

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp. DOCKET NO. 060258-WS
ORDER NO. PSC-07-0205-PAA-WS
ISSUED: March 6, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING AN INCREASE IN WATER AND WASTEWATER RATES
AND INITIATING SHOW CAUSE PROCEEDINGS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the initiation of show cause proceedings, four-year rate reduction, and proof of adjustment of books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently, UI has ten separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>UI Subsidiary</u>
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

This order addresses Docket No. 060258-WS, Sanlando Utilities Corp. (Sanlando or utility), which is a Class A utility providing water and wastewater service to approximately

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FPSC-COMMISSION CLERK

10,108 water and 8,201 wastewater customers in Seminole County. Water and wastewater rates were last established for this utility in its 1998 earnings investigation.¹

On May 15, 2006, Sanlando filed the Application for Rate Increase at issue in the instant docket. The utility had deficiencies in the Minimum Filing Requirements (MFRs). Those deficiencies were subsequently corrected, and the official filing date was established as August 22, 2006, pursuant to Section 367.083, Florida Statutes. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the 13-month average period ending December 31, 2005.

By Order No. PSC-06-0671-FOF-WS, issued August 7, 2006, we approved an interim revenue requirement of \$2,098,272 for water and \$3,431,093 for wastewater. This represents an increase of \$12,315 or 0.59% for water and \$99,409 or 2.98% for wastewater. The utility requested final rates designed to generate annual water revenues of \$2,506,862 and wastewater revenues of \$4,023,154. This represents a revenue increase of \$420,905 (20.17%) for water and \$691,470 (20.75%) for wastewater.

The intervention of the Office of Public Counsel (OPC) was acknowledged by Order No. PSC-06-0546-PCO-WS, issued June 27, 2006, in this docket. We have jurisdiction pursuant to Section 367.081, F.S.

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water or wastewater rate case, we shall determine the overall quality of service provided by the utility by evaluating three separate components of water and /or wastewater operations. The components are: 1) quality of utility's product, 2) the operational conditions of the utility's plant and facilities, and 3) 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 3-year period shall also be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints.

Our analysis of the overall quality of service provided by the utility is derived from the quality of the utility's water and wastewater product, operational condition of the utility's plants or facilities, and customer satisfaction. Comments or complaints received from customers are reviewed. We have also considered the utility's current compliance with the DEP.

¹ See Order No. PSC-00-1263-PAA-WS, issued July 10, 2000, in Docket Nos. 971186-SU, In re: Application for approval of reuse project plan and increase in wastewater rates in Seminole County by Sanlando Utilities Corporation, and 980670-WS, In re: Investigation of possible overearnings by Sanlando Utilities Corporation in Seminole County. Order No. PSC-00-2097-AS-WS, issued November 6, 2000, made Order No. PSC-00-1263-PAA-WS, issued July 10, 2000, final as modified by the settlement agreement.

Quality of the Product

In Seminole County, the water and wastewater programs are regulated by the DEP Central District Office in Orlando. The utility is current in all of the required chemical analyses, and the utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP.

Although the utility is currently in compliance with the DEP, in 2005, it did experience wastewater compliance problems with its Wekiva wastewater treatment plant. The DEP determined that permit limits for surface water discharge concerning total phosphorus and carbonaceous biochemical oxygen demand were exceeded, and that the annual average daily flow to the percolation ponds also exceeded permit limits. The problem was due to an inoperative pump that was part of the plant's sodium aluminate pumping system. The pump was replaced. As a result of the DEP compliance violations, an April 20, 2006, Consent Order found the utility in violation with its rules and statutes and ordered it to pay \$2,500 in assessed civil penalties and DEP costs. In a July 10, 2006, letter to the utility, the DEP indicated that the Consent Order requirements had been completed. The enforcement case with the utility was closed on July 5, 2006. We believe that this was an isolated incident, and that there is no indication of a continued problem which warrants further investigation.

Condition of Plants

A field investigation for Sanlando was conducted on September 13, 2006. Commission staff found no apparent problems with the operations of any of the water or wastewater treatment facilities. The conditions of these facilities are currently in compliance with the DEP rules and regulations. The maintenance records and the general condition of the facilities appeared to be adequate. Therefore, we find that the quality of service for the condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

Test Year Complaints – The utility provided in its filing copies of customer complaints received during the test year. The water quality complaints dealt with discoloration, odor, taste, and low pressure. A review of these complaints found that the utility satisfactorily responded with pressure checking, flushing lines or otherwise working with the customer by advising possible modifications to be done inside the residence to correct the problems. Sewage back-ups were the main wastewater complaints. For the back-up problems, the utility mainly eliminated obstructions or repaired broken lines to correct the problems.

Correspondence – The Commission received no correspondence concerning quality of service from customers of the utility.

Customer Meeting – A customer meeting was held near the utility's service area on October 25, 2006, in the Eastmonte Civic Center Auditorium in Altamonte Springs, Florida. The

two customers who attended the meeting had no specific comments about the quality of service provided by the utility and preferred not to speak.

Complaints on file – The Commission Complaint Tracking System (CATS) was reviewed. There are no open complaints at this time. Of the three complaints (2005 – present) on file with this Commission, one was related to the quality of service. This complaint dealt with a recurring lift station alarm that was eventually corrected with a renovation of that facility.

Conclusion

The overall quality of service provided by the utility shall be considered satisfactory. We find that the quality of product and the condition of the plants are adequate when it comes to regulatory compliance standards. Also, after review of the complaint records and the fact that only two customers attended the customer meeting, the utility appears to be adequately addressing customer concerns.

RATE BASE

In its response to Commission staff's audit report, Sanlando agreed to the audit findings and audit adjustment amounts listed below. We therefore approve the following adjustments to rate base, net operating income and capital structure:

Audit Adjustments to Water Rate Base						
Audit Adjustments	Plant	Land	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Working Capital
Finding No. 1 – 1997 Order Balance			\$4,541	\$242,474	(\$300,636)	
Finding No. 2 – 1998 Plant Additions	(\$286,610)		\$66,031			
Finding No. 3 – Org. Costs & Franchises	(\$131,780)		\$9,179			
Finding No. 5 – Remove AFUDC	(\$15,620)		\$1,677			
Finding No. 6 – Allocate Transportation Equip.	\$19,390		(\$3,232)			
Finding No. 7 - Land		(\$6,800)				
Finding No. 8 - CIAC				\$340,475	(\$74,463)	
Finding No. 11 – Working Capital						\$118,217
Finding No. 12 – Deferred Charges	838		(\$58)			\$7,092
Finding No. 14 – Depr.			\$12,105			
Finding No. 15 – CIAC Amortization					\$887	
Total Adjustments	(\$413,782)	(\$6,800)	\$90,243	\$582,949	(\$374,213)	\$125,309

Audit Adjustments to Wastewater Rate Base						
Audit Adjustments	Plant	Land	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Working Capital
Finding No. 1 – 1997 Order Balance				\$233,333	(\$284,885)	
Finding No. 2 – 1998 Plant Additions	\$147,808		(\$10,548)			
Finding No. 3 – Org. Costs & Franchises	(\$85,602)		\$680			
Finding No. 4 – 1999 and 2000 Plant Retirements	(\$23,619)		\$27,561			
Finding No. 5 – Remove AFUDC	(\$329,233)		\$27,501			
Finding No. 6 – Allocate Transportation Equip.	\$14,825		(\$2,472)			
Finding No. 8 - CIAC				\$465,423	(103,908)	
Finding No. 11 – Working Capital						\$48,473
Finding No. 12 – Deferred Charges	\$641		(\$45)			\$10,346
Finding No. 14 – Depr.			\$16,977			
Finding No. 15 – CIAC Amortization					\$830	
Total Adjustments	<u>(\$275,180)</u>	<u>\$0</u>	<u>\$59,654</u>	<u>\$698,756</u>	<u>(\$387,964)</u>	<u>\$58,819</u>

Audit Adjustments to Water NOI				
Audit Adjustments	Depr. Expense*	Amort. Expense*	O&M Expense	TOTI
Finding No. 1	(\$568)	\$7,142		
Finding No. 2	(\$7,693)			
Finding No. 3	(\$3,330)			
Finding No. 5	(\$382)			
Finding No. 6	\$3,232			
Finding No. 8		\$8,829		
Finding No. 12	\$151		(\$50,005)	
Finding No. 14	\$24,210			
Finding No. 15		(\$1,773)		
Finding No. 16 - TOTI				\$3,289
Total Adjustments	<u>\$15,620</u>	<u>\$14,198</u>	<u>(\$50,005)</u>	<u>\$3,289</u>

*Net Depreciation Expense is the sum of Depreciation Expense and CIAC Amortization Expense Adjustments: ($\$15,620 + \$14,198$) = $\$29,818$				
Audit Adjustments to Wastewater NOI				
Audit Adjustments	Depr. Expense	Amort. Expense	O&M Expense	TOTI
Finding No. 1		\$6,344		
Finding No. 2	\$2,056			
Finding No. 3	(\$2,126)			
Finding No. 4	(\$676)			
Finding No. 5	(\$7,748)			
Finding No. 6	\$2,472			
Finding No. 8		\$13,544		
Finding No. 12	\$116		(\$240)	
Finding No. 14	\$33,953			
Finding No. 15		(1,659)		
Finding No. 16 - TOTI				\$4,112
Total Adjustments	<u>\$28,047</u>	<u>\$18,229</u>	<u>(\$240)</u>	<u>\$4,112</u>
*Net Depreciation Expense is the sum of Depreciation Expense and CIAC Amortization Expense Adjustments: ($\$28,047 + \$18,229$) = $\$46,276$				

Audit Finding No. 20 Adjustments to Sanlando's Capital Structure				
Audit Adjustments	Short-Term Debt	Common Equity	Long-Term Debt Rate	Short-Term Debt Rate
Decrease S-T Debt	<u>(\$119,308)</u>			
Increase Common Equity		<u>\$3,093,004</u>		
L-T Debt Rate Decrease			<u>(.07%)</u>	
S-T Debt Rate Increase				<u>0.13%</u>

Based on audit adjustments agreed to by the utility, plant shall be decreased by \$413,782 for water and \$275,810 for wastewater; land shall be decreased by \$6,800 for water; accumulated depreciation shall be decreased by \$90,243 for water and \$59,654 for wastewater; CIAC shall be decreased by \$582,949 for water and \$698,756 for wastewater; accumulated amortization of CIAC shall be decreased by \$374,213 for water and \$387,964 for wastewater; working capital shall be increased by \$125,309 for water and \$58,819 for wastewater; net depreciation expense shall be increased by \$29,818 for water and \$46,276 for wastewater; O&M expenses shall be decreased by \$50,005 for water and \$240 for wastewater; TOTI shall be increased by \$3,289 for water and increased by \$4,112 for wastewater; short-term debt shall be decreased by \$119,308;

common equity shall be increased by \$3,093,004; the long-term debt rate shall be decreased by 7 basis points; and the short-term debt rate shall be increased by 13 basis points.

WSC and UIF Rate Base Allocations

On MFR Schedule A-3, the utility reflected a Water Service Corporation (WSC) rate base allocation of \$61,878 for water and \$48,697 for wastewater. Sanlando also recorded Utilities, Inc. of Florida (UIF) rate base allocation of \$156,618 for water and \$119,765 for wastewater. Staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Sanlando and its sister companies. WSC (a subsidiary service company of UI) supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. As discussed below, we find that several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS.² First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above audit adjustments. Based on the above, we find that the appropriate simple average WSC rate base before any allocation is \$2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, the appropriate simple average UIF rate base before any allocation is \$1,113,433, as reflected in UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, we found that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, we found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) If the customer is an availability customer only, the customer

² 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.

is counted as one-half; (3) If the water company is a distribution company only, the customer is counted as one-half; and, (4) If the wastewater company is a collection company only, the customer is counted as one-half.” We find that these additional four factors unnecessarily complicate the allocation process versus the use of an ERC-only methodology. With this additional methodology, we note that WSC’s ERC count will not conform to the ERC count in each Florida subsidiaries’ annual report filed with this Commission. Further, the use of an ERC-only methodology is consistent with the methodology we use to set rates for water and wastewater utilities. Accordingly, we find that UI shall use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the above, we find that the appropriate WSC net rate base allocation for Sanlando is \$75,478 for water and \$57,717 for wastewater. This represents an increase of \$13,600 and \$9,020 for water and wastewater, respectively. WSC depreciation expense shall also be reduced by \$405 and \$310, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Sanlando is \$106,848 water and \$99,862 for wastewater. This represents water plant and accumulated depreciation decreases of \$92,400 and 42,630, respectively, and wastewater plant and accumulated depreciation increases of \$48,065 and \$28,161, respectively. In addition, depreciation expense shall be increased by \$3,100 for water and \$1,883 for wastewater.

Appropriate Land Balance for Water System

In its filing, Sanlando reflected a land balance of \$123,772 for its water system. As discussed previously, the water system’s land balance was reduced by \$6,800. After applying this \$6,800 adjustment, the water system’s land balance is \$116,922 (\$123,772 less \$6,800).

In Audit Finding No. 17, staff auditors stated that a warranty deed for sale of utility property between Sanlando Utilities Corp. (seller) and Congregation Beth Am (buyer) was discovered by a search of Seminole County property records. The auditors also stated that the deed, executed on May 22, 2000, was recorded in the Seminole County Clerk of the Court Official Records. The auditors could not determine if the original cost was included in land in the previous rate case and that the sale was recorded in equipment account (4141040) of UT’s general ledger. Further, the only other documentation the utility provided to the auditors was a copy of the check for the net proceeds of \$56,170. Based on the documentary stamps of \$437.50 paid to Seminole County which was recorded on the face of the warranty deed, the auditors stated that the sale price for the property was calculated to be \$62,500 (\$437.50 divided by \$0.70 multiplied by \$100). Lastly, the auditors stated that rate base may be overstated.

In its response to the Audit Request No. SL 101-35, Sanlando stated the following:

- (1) The parcel of land was acquired by the previous utility owner for the purpose of constructing additional facilities if needed. At one time, the prior utility was experiencing frequent low pressure complaints in this part of the distribution

system. The previous utility owners contemplated building a storage tank on this parcel of land to address the problem. After we acquired the system from the previous owners, it was subsequently determined that there was no need for the parcel so eventually it was sold to the congregation in the adjacent parcel of land. The deal was strictly a sale of real property with no other obligations or terms. Congregation Beth Am is not a Sanlando customer. It is not located within Sanlando's service area with Sand Lake Road separating our system from Seminole County Utilities' service area. . . .

Further, in its response to the audit report, the utility asserted that its records do not separately reflect the original price of the land, but Sanlando recognizes the auditors' comments in Audit Finding No. 17. The utility confirmed our staff's understanding that the land was still reflected on Sanlando's books. We also note that UI's general ledger and Sanlando's MFRs have the same land balance for the utility's water system.

Based on the above, we find that two adjustments are necessary. First, the land balance for the water system shall be reduced to remove the land sold. Second, as explained below, the gain on sale of this land shall be amortized over five years to the benefit of the ratepayers.

Reduction of Water System's Land Balance

In the utility's 1998 transfer docket, we approved the transfer of Sanlando to UI.³ Florida is an original cost jurisdiction. Pursuant to Rule 25-30.115, Florida Administrative Code, we adhere to the National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) in recording land when first devoted to public service. As stated above, the parcel of land sold to Congregation Beth Am was never placed into service, but it is reflected in rate base. Given that the utility's records do not separately reflect the original price of the land, we find it appropriate to utilize the tax assessed value at the time of the transfer of Sanlando to UI in 1998. We have previously used the tax assessed value in order to estimate the original cost of land for rate setting purposes.⁴ The tax assessed value for this parcel of land in 1998 was \$26,660. Therefore, the appropriate land balance for the utility's water system is \$90,312 (\$116,922 less \$26,660). As such, land shall be reduced by \$26,660 to remove the land sold.

³ See Order No. PSC-99-0152-FOF-WS, issued January 25, 1999, in Docket No. 980957-WS, In re: Application for transfer of majority organizational control of Sanlando Utilities Corporation in Seminole County to Utilities, Inc.

⁴ See Order No. 98-1585-FOF-WU, p. 5, 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-96-1229-FOF-WS, p. 14, issued September 30, 1996, in Docket No. 950828-WS, In re: Application for rate increase in Marion County by Rainbow Springs Utilities, L.C.; Order No. PSC-93-0301-FOF-WS, p. 13, issued February 25, 1993, in Docket No. 911188-WS, In re: Application for a rate increase in Lee County by Lehigh Utilities, Inc.

Gain on Sale of Land

Our calculation of the gain on sale of this land is reflected in the following table:

<u>GAIN ON SALE CALCULATION</u>	
Sale Price (a)	\$62,500
Deductions:	
Book Basis of Land (b)	26,660
Selling Costs (c)	<u>6,330</u>
Pre-Tax Gain	\$29,510
Taxes (Composite Tax Rate of 37.63%)	<u>11,105</u>
Net Gain	<u>\$18,405</u>
(a) \$437.50 doc stamps divided by \$0.70 multiplied by \$100	
(b) 1998 tax assessed value of land	
(c) \$62,500 sale price less \$56,170 check for the net proceeds	

In the last rate case for one of Sanlando’s sister companies, UIF, we ordered that gains on the sale of facilities to separate municipalities shall be attributable to the shareholders.⁵ However, we find that Sanlando’s sale of its land is distinguishable from UIF’s gain of sale. First, UIF’s sale involved the transfer of all facilities and the customer bases to the separate municipalities. As UIF’s witness Gower testified, the remaining UIF customers should not benefit from the sale of a system when the customer who paid for the facilities are now gone. See Order No. 03-1440-FOF-WS, p. 130. Further, as OPC’s witness Dismukes testified, we have recognized that future profits are lost for systems sold along with the customers of a system, and therefore it is appropriate to assign the gain to shareholders. See Order No. 03-1440-FOF-WS, p. 130.

Sanlando’s sale of its land does not result in any revenue stream loss associated with a loss of the utility’s customer base. As stated above by Sanlando, this deal was strictly a sale of real property. Across the rate base regulated water, wastewater, gas, and electric industries, we have previously approved the amortization of a gain on sale of land to the benefit of the ratepayers.⁶ Based on the above, we find that the \$18,405 net gain shall be amortized over five years. This represents an annual amortization of \$3,681.

⁵ See Order No. PSC-03-1440-FOF-WS, pp. 117-131, 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.

⁶ See Order No. 24225, issued March 12, 1991, in Docket No. 900688-WS, In re: Application for staff-assisted rate case in Pasco County by Betmar Utilities, Inc.; Order No. PSC-04-0947-PAA-SU, issued September 28, 2004, in Docket No. 040733-SU, In re: Disposition of gain on sale of land held for future use in Marion County by BFF Corp.; Order No. PSC-02-1159-PAA-GU, issued August 23, 2002, in Docket No. 020521-GU, In re: Petition for

Pro Forma Plant and Expense Additions

According to its MFRs, Sanlando reflected pro forma additions of \$582,777 for water and \$848,365 for wastewater. We have reviewed the supporting documentation and the prudence of these pro forma plant additions and find that several adjustments are necessary, as discussed below.

First, based on the utility's response to a data request, Sanlando did not provided any work orders, invoices or other supporting documentation for these additions reflected in the tables below.

<u>Water Pro Forma Additions</u>	<u>Amount</u>	<u>Wastewater Pro Forma Additions</u>	<u>Amount</u>
Organization	\$4,683	Organization	\$6,123
Franchises	30,391	Lift Stations	11,659
WTP improvements	6,242	Service Lines	2,094
Pump Equipment	7,362	Manholes	9,273
Water Treatment Equipment	171	Services	696
Distribution Reservoirs & Standpipes	989	Distribution Reservoir	1,547
Mains	21,397	WWTP Improvements	<u>47,420</u>
Services	21,043	Total Wastewater Additions	<u>\$78,812</u>
Meters and Meter Installations	16,679		
Tools	4,491		
Laboratory Equipment	1,889		
Communication Equipment	<u>927</u>		
Total Water Additions	<u>\$116,264</u>		

Based on the MFR dollar amounts and the accounts involved here, we find that these additions are normal recurring plant additions. If normal recurring plant additions were allowed, a strong argument could be made that CIAC and accumulated amortization of CIAC should also be projected forward another year due to the expected growth, as well as billing determinants and expenses. This would have the effect of changing the approved 2005 historical test year to projected test year. Because of the lack of supporting documentation and the utility's assertion in its test year request letter that the 2005 historical test period is representative of a full year of operation, we find it appropriate that these normal recurring plant additions be removed from plant.

The remaining pro forma additions are non-recurring in nature. We note that Sanlando failed to reduce depreciation expense for any of its retirements. As discussed below, we are approving several adjustments to these non-recurring water and wastewater additions.

approval to amortize gain on sale of property over five-year period by Florida Public Utilities Company; and Order No. PSC-98-0451-FOF-EI, issued March 30, 1998, in Docket No. 970537-EI, In re: 1997 depreciation study by Florida Public Utilities Company, Marianna Division.

Non-Recurring Water System Additions

The water system projects are titled: the electrical control upgrade; the electric valve operator; and, the Wekiva Springs Road utility relocations. First, in its response to Commission Staff's First Data Request, the utility asserted that the electrical control upgrade involved replacing distribution panels, installed in 1973, which are now out of production and replacing variable voltage drive units to improve reliability. Second, Sanlando stated that, pursuant to newly imposed DEP regulations, the electric valve operator was needed because the new regulations require all system valves to be exercised in accordance with the manufacturer's recommendations. The utility contended that the valve exercisers for this project would decrease demands on existing personnel as well and curb hiring additional personnel to maintain compliance with the regulation. Third, the utility stated that the Wekiva Springs Road utility relocations involve relocating water and wastewater mains due to Seminole County's stormwater and road widening project.

Section 367.081(2)(a)2., Florida Statutes, states that we shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates. The electrical control upgrade and the electric valve operator projects have been completed. Thus, these additions have been or will be completed within the 24-month timeframe mentioned above. However, based on information provided by the utility, Seminole County's stormwater and road widening project has been delayed, and, as such, the completion date for the Wekiva Springs Road utility relocations project is contingent on Seminole County.

Based on supporting documentation provided by the utility, the total direct construction cost for the electrical control upgrade project was \$1,128,695. We calculated an allowance for funds used during construction (AFUDC) of \$43,091 for this project. With the direct construction cost and AFUDC amount, total cost for this project is \$1,171,786. This represents an increase of \$671,786 above the \$500,000 MFR amount. Further, Sanlando used the date that the old control panel was placed into service and the Handy Whitman Index to derive its retirement factor. The utility then applied its retirement factor to the cost of the \$500,000 MFR amount for the electrical control upgrade project to determine Sanlando's MFR retirement amount of \$76,987. We approved this retirement policy in the past for several UI's subsidiaries.⁷ Using the utility's retirement factor and the total direct construction cost for this project, we calculated a retirement amount of \$180,425, which represents an increase of \$103,438 (\$180,425 less \$76,987). Correspondingly, accumulated depreciation shall be decreased by \$69,848 and depreciation expense shall be increased by \$24,568.

As discussed subsequently herein, the electrical control upgrade project was related to the utility's Des Pinar and Wekiva water treatment plants. The work on the Des Pinar plant was

⁷ See Order No. PSC-04-0363-PAA-SU, p. 11, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc. and Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc., at p. 9.

completed almost one year before the Wekiva plant. Because the work on each plant was independent of one another, the utility is hereby encouraged not to combine projects like this one, but to separate them into distinct projects for each independent purpose. By separating them into distinct projects, the utility should avoid the likelihood of any excessive AFUDC accrual.

Based on supporting documentation provided by the utility, the total direct construction cost for the electric valve operator project was \$6,136. This represents a decrease of \$864 (\$7,000 less \$6,136). This project was not eligible for AFUDC because it took less than six months. Correspondingly, accumulated depreciation and depreciation expense shall both be decreased by \$23.

In the MFRs the utility reflected \$36,500 for the Wekiva Springs Road utility relocations project. In its response to a staff data request, Sanlando provided an unsigned contract for this project. As stated above, the utility has asserted that Seminole County's stormwater and road widening project has been delayed and that Sanlando's Wekiva Springs Road utility relocations project is contingent on Seminole County. Further, based on information provided by the utility, Sanlando stated that it has not committed any funds for this project nor does it plan to until Seminole County moves forward with this project. Due to the lack of support documentation and the uncertainty of the completion date for this project, the requested cost for this project is disallowed. Correspondingly, plant shall be decreased by \$36,500, and accumulated depreciation and depreciation expense shall both be decreased by \$840.

Non-Recurring Wastewater System Additions

The wastewater system projects are titled: the five electrical modifications at lift station (LS) A-5; remote generator receptacles at LS M-3 and M-5; rehabilitation and electrical improvements at LS A-3; Devon LS A-4 rehabilitation, LS mechanical improvements at various locations; LS electrical improvements at various locations; convert F-1, L-2, and L3 to submersible lift stations; Sabal Point reuse pond swale installation; rehabilitation bar screen and surge pump at Des Pinar wastewater treatment plant; generator at Des Pinar wastewater treatment plant; and, emergency generator at York Court. Section 367.081(2)(a)2., Florida Statutes, states that we shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates. All of these additions have been completed within the 24-month timeframe mentioned above. However, as discussed below, we have several adjustments to the projects. Further, the conversion of F-1, L-2, and L3 to submersible lift stations project is the only requested wastewater pro forma plant addition eligible to accrue AFUDC because the other projects took less than six months to complete.

First, in its response to Staff's First Data Request, the utility asserted that the five electrical modifications at lift station (LS) A-5 project involved relocating a control panel and electric service to conform with electrical code at a minimum height of 36" above grade. In its MFRs, Sanlando included \$8,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$6,950. This represents a decrease of \$1,050 (\$8,000 less \$6,950). Sanlando applied its retirement factor to

the cost of the \$8,000 MFR amount to determine the utility's MFR retirement amount of \$1,272. Using the utility's retirement factor and staff's total direct construction cost for this project, we calculated a retirement amount of \$1,105, which represents a decrease of \$167. Correspondingly, accumulated depreciation shall be increased by \$134 and depreciation expense shall be decreased by \$68.

Second, in its response to Staff's First Data Request, the utility asserted the remote generator receptacles at LS M-3 & M-5 were needed to provide a means to connect emergency generators to control panels without crossing private property and to improve response time to avoid overflows. In its MFRs, Sanlando reflected \$14,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$12,655. This represents a decrease of \$1,345 (\$14,000 less \$12,655). Correspondingly, accumulated depreciation and depreciation expense shall both be decreased by \$88.

Third, in its response to Staff's First Data Request, the utility asserted that the rehabilitation and electrical improvements at LS A-3 were needed to replace the control panel, electric service, and wet well piping that were corroded and unreliable. In its MFRs, Sanlando reflected \$30,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$21,599. This represents a decrease of \$8,401 (\$30,000 less \$21,599). Sanlando applied its retirement factor to the cost of the \$30,000 MFR amount to determine the utility's MFR retirement amount of \$4,768. Using the utility's retirement factor and our total direct construction cost for this project, we calculated a retirement amount of \$3,433 which represents a decrease of \$1,335. Correspondingly, accumulated depreciation shall be increased by \$1,071 and depreciation expense shall be decreased by \$371.

Fourth, in its response to Staff's First Data Request, the utility asserted that the Devon LS A-4 rehabilitation needed to replace the control panel, electric service, pumps, piping and guide rails. Sanlando noted that the old pumps were worn out and undersized for flow. In its MFRs, Sanlando reflected \$32,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$24,094. This represents a decrease of \$7,906 (\$32,000 less \$24,094). Sanlando applied its retirement factor to the cost of the \$32,000 MFR amount to determine the utility's MFR retirement amount of \$5,298. Using the utility's retirement factor and the total direct construction cost for this project, we calculated a retirement amount of \$3,989 which represents a decrease of \$1,309. Correspondingly, accumulated depreciation shall be increased by \$1,060 and depreciation expense shall be decreased by \$415.

Fifth, in its response to Staff's First Data Request, the utility asserted that the LS mechanical improvements at various locations were needed to replace guide rails at six lift stations, riser pipes at 11 sites, quick disconnects at 29 sites, and check valves at three sites. In its MFRs, Sanlando reflected \$90,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$64,321. This represents a decrease of \$25,679 (\$90,000 less \$64,321). Sanlando applied its retirement factor to the cost of the \$90,000 MFR amount to determine the utility's MFR retirement amount of \$22,622. Using the utility's retirement factor and the total direct construction cost for this

project, we calculated a retirement amount of \$16,168 which represents a decrease of \$6,454. Correspondingly, accumulated depreciation shall be increased by \$5,647 and depreciation expense shall be decreased by \$1,312.

Sixth, in its response to Staff's First Data Request, the utility asserted the LS electrical improvements at various locations were needed to replace six control panels, install sixteen service disconnects, and raise one panel to standard height to meet electrical code and to provide reliable service. In its MFRs, Sanlando reflected \$115,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$111,827. This represents a decrease of \$3,173 (\$115,000 less \$111,827). Sanlando applied its retirement factor to the cost of the \$115,000 MFR amount to determine the utility's MFR retirement amount of \$18,278. Using the utility's retirement factor and the total direct construction cost for this project, we calculated a retirement amount of \$17,774 which represents a decrease of \$504. Correspondingly, accumulated depreciation shall be increased by \$399 and depreciation expense shall be decreased by \$660.

Seventh, in its response to Staff's First Data Request, the utility asserted the conversion of F-1, L-2, and L3 to submersible lift stations was needed to pumps and piping located in a subsurface dry pit constituted a confined space hazard. Sanlando noted that the dry pit pumps were worn and inefficient and the electrical components were expensive to repair when pump failures occurred. In its MFRs, Sanlando reflected \$360,287 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$374,638. We calculated an AFUDC of \$10,993 for this project. With the direct construction cost and AFUDC amount, total cost for this project is \$385,631. This represents an increase of \$25,344 (\$385,631 less \$360,287). Sanlando applied its retirement factor to the cost of the \$360,287 MFR amount to determine the utility's MFR retirement amount of \$59,650. Using the utility's retirement factor and the total direct construction cost for this project, we calculated a retirement amount of \$63,846, which represents a decrease of \$4,196. Correspondingly, accumulated depreciation shall be decreased by \$3,422 and depreciation expense shall be decreased by \$1,221.

Eighth, in its response to Staff's First Data Request, the utility asserted that the Sabal Point reuse pond swale installation involved modifying the reuse irrigation pond design to avoid an unauthorized discharge to the Wekiva River. In its MFRs, Sanlando reflected \$10,300 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$9,319. This represents an increase of \$981 (\$10,300 less \$9,319). We note that the utility used a service life of 50 years to depreciate this project; however, in accordance with Rule 25-30.140, Florida Administrative Code, the appropriate service life is 43 years for this project. Correspondingly, accumulated depreciation and depreciation expense shall both be increased by \$11.

Ninth, in its response to Staff's First Data Request, the utility asserted the rehabilitation bar screen and surge pump at Des Pinar wastewater treatment plant was needed to provide a means to safely remove and maintain surge pumps and to replace a bar screen and splitter box due to corrosion. In its MFRs, Sanlando reflected \$50,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this

project was \$99,275. This represents an increase of \$49,275 (\$99,275 less \$50,000). Sanlando applied its retirement factor to the cost of the \$50,000 MFR amount to determine the utility's MFR retirement amount of \$28,146. Using the utility's retirement factor and the total direct construction cost for this project, we calculated a retirement amount of \$55,884 which represents a decrease of \$27,738. Correspondingly, accumulated depreciation shall be decreased by \$25,003 and depreciation expense shall be decreased by \$370.

Tenth, in its response to Staff's First Data Request, the utility asserted that the generator at Des Pinar wastewater treatment plant was needed to provide alternative power during outages to maintain treatment and field office operations and to replace distribution panel. In its MFRs, Sanlando reflected \$100,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$113,703. This represents an increase of \$13,703 (\$113,703 less \$100,000). Correspondingly, accumulated depreciation and depreciation expense shall both be decreased by \$757.

Eleventh, in its response to Staff's First Data Request, the utility asserted that the emergency generator at York Court was needed to provide alternative power during outages because this lift station has only 45 minutes of storage capacity at average day before overflowing into the Sweetwater Creek. In its MFRs, Sanlando reflected \$100,000 for this addition. Based on supporting documentation provided by the utility, the total direct construction cost for this project was \$35,581. This represents a decrease of \$64,419 (\$100,000 less \$35,581). Correspondingly, accumulated depreciation and depreciation expense shall both be decreased by \$3,583.

Summary of Pro Forma Additions

The following table illustrates our pro forma water adjustments.

Pro Forma Plant Additions	Per MFRs	Per Comm.	Difference
Organization	\$4,683	\$0	(\$4,683)
Franchises	30,391	0	(30,391)
WTP improvements	6,242	0	(6,242)
Electric Control Upgrade	500,000	1,171,786	671,786
Electric Control Upgrade - Retirement	(76,987)	(180,425)	(103,438)
Pump Equipment	7,362	0	(7,362)
Water Treatment Equipment	171	0	(171)
Electric Valve Operator	7,000	6,136	(864)
Distribution Reservoirs and Standpipes	989	0	(989)
Wekiva Springs Road Utility Relocations	36,500	0	(36,500)
Mains	21,397	0	(21,397)
Services	21,043	0	(21,043)
Meters and Meter Installations	16,679	0	(16,679)
Tools	4,491	0	(4,491)
Laboratory Equipment	1,889	0	(1,889)
Communication Equipment	927	0	(927)
Total	\$582,777	\$997,498	\$414,721
Accumulated Depreciation	\$48,014	\$121,669	\$73,655
Depreciation Expense	\$28,973	\$49,734	\$20,761

The following table illustrates our pro forma wastewater adjustments.

Pro Forma Plant Additions	Per MFRs	Per Comm.	Difference
Organization	\$6,123	\$0	(\$6,123)
Five Electrical Modifications at LS A-5	8,000	6,950	(1,050)
Five Electrical Modifications at LS A-5 - Retirement	(1,272)	(1,105)	167
Remote Generator Receptacles at LS M-3 and M-5	14,000	12,655	(1,345)
Rehab and Electrical Improvements at LS A-3	30,000	21,599	(8,401)
Rehab and Electrical Improvements at LS A-3 - Retirement	(4,768)	(3,433)	1,335
Rehab Devonshire LS A-4	32,000	24,094	(7,906)
Rehab Devonshire LS A-4 - Retirement	(5,298)	(3,989)	1,309
LS Mechanical Improvements @ Various Locations	90,000	64,321	(25,679)
LS Mechanical Improvements @ Various Locations - Ret.	(22,622)	(16,168)	6,454
LS Electrical Improvements @ Various Locations	115,000	111,827	(3,173)
LS Electrical Improvements @ Various Locations - Ret.	(18,278)	(17,774)	504
Convert F-1, L-2 & L-3 to Submersible LSs	360,287	385,631	25,344
Convert F-1, L-2 & L-3 to Submersible LSs - Retirement	(59,650)	(63,846)	(4,196)
Lift Stations	11,659	0	(11,659)
Service Lines	2,094	0	(2,094)
Manholes	9,273	0	(9,273)
Services	696	0	(696)
Sabal Point Reuse Pond Swale Installation	10,300	9,319	(981)
Distribution Reservoir	1,547	0	(1,547)
Rehab. Bar Screen & Surge Pump at Des Pinar WWTP	50,000	99,275	49,275
Rehab. Bar Screen & Surge Pump at Des Pinar WWTP-Ret.	(28,146)	(55,884)	(27,738)
Generator and ATS at Des Pinar WWTP	100,000	113,703	13,703
Emergency Generator @ York Court	100,000	35,581	(64,419)
WWTP Improvements	47,420	0	(47,420)
Total	\$848,365	\$722,756	(\$125,609)
Accumulated Depreciation	\$102,282	\$128,576	\$26,294
Depreciation Expense	\$37,752	\$27,154	(\$10,598)

Based on the above, we find that plant shall be increased by \$414,721 for water and decreased by \$125,609 for wastewater, and accumulated depreciation shall be decreased by \$73,655 for water and \$26,294 for wastewater. In addition, net depreciation expense shall be increased by \$20,761 for water and decreased by \$10,598 for wastewater.

Used and Useful

In its application, the utility asserts the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems, are all 100% used and useful. Sanlando's water treatment plants (Des Pinar, Knollwood, and Wekiva) are interconnected; therefore, only one used and useful calculation is needed. The wastewater treatment plants (Wekiva and Des Pinar) are not interconnected, and separate used and useful calculations can be made for each system. In the utility's prior rate case, by Order No. 23809,⁸ we recognized that the water treatment plants, the wastewater treatment plants, and the water distribution and wastewater collection systems were all 100% used and useful.

⁸ Issued November 27, 1990, Docket No. 900338-WS, In re: Application for a rate increase in Seminole County by Sanlando Utilities Corporation.

Water Treatment Plants

The used and useful calculation of the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 12 hours of pumping. Consideration is given to fireflow, unaccounted for water, and growth. In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well shall be removed from the calculation to determine the plant's reliability. In this case, the firm reliable capacity is determined by assuming that the utility's largest well, rated at 4,600 gpm, is out of service.

As detailed in Attachment A to this order, attached hereto and incorporated herein by reference, unaccounted for water (7.67%) is not considered excessive, and allowances for an annual customer growth of 51 ERCs shall be used. Since it appears no anomaly occurred on that day, the peak usage day of 12,360,000 gallons (May 25, 2005) shall be used.

The utility included annual historical growth of 51 ERCs per year for five years plus an additional 22.4 ERCs per year based on a new development located in the existing service territory. Because the new development is within the existing territory, we find that it shall be considered part of the normal growth. As a result, growth shall be based on the average historical growth only.

As reflected in Attachment A, the water treatment plants are considered 100% used and useful based on a peak day demand of 12,360,000 gallons, required fireflow of 150,000 gallons, a growth allowance of 284,280 gallons, divided by the firm reliable plant capacity of 9,913,680 gallons.

Storage

The utility has determined usable storage (3,127,500 gallons) to be ninety percent of the total ground storage capacity. The usable storage is less than the peak day demand and is not considered oversized. Therefore, the storage is 100% used and useful. It is noted that the storage is needed to meet the required fire flow on the peak day.

Wastewater Treatment Plants

In accordance with Rule 25-30.432, Florida Administrative Code, the used and useful calculation for the wastewater treatment plants are determined on the basis of the DEP permitted plant capacity. Consideration is given for growth and inflow and infiltration (I&I). The utility believes the Wekiva facility should be considered 100% used and useful because the plant was fully utilized in the last rate case, plant capacity has gone relatively unchanged, and the system is near build-out. In the prior rate case, although the flows indicated that the Wekiva plant was 75% used and useful, the plant was found to be 100% used and useful because of regulatory requirements to insure adequate backup and wasteload allocation and the utility's prudent expansion investment.

In the previous rate case, the used and useful calculations were based on the maximum month average daily demand. In accordance with Rule 25-30.432, Florida Administrative Code, the plant must be evaluated on the basis of the DEP permitted plant capacity. Wekiva's current permitted plant capacity (2,900,000 gpd) is based on annual average daily flows. The average annual daily flows during the test year were 2,160,641 gpd. There does not appear to be excessive I&I. Accordingly, a customer growth allowance of 34,586 gpd shall be used. In the MFRs, the utility included annual historical growth of 31 ERCs for five years plus an additional 22.4 ERCs per year based on a new development located in the existing service territory. As discussed previously, because the new development is within the utility's existing territory, it is considered to be part of normal growth. As a result, we find that a growth allowance shall be based on the average historical growth of 24.7 ERCs.

As reflected in Attachment A, based on flows, the Wekiva plant is 76% used and useful. However, we find that the Wekiva wastewater treatment plant shall be considered 100% used and useful, as determined in the last rate case. The plant expansion included in the last rate case was a prudent utility investment in response to DEP requirements to insure adequate backup and wasteload allocation and there has been no change in capacity since the last rate case. In addition, there has been limited growth in recent years and the area the system is designed to serve is essentially built-out with the exception of a small potential development in the existing service territory. Our used and useful determination is consistent with the provisions of Rule 25-30.432, Florida Administrative Code.

In the previous rate case, the Des Pinar wastewater treatment plant was found to be 100% used and useful because the system that it served was considered completely built-out. In that rate case, the used and useful calculation was based on maximum month daily average demand. In accordance with Rule 25-30.432, Florida Administrative Code, the plant must be evaluated on the basis of the DEP permitted plant capacity. Like the Wekiva plant, Des Pinar's current permitted plant capacity is based on annual average daily flows. As reflected in Attachment A, the plant is 69% used and useful based on its permitted capacity of 500,000 gpd and average annual daily flows of 345,112 gpd. However, we find that the Des Pinar wastewater treatment plant shall be considered 100% used and useful, because the plant capacity has not changed since our previous finding on used and useful, and the area the plant serves is still at build-out with no expected growth potential. Our used and useful determination is consistent with the provisions of Rule 25-30.432, Florida Administrative Code.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. In this case, growth is not considered a factor since the existing lines are built out and significantly contributed. Therefore, the water distribution and wastewater collection systems are considered 100% used and useful.

Working Capital Allowance

Rule 25-30.433(2), Florida Administrative Code, requires Class A utilities to use the balance sheet approach to calculate the working capital allowance. According to its filing, Sanlando utilized the balance sheet approach and calculated a working capital allowance of \$115,186 for water and \$291,995 for wastewater. However, as discussed below, we find that several adjustments to the utility's working capital balance are necessary.

As discussed previously, working capital was increased by \$125,309 for water and \$58,819 for wastewater in order to reflect the audit adjustments agreed to by the utility. As addressed subsequently, we are approving total rate case expense of \$151,475. Based on prior Commission practice, the average unamortized balance of the total allowed rate case expense is included in working capital.⁹ In its MFRs, Sanlando did not reflect any unamortized rate case expense balance for this docket. Thus, working capital shall be increased by \$55,481 for water and \$80,931 for wastewater.

Based on the above, the appropriate working capital allowance is \$295,976 (\$115,186 plus \$125,309 plus \$55,481) for water and \$431,745 (\$291,995 plus \$58,819 plus \$80,931) for wastewater. As such, working capital shall be increased by \$55,481 for water and \$80,931 for wastewater.

Rate Case for the December 31, 2005, Test Year

Consistent with other approved adjustments, the appropriate 13-month average rate base for the test year ending December 31, 2005 is \$4,011,116 for water and \$9,695,430 for wastewater. The approved schedules for rate base are shown on Schedules 1-A and 1-B, respectively; the adjustments are shown on Schedule 1-C, which are attached hereto and incorporated herein by reference.

COST OF CAPITAL

Return on Common Equity

The return on equity (ROE) included in the utility's filing is 11.78%. This return is based on the application of our leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 39.96%.¹⁰

⁹ See Order No. PSC-01-0326-FOF-SU, p. 40, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. and 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).

¹⁰ Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

As noted in Audit Finding No. 20, UI's average common equity balance of \$91,510,699 shall be adjusted upward by \$3,093,004 to \$94,603,703. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 39.96% to 40.77%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.77%, the appropriate ROE is 11.46%.¹¹ We approve an allowed range of plus or minus 100 basis points for ratemaking purposes.

Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we find it appropriate to approve a weighted average cost of capital of 8.36%. The weighted average cost of capital included in the utility's filing is 8.56%.

The test year per book amounts were taken directly from Sanlando's MFR filing Schedule D-2. Commission staff made specific adjustments to three components in the utility's proposed capital structure. As noted in Audit Finding No. 20, UI's average common equity balance shall be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt. Finally, Commission staff made an adjustment of \$135,573 to increase the balance of deferred income taxes.

In Audit Finding No. 21, staff auditors noted that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$17,623. Further, the auditors discovered that deferred taxes for intangible plant were understated by \$17,265 for state tax purposes and were understated by \$100,685 for federal tax purposes. Accordingly, we find that the balance of deferred taxes shall be increased by \$135,573, the total of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Commission staff revised the respective cost rates proposed by the utility. As discussed previously, the appropriate cost rate for common equity is 11.46%. In addition, Audit Finding No. 20 recommended an adjustment to the cost rates for long-term and short-term debt. The long-term debt cost rate was reduced from the utility proposed rate of 6.65% to 6.58%. The short-term cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we find it appropriate to approve a weighted average cost of capital of 8.36%. Our decision is detailed in Schedule No. 2, attached hereto and incorporated herein by reference.

¹¹ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

NET OPERATING INCOME

Pro Forma Miscellaneous Adjustment

In its filing, Sanlando reflected miscellaneous service revenue charges of \$10,833 for water and \$17,347 for wastewater. As discussed subsequently, we are approving \$21 for initial connections, normal reconnections, and premises visits during normal hours, which represent an increase of \$6 for the initial connections and normal reconnections and an increase of \$11 for the premises visits. In its response to Staff's Third Data Request, the utility stated that in the 2005 test year, it had 226 normal reconnections and 19 premise visits. Using the incremental increase from the approved charges and the historical reconnections and premise visits, we find it appropriate that miscellaneous service revenues of \$1,565 shall be imputed equally among water and wastewater. Accordingly, water and wastewater regulatory assessment fees (RAFs) shall both be increased by \$35.

WSC and UIF Allocated Expenses

On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of \$424,213 and taxes other than income of \$9,596. Sanlando also recorded total UIF allocated O&M expenses of \$38,449. As discussed below, we find that adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include approved audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies, (2) fiduciary policies protecting directors and officers, and (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above audit adjustments. Based on the above, we find that the appropriate WSC expenses, before any allocation, are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, the appropriate UIF O&M expenses before any allocation are \$266,650.

As discussed previously, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Sanlando are \$399,125 and \$18,383, respectively. As such, water and wastewater O&M expenses shall be decreased by \$14,217 and \$10,871, respectively, and water and wastewater taxes other than income shall be increased by \$4,979 and \$3,808, respectively. Further, the appropriate UIF O&M expenses for Sanlando are \$21,290 for water and \$16,281 for wastewater. As such, water and wastewater O&M expense shall be decreased by \$498 and \$381, respectively.

Pro Forma Salaries and Wages, Pensions and Benefits, and Payroll Taxes

On MFR Schedule B-5, Sanlando reflected historical water salaries and wages and pensions and benefits of \$400,586 and \$586,390, respectively. On MFR Schedule B-6, the utility reflected historical wastewater salaries and wages and pensions and benefits of \$129,447 and \$105,018, respectively. On MFR Schedule B-15, Sanlando reflected historical payroll taxes of \$48,118 for water and \$39,036 for wastewater.

On MFR Schedule B-3, the utility requested pro forma increases in water salaries and wages, pensions and benefits, and payroll taxes of \$61,999, \$5,863, and \$4,527, respectively, and requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$48,793, \$4,615, and \$3,563, respectively. The pro forma salaries and wages represent increases of 15.48% for water and 8.32% for wastewater. The pro forma pensions and benefits represent increases of 4.53% for water and 4.39% for wastewater.

In Staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than our 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees through September 2006. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to June 2006. The total average salaries from 2005 to 2006 increased \$74,616; however, we note that the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, we are unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982). We find that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 effect the respective rate cases.

On January 18, 2007, the utility hand delivered a two-page document reflecting the title and duties of two new employees. However, this document did not contain the annual salary for these two employees nor did it show the utility's calculation of how their respective salaries are allocated to UI's Florida subsidiaries. Further, the utility has not provided any information regarding any other employee changes from July 1, 2006, to the present.

As such, with the exception of Sandalhaven (a negative pro forma salary adjustment of \$573),¹² we find that the requested pro forma salary increases in UI's other respective rate cases are excessive. We note that the historical 5-year average salary increase of 4.51% is 177 basis points above our 2006 Price Index of 2.74%. With the exception of Sandalhaven, the pro forma salary increases in all of UI's respective cases shall be limited to the 4.51% above the 2005 historical salary amounts. We have previously limited pro forma salaries adjustments to a utility's historical average salary increases.¹³ Thus, Sanlando's salaries and wages shall be decreased by \$43,936 for water and \$22,352 for wastewater. Accordingly, pensions and benefits shall be reduced by \$26 for water and increased by \$120 for wastewater, respectively, and payroll taxes shall be reduced by \$2,357 and \$1,803 for water and wastewater, respectively.

Rate Case Expense

Sanlando included in its MFRs an estimate of \$170,338 for current rate case expense. Commission staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 29, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$229,143. The components of the estimated rate case expense are as follows:

	<u>MFR Estimated</u>	<u>Actual</u>	<u>Additional Estimated</u>	<u>Revised Total</u>
Legal and Filing Fees	\$56,300	\$32,588	\$49,750	\$82,338
Accounting Consultant Fees	49,840	42,076	7,719	49,795
Engineering Consultant Fees	5,000	3,207	4,275	7,482
Fees for Service Area Maps	0	3,310	0	3,310
WSC In-house Fees	41,600	28,975	14,533	43,508
Office Temp Fees	0	2,485	17,466	19,951
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	1,209	10,791	12,000
Notices	<u>2,398</u>	<u>7,559</u>	<u>0</u>	<u>7,559</u>
Total Rate Case Expense	<u>\$170,338</u>	<u>\$121,409</u>	<u>\$107,734</u>	<u>\$229,143</u>

Pursuant to Section 367.081(7), Florida Statutes, we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable.

¹² Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

¹³ By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., we limited pro forma salaries to the utility's actual historical average wage increases of 3%.

Also, it is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988). As such, we have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Rose, Sundstrom & Bentley, LLP (RS&B), the law firm representing Sanlando, reduced its invoice amounts by \$1,925 which were attributable to MFR deficiencies. However, based on Commission staff's review of invoices, RS&B's actual costs related to MFR deficiencies were \$2,351, which represents an additional \$426. AUS Consultants (AUSC), the utility's accounting consulting firm, and Management & Regulatory Consultants, Inc. (MRCI), Sanlando's engineering consultant, had actual costs of \$2,309 and \$313, respectively, for MFR deficiencies. Based on the descriptions for hours reflected on the timesheets provided by the utility, Ms. Weeks, a WSC employee, spent 7 hours or \$294 on MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.¹⁴ Accordingly, we find that \$3,342 (\$426 + \$2,309 + \$313 + \$294) shall be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the utility's estimated legal fees and expenses to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time associated with each item, only a total number of hours and the total cost. While the descriptions of the activities or tasks appeared reasonable, we had no basis to determine whether the individual hours estimated were reasonable. We reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As noted in the case background, UI currently has ten pending rate cases with this Commission. In eight out of the ten rate cases, the same 150 hour amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases.

Although the estimate to complete did not indicate the period of time it included, we made the assumption it included November 2006 through February 2007. This would allow time for reviewing the recommendation, attending the Agenda Conference, reviewing our PAA order, and submitting the appropriate customer notice and tariffs for approval. Using an estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, we are aware of numerous other pending dockets,

¹⁴ See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

including the other two remaining UI rate cases, and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours everyday exclusively for these eight rate cases. We do not find that this is a reasonable assumption.

As discussed above, it is the utility's burden to justify its requested costs. We find that 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. This is consistent with hours we allowed for completion in the 2004 Labrador Utilities, Inc. (Labrador) rate case.¹⁵ This amounts to \$11,000 of rate case expense, a reduction of \$30,250.

Further, there was no breakdown provided for the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, Commission staff calculated a travel allowance. We find that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the amount of travel expense we allowed for this law firm in the 2004 Labrador rate case supra. Travel expenses were calculated in the amount of \$389, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109), and a meal allowance (\$65), but we find it appropriate to approve \$414, consistent with the 2004 Labrador case. Further, because legal counsel was scheduled to also represent Lake Placid Utilities, Inc. (Docket No. 060260-WS) and Cypress Lakes Utilities, Inc., (Docket No. 060257-WS) at this same agenda, we find that travel expenses shall be allocated equally among these three cases. Therefore, \$138 is the appropriate travel expense. In addition to travel expense, Commission staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the Agenda. Thus, \$2,988 is a reasonable amount for miscellaneous disbursements. Therefore, disbursements shall be decreased by \$2,874 (\$6,000 - \$138 - \$2,988). Accordingly, we find it appropriate that rate case expense be decreased by \$33,124 (\$30,250 + \$2,874).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 34 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 30 hours to assist with and respond to data requests (10 hours for Commission staff discovery and 20 hours for OPC discovery) and four hours to prepare for and attend the Agenda. We find that four hours is a reasonable amount of time to prepare for and attend the Agenda in this docket. This is consistent with the hours we allowed for completion in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.¹⁶ However, after the MFR deficiencies, Commission staff did not send any discovery for

¹⁵ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

¹⁶ See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

which Mr. Seidman would be responsible. As such, we find it appropriate that ten hours shall be disallowed. Further, OPC had twenty-four questions in its discovery, and it is reasonable and appropriate that the utility respond to the production of document requests. Mr. Seidman has already reflected 7 actual hours in response to OPC discovery. As such, we find that the estimated 20 hours for OPC discovery is excessive, and that a total of 20 hours (7 actual hours and 13 estimated hours) is more reasonable to respond to OPC's questions. As such, we find that the estimated allowed hours shall be thirteen which represent a reduction of seven hours. Therefore, rate case expense shall be decreased by \$2,125 (17 hours x \$125).

The fourth adjustment addresses the utility's estimated \$32,037 of consultant fees for AUSC to complete the rate case. AUSC estimated 16.56 hours or \$3,064 for Mr. Fogelsanger and 24.50 hours or \$4,655 for Mr. Palko. The utility asserted that these estimated hours were to assist with data requests and audit facilitation. First, on November 29, 2006, Sanlando provided Commission staff with an update on AUSC's actual and estimated costs to complete this case. We note that AUSC had no actual costs from August 30, 2006 to November 29, 2006. Based on the types of questions in Commission staff's data requests subsequent to November 29, 2006, we find that the utility, with some assistance of its legal counsel, would be responsible for addressing them, not AUSC. Second, the staff audit report was issued on October 16, 2006, and the utility's response to this audit, in which most audit findings were agreed to, was filed on November 13, 2006. As such, there shall be no estimated hours related to the audit in this case. Third, according to MFR Schedule B-10, the type of services to be rendered by AUSC were only to assist with the MFRs, data requests and audit facilitation. Based on the above, we find that the utility has not met its burden to justify any of the \$7,719 estimated fees for AUSC to complete the rate case. Thus, rate case expense shall be decreased by \$7,719.

The fifth adjustment relates to WSC In-house and Office Temps fees. In its rate case expense update, the utility provided time sheets for WSC employees and invoices for the Office Temps who were assisting WSC. WSC's timesheet reflected 781.80 total actual hours for twelve employees, which totaled \$28,975. As stated earlier, we are disallowing 7 hours related to Ms. Weeks work on MFR deficiencies. Further, in January 2005, which represents approximately 14 months prior to the utility's test year request letter for this case, Ms. Weeks spent one hour or \$42 related to "Sanlando Hurricane Expenses." In addition, Mr. Dihel reflected 65 hours or \$2,015 for Sanlando's last index and pass-through application and reflected six hours or \$186 related to "Sanlando Roll Forward." We find that the utility has not met its burden of proof that these hours relate to the utility's current rate case. As such, the additional 72 hours or \$2,243 (\$42 + \$2,015 + \$186) shall be disallowed.

Furthermore, in its rate case expense update, the utility simply stated that the WSC employees estimated hours of 294.87 and the Office Temps estimated hours of 1,027.42, both related to assistance with data requests and audit facilitation. Using these hours, the utility asserted that the estimates of costs for WSC employees and Office Temps to complete the case are \$14,533 and \$17,466, respectively. We have several additional concerns regarding these estimated hours. First, as stated earlier, there shall be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours reflected in the actual hours. Second, in those cases where rate case expense has not been

supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.¹⁷ Third, based on the types of questions in staff's data requests subsequent to November 29, 2006, we find that the utility, with some assistance of its legal counsel, would be responsible for addressing them, not the Office Temps. A reasonable method to estimate WSC employee hours to complete the case is to utilize the average monthly hours of our adjusted actual hours. Using this method, we calculated an estimate for WSC employees to complete the case of 266.27 hours which represents a reduction of 28.60 hours or \$965. Thus, rate case expense shall be decreased by \$20,674 (\$2,243 + \$17,466 + \$965).

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. We find that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense we allowed for WSC in the 2004 Labrador rate case. On December 20, 2006, Commission staff calculated travel expenses of \$606, using the airfare for January 22, 2007 (\$333), current rental car rates (\$107), hotel rate from a website (\$86) and a meal allowance (\$80). We realize that estimated travel expenses are subject to change. Thus, consistent with the 2004 Labrador case, we find it appropriate to approve total travel expenses of \$750 for the January 23, 2007, Agenda Conference. Further, because WSC is also scheduled to be present on behalf of Lake Placid Utilities, Inc. and Cypress Lakes Utilities, Inc. at this same Agenda, we find that travel expenses shall be allocated equally among these three utilities. Therefore, \$250 is the appropriate travel expense. Accordingly, rate case expense shall be decreased by \$2,950.

The seventh adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$1,209 in costs from FedEx invoices for services through October 20, 2006. There was no breakdown or support for the remaining \$10,791. We are also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from this Commission to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), Florida Administrative Code. However, when a utility receives this authorization, it is required to reimburse this Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., we found the following: "The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988." We find that the requested amount of shipping

¹⁷ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, we removed the entire unsupported amounts.

costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc., to its law firm located in central Florida. Then, these are submitted to the Commission. We do not find it appropriate that the ratepayers bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and, therefore, they shall bear the related costs. Therefore, rate case expense shall be decreased by \$12,000.

The eighth adjustment relates to customer notices and postage thereof. The utility is requesting costs of \$5,446 for notices and \$2,113 for postage. Sanlando provided invoices totaling \$5,446 for copying costs of its initial, customer meeting, and interim notices for this case, and it included copying costs related to Docket No. 040384-WS, In re: Application by Sanlando Utilities, Corp. for amendment of water and wastewater certificates in Seminole County. We find that the \$1,050 cost of the notice for Docket No. 040384-WS is a non-recurring expense beyond the test year in this case and shall therefore be disallowed. Further, as the utility must also notice its customers of the final rate increase, rate case expense shall be increased by \$770 for the final notice. In its update of rate case expense, the utility did not provide any support for its postage. However, Sanlando has already sent out a combined initial notice and customer meeting notice, and an interim notice. Also, the utility will be sending a final notice. Based on a discussion with the utility, WSC presort service postage rate is \$0.341. Using the utility's total customer count and a unit cost of \$0.341 for the above-mentioned notices, we calculated the total postage for notices to be \$11,083. This represents an increase of \$8,970. Based on the above, rate case expense shall be increased by \$8,690 [(\$1,050) plus \$770 plus \$8,970].

In summary, we find that the utility's revised rate case expense shall be decreased by \$73,243 for MFR deficiencies, unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$155,900. A breakdown of rate case expense is as follows:

	<u>MFR Estimate</u>	<u>Utility Revised Actual & Estimate</u>	<u>Comm. Adjustment</u>	<u>Allowed Total</u>
Legal and Filing Fees	\$56,300	\$82,338	(\$33,550)	\$48,788
Accounting Consultant Fees	49,840	49,795	(10,027)	39,767
Engineering Consultant Fees	5,000	7,482	(2,438)	5,045
Fees for Service Area Maps	0	3,310	0	3,310
WSC In-house Fees	41,600	43,508	(3,502)	40,007
Office Temp Fees	0	19,951	(17,466)	2,484
Travel - WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>2,398</u>	<u>7,559</u>	<u>8,690</u>	<u>16,249</u>
Total Rate Case Expense	<u>\$170,338</u>	<u>\$229,143</u>	<u>(\$73,243)</u>	<u>\$155,900</u>
Annual Amortization Amounts	<u>\$42,585</u>	<u>\$57,286</u>	<u>(\$18,311)</u>	<u>\$38,975</u>

In its MFRs, the utility requested total rate case expense of \$170,338 which amortized over four years would be \$42,584. The utility actually included in its MFRs \$23,847 and \$18,737 for rate case expense in the test year for water and wastewater, respectively. The approved total rate case expense shall be amortized over four years, pursuant to Section 367.016, F.S. This represents annual amortization of \$38,975 (\$155,900 divided by four). Therefore, rate case expense shall be decreased by \$1,761 and \$1,848 for water and wastewater, respectively.

Adjustment to Pro Forma Amortization Expenses

In its MFRs, Sanlando reflected \$6,600 (\$33,000 divided by five years) amortization expense for painting the Des Pinar water tank, and \$24,600 (\$123,000 divided by five years) amortization expense for sanitary sewer cleaning. In a data request, Commission staff asked the utility to provide its supporting documentation regarding the above projects. Based on Sanlando's response to this data request, we find that adjustments are necessary for these projects.

Des Pinar Water Tank Painting Project

In response to a staff data request, the utility stated that this project included painting the exterior of two ground storage tanks, as well as the equipment building exterior. Sanlando asserted that the painting effort will protect and extend the service life of the facilities. However, the utility failed to provide any supporting documentation for the Des Pinar water tank painting project. Thus, due to lack of support documentation, we find that the water amortization expenses shall be reduced by \$6,600.

Sanitary Sewer Cleaning

In its response to a staff data request, the utility stated that, while the sanitary sewer cleaning was included in the MFRs as a deferred project, it is a recurring annual expense of \$123,000 or more and should be included as an adjustment to O&M expenses. According to Audit Finding No. 23, staff auditors stated that in 2005, Sanlando charged \$89,068 for the utility's continuing maintenance plan to televise, video, clean, and repair ten percent of its sanitary sewer pipes each year. The auditors also stated that, if the utility does not continue to expend a like amount for each succeeding year after the test year, the associated O&M expense in the MFRs may be overstated. In its response to the audit, Sanlando asserted that the amount spent from January 2006 through November 2006 for sewer main cleaning was \$134,422, based on its general ledger. As such, the utility proposes that a pro forma adjustment in the amount of \$50,000 over test year O&M expenses should be made to account for sewer main cleaning on a going forward basis.

In its response to a staff data request, Sanlando provided invoices which it stated would support an annual amount for cleaning the sewer mains. Based on a review of these invoices, there were only two invoices totaling \$121,930 associated with the utility's continuing maintenance plan for its sanitary sewer pipes. The other invoices related to cleaning several lift stations and a few apparent emergency sewer main cleanings of specific areas of its collection system. Based on the above, we find that the wastewater amortization expense shall be decreased by \$24,600 and that the wastewater O&M expense shall be increased by \$32,862 (\$121,930 less \$89,068).

Adjustment to Property Taxes

On MFR Schedule B-15, the utility reflected per book property taxes of \$89,396 for water and \$122,895 for wastewater. In its MFRs, Sanlando did not adjust its property taxes for its pro forma plant additions. As discussed previously, we have approved pro forma net plant additions of \$1,120,212 for water and \$851,333 for wastewater. In order to reflect a corresponding increase in property taxes as a result of the approved pro forma net plant additions, we also find that property taxes shall be increased by \$18,339 for water and \$13,950 for wastewater.

Test Year Pre-Repression Water and Wastewater Operating Income

As shown on Schedule 3-A and 3-B, attached hereto and incorporated herein by reference, after applying our adjustments, pre-repression net operating income before any revenue increase is \$94,186 for water and \$414,413 for wastewater. Our adjustments to pre-repression operating income are shown on Schedule 3-C, attached hereto and incorporated herein by reference.

REVENUE REQUIREMENT

Pre-Repression Test Year Revenue Requirement

Sanlando requested final rates designed to generate annual water revenues of \$2,506,862 and wastewater revenues of \$4,023,154. This represents a revenue increase of \$420,905 (20.17%) for water and \$691,470 (20.75%) for wastewater. Consistent with our decisions herein concerning the underlying rate base, cost of capital, and operating income issues, we find it appropriate to approve rates that are designed to generate a pre-repression revenue requirements of \$2,491,321 for water and \$3,996,861 for wastewater. The approved revenue requirements exceed adjusted test year revenues by \$404,581 or 19.39% for water and \$664,394 or 19.94% for wastewater. The approved pre-repression revenue requirement will allow the utility the opportunity to recover its expenses and earn an 8.36% return on its investment in wastewater rate base.

RATES AND CHARGES

Rate Structure for Water and Wastewater Systems

The utility's current water system rate structure for the residential class consists of a base facility charge (BFC)/uniform gallonage rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$4.25 per month. The usage charge prior to filing was \$0.44 per kgal.

Sanlando is located in Seminole County within the St. Johns River Water Management District (SJRWMD or District). The entire District has been designated a water resource caution area. Furthermore, approximately 39% of SJRWMD, including the Sanlando service area, are identified as priority water resource caution areas. These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems. In 1991, this Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy.

Water Rates – Commission staff performed a detailed analysis of the utility's billing data. Based on this analysis, we find that it is appropriate to implement an inclining block rate structure for this utility's residential rate class. During the 2005 test year, average residential consumption was 19.5 kgal/month, with approximately 18% of residential customers consuming over 30 kgal/month. This level of usage is indicative of a very high level of discretionary, or non-essential, usage that is relatively sensitive to price increases. Therefore, in light of the SJRWMD's desire to reduce water consumption in this area, we find that it is appropriate to implement an inclining block rate structure for this utility in order to encourage water conservation.

Commission staff performed additional analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that 1) allow the utility to recover its revenue requirement, 2) equitably distribute cost recovery among the utility's customers, and 3) implement where appropriate water conserving rate structures consistent with our MOU with the state's WMDs.

To increase the water-conserving nature of the rate structure, we find it appropriate to allocate the entire increase in water system revenue requirements to the gallonage charge, and that the BFC shall remain unchanged at \$4.25 for a 5/8" x 3/4" meter customer. By shifting cost recovery to the water system gallonage charge while holding the BFC constant, we are able to design a more effective water conserving rate structure. Furthermore, by setting the rate factors at 1.0 and 2.0 for the two usage blocks, we are able to target the water conserving rate structure to customers who use more than 10 kgal/month while minimizing price increases to customers who use less.

The traditional BFC/uniform gallonage charge rate structure has been this Commission's water rate structure of choice for nonresidential customer classes. The uniform gallonage charge shall be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This shall be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

Allocation of Reuse Costs – Traditionally, costs associated with the provision of water service are allocated to the water customers, and those associated with the provision of wastewater service are allocated to the wastewater customers. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs shall be shared by the water customers.

Section 367.0817, Florida Statutes, sets forth our authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. Specifically, Section 367.0817(3), Florida Statutes, states:

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

This provision recognizes that all customers benefit from the water resource protection afforded by reuse.

Determining how much of the wastewater revenue requirement shall be allocated to the water customers is difficult given the discretionary nature of Section 367.0817, Florida Statutes. Although the statute acknowledges that reuse benefits water, wastewater and reuse customers, there is no guidance in the statute as to how to measure these benefits. In addition, the statute does not state when it is appropriate to undertake such an allocation or how much shall be allocated. These decisions are left solely to our discretion.¹⁸ Different criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: (1) recognition of perceived benefit, (2) average usage of the water customers, (3) the level of water rates, (4) the magnitude of the wastewater revenue increases, and (5) the need to send a stronger price signal to achieve water conservation.¹⁹

In this case, analysis also showed that average residential consumption per customer is 19.553 kgal per month. This level of consumption indicates that there is a very high level of discretionary, or non-essential, consumption. Absent any rate design or reuse allocation adjustment, the rates would be \$4.25 for a 5/8" x 3/4" meter, with a gallonage charge of \$.61 per kgal. These rates do not represent meaningful conservation rates.

Due to the high average monthly usage per residential customer, low rates and the need to send a strong price signal to the customers to achieve conservation, we find it appropriate that \$500,000 of the wastewater system revenue requirement associated with the reuse facilities shall be shifted to the gallonage charge portion of the water rate structure. This is a step toward a more aggressive water conservation rate structure geared to target those users with high levels of discretionary consumption. We have taken similar approaches in prior cases involving shifting a portion of reuse revenues to the water system. Furthermore, if we were to continue Sanlando's current water rate structure and low rates, it would send an adverse signal to the utility's customers. At a time when the utilities in the state need to encourage customers to conserve water, it would be inappropriate not to utilize all means possible to create incentives for customers to use less water.

Wastewater Rates – The utility's current wastewater system rate structure consists of a BFC/gallonage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$11.35 per month. The corresponding monthly gallonage charge for residential service was \$1.51, capped at 10 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at \$1.82 per kgal, with no usage cap.

A consequence of shifting \$500,000 of the wastewater system revenue requirement to the water system is that the resulting increase to the wastewater system was decreased to 4.9%. We find it appropriate that, due to the small percentage increase, the wastewater rates prior to filing shall be increased by 4.9% across the board to yield the approved rates.

¹⁸ Order No. PSC-96-1147-FOF-WS, issued September 12, 1996 in Docket No. 951258-WS, In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division), p. 47.

¹⁹ Order No. PSC-02-1111-PAA-WS, issued August 13, 2002 in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley, p. 33.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a change to a two-tier inclining-block rate structure. The appropriate usage blocks are for monthly usage of 0-10 kgal in the first usage block, and in excess of 10 kgal in the second usage block. The appropriate rate factors are 1.0 and 2.0, respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system shall be set at 30.3%. The entire water system revenue increase shall be applied to the gallonage charge. In addition, \$500,000 of the wastewater system revenue requirement associated with the reuse facilities shall be reallocated to the water system's gallonage charge. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap shall be set at 10 kgal. The wastewater rates prior to filing shall receive an across the board percentage increase of 4.9%.

Repression Adjustments

Commission staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that a very small portion (4.7%) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that the bulk of the customer base of the utility are full time residents. This analysis also showed that average residential consumption per customer was 19.553 kgal per month. This level of consumption indicates that there is a very high level of discretionary, or non-essential, consumption of approximately 13.553 kgal per customer per month. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this utility based upon the approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases. Based on this methodology, test year residential consumption for this utility shall be reduced by 176,292 kgal., purchased power expense shall be reduced by \$32,727, chemicals expenses shall be reduced by \$5,415, and RAFs shall be reduced by \$1,797. The final post-repression revenue requirement for the water system shall be \$2,939,855. No repression adjustment to the wastewater system shall be made because it is immaterial. The final revenue requirement for the wastewater system shall be \$3,496,864.

In order to monitor the effect of the rate changes, the utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with Commission staff, on a quarterly basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision.

Monthly rates for Water and Wastewater Systems

The appropriate pre-repression revenue requirements, excluding miscellaneous service charges, are \$2,979,794 for the water system and \$3,496,864 for the wastewater system. As discussed previously, we have found that the appropriate rate structure for the water system's residential class is a two-tier inclining-block rate structure, with monthly usage blocks of 0-10 kgal for the first block, and usage in excess of 10 kgal for the second block. The usage block rate factors shall be 1.0 and 2.0, respectively. The BFC cost recovery percentage shall be set at 30.3%, causing the utility's BFC for a 5/8" x 3/4" meter customer to remain unchanged from the corresponding rate prior to filing. The traditional BFC/uniform gallonage charge rate structure shall be applied to all non-residential rate classes. As also discussed previously, the residential wastewater gallonage cap shall remain at 10 kgal, and the rates prior to filing shall receive an across-the-board increase of 4.9% to achieve the approved revenue requirement. As discussed previously, a repression adjustment shall be made to the water system. Applying these rate designs and repression adjustments to the approved pre-repression revenue requirements results in the final rates contained in Schedules No. 4-A and No. 4-B, attached hereto and incorporated herein by reference. These rates are designed to recover a post-repression revenue requirement for the water system of \$2,939,855, and a post-repression revenue requirement for the wastewater system of \$3,496,864.

The utility shall file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved wastewater rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The approved wastewater rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, and our approved water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively.

Reuse Rates

Sanlando's current reuse end-users include golf courses, a plant nursery, and the City of Altamonte Springs. In Staff's Fourth Data Request, the utility was asked to explain why it was not charging any of these reuse end-users. In its response, Sanlando stated the following:

The absence of a reuse rate avoids having an impediment to the use of reclaimed water, which is an operational advantage over using alternative disposal sites. If these large reuse customers were forced to pay for reuse, then their reclaimed water use on an annualized basis would be repressed. In anticipation of this repression, the Utility would need to build additional storage tanks, develop additional reuse customers, and/or discharge more frequently and for greater duration into Sweetwater Creek. Since Sweetwater Creek is tributary to the Wekiva River, and because the Wekiva River Protection Act limits the amount of nitrogen that can be discharged, this may not be a viable option.

In order to avoid the possibility of significant capital expenditures resulting from repressed reclaimed water usage, we find it appropriate that no rate shall be established for these large reuse end-users at this time. We have previously authorized no charges for large reuse end-users in order to recognize the mutual benefit for the utility as a disposal means for its wastewater effluent and the end-users' need for irrigation.²⁰

Although we find that no charge is appropriate in this proceeding for these large reuse end-users, a rate may be appropriate in the future. In United Water Florida Inc.'s 1998 rate proceeding,²¹ we stated, "We believe from a policy standpoint that reclaimed water should be regarded as a valuable resource for which a charge should apply when possible." Thus, the utility is encouraged to begin negotiating with its large reuse end-users regarding charging for this service in the future. Further, within twelve months of the effective date of the final order in this docket, the utility shall submit a report outlining the results of its negotiations with its large reuse end-users and provide a copy of all corresponding related to those negotiations.

As discussed previously, the utility is basically at build-out. Thus, retrofitting of the existing customers' irrigation systems would be required. Because retrofitting can be capital intensive, we do not find it appropriate to approve any change for the existing customers. However, according to Schedule S-13 of Sanlando's 2005 annual report, the utility stated that the Gallimore subdivision consisting of 112 residential units would be developed with reuse facilities. In its response to a staff data request, the utility expressed a desire for a residential reuse tariff.

In determining the appropriate amount for the BFC and gallonage charges, we considered the average reuse charge of utilities in Seminole County with the same residential reuse BFC and gallonage charge structure. According to DEP's 2005 Reuse Inventory report issued June 2006, the average BFC was \$6.10 with a range from \$3.65 to \$8.55, and the average gallonage charge was \$0.39 per thousand gallons with a range of \$0.25 to \$0.54. Based on the above, we find that a BFC of \$3.65 and a gallonage charge of \$0.39 per thousand gallons is reasonable and is therefore approved. We note that, at the January 23, 2007, Agenda Conference, we approved these exact same reuse rates for Alafaya Utilities, Inc., which is also in Seminole County and is Sanlando's sister company. Further, as approved subsequently in this order, we are approving a water and reuse meter installation fee of \$150.

The utility shall file tariff sheets which are consistent with our decision within 30 days from the vote. The tariff sheets shall be approved upon Commission staff's verification that the tariffs are consistent with our decision. The approved rates shall be effective for service

²⁰ See Order No. PSC-00-0582-TRF-SU, pp. 3-4, issued March 22, 2000, in Docket No. 990684-SU, In re: Notice of filing Tariff Sheet No. 13.1 to implement reuse service in Sumter County by Little Sumter Utility Company. And Order No. PSC-96-1320-FOF-WS, pp. 237-238, issued October 30, 1996 in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

²¹ See Order No. PSC-99-0513-FOF-WS, p. 68, issued March 12, 1999, in Docket No. 980214-WS, In re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc.

rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

Miscellaneous Service Charges

Miscellaneous service charges were approved for Sanlando on March 8, 1999, and have not changed since that date. The utility’s approved charges are the same as the standard charges that we have approved since at least 1990 – a period of 16 years. We find that these charges shall be updated to reflect current costs. The utility agrees with this update. Accordingly, Sanlando shall be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility requires multiple actions. The current and approved charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Commission Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	\$15	N/A	\$21	\$42
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Commission Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

The standard miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 60% in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order

No. PSC-96-1320-FOF-WS, issued October 30, 1996,²² we expressed “concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs” and directed Commission staff to “examine whether miscellaneous service charges should be indexed in the future and included in index applications.” Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, Florida Administrative Code. However, few utilities request that their miscellaneous service charges be indexed. Commission staff applied the approved price indices from 1990 through 2005 to Sanlando’s \$15 miscellaneous service charge, and the result was a charge of \$21.00. Therefore, we find that a \$21 charge is reasonable, cost based, and consistent with our decisions. (See Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,²³ and Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,²⁴ in which we approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for Mad Hatter Utility, Inc.)

Sanlando’s current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. We find that the “Premises Visit In Lieu of Disconnection” charge shall be replaced with what will be called a “Premises Visit.” In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer’s request for a complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), Florida Administrative Code. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,²⁵ we approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for complaint and the problem is found to be the customer’s responsibility. Based on the foregoing, we find it appropriate to eliminate the Premises Visit (in lieu of disconnection), and find it reasonable to approve a Premises Visit charge.

In summary, we find it appropriate to approve the utility’s miscellaneous service charges of \$21 and after hours charges of \$42, because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. Within ten days of the date the order is final, the utility shall provide notice of the tariff

²² Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

²³ Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

²⁴ Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

²⁵ Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

changes to all customers. The utility shall provide proof the customers have received notice within ten days after the date the notice was sent.

No Refund of Interim Increase Required

By Order No. PSC-06-0671-FOF-WS, issued August 7, 2006, we approved an interim revenue requirement of \$2,098,272 for water and \$3,431,093 for wastewater. This represents an increase of \$12,315 or 0.59% for water and \$99,409 or 2.98% for wastewater. The interim collection period is September 2006 through January 2007.

According to Section 367.082, Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2005. Sanlando's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, we calculated interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, because the revenue requirements of \$2,098,272 for water and \$3,431,093 for wastewater granted in Order No. PSC-06-0671-FOF-WS, for the interim test year is less than the revenue requirements for the interim collection period of \$2,468,194 for water and \$3,979,176 for wastewater, no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released.

Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$23,126 for water and \$17,685 for wastewater. The decreased revenue will result in the rate reduction as shown approved on Schedule Nos. 4-A and 4-B.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until Commission staff has approved

the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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 for the reduction in the rates due to the amortized rate case expense.

OTHER ISSUES

Appropriate Meter Installation Fees for Water and Reuse Customers

The utility currently has an authorized water meter installation fee of \$60 and \$110 for a 5/8"x3/4" and 1" meters, respectively. In its response to a staff data request, Sanlando stated that the new Gallimore subdivision is currently under construction and that no meters have been installed. The utility asserted that the cost to install 5/8"x3/4" meter would be \$150, which includes labor and materials and that the cost to install meters greater than 5/8"x3/4" should be at actual cost. We have approved a meter installation fee of \$250 by Order No. PSC-03-0740-PAA-WS,²⁶ issued June 23, 2003, and a \$200 fee by Order No, PSC-04-1256-PAA-WU,²⁷ issued December 20, 2004, for 5/8"x3/4" meters. In addition, a \$190 fee was approved by Order No. PSC-02-1831-TRF-WS,²⁸ issued December 20, 2002. Therefore, we find it appropriate to authorize Sanlando to collect water and reuse meter installation fees of \$150 for 5/8"x3/4" meter and actual cost for meters greater than 5/8"x3/4".

The utility shall file a proposed customer notice to reflect the charges approved herein. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. Within 10 days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within 10 days after the date that the notice was sent.

Initiating Show Cause Proceedings

Rule 25-30.116(1)(d)5., Florida Administrative Code, states:

When the construction activities for an ongoing project are expected to be suspended for a period exceeding six (6) months, the utility shall notify the Commission of the suspension and the reason(s) for the suspension, and shall submit a proposed accounting treatment for the suspended project.

²⁶ Docket No. 021067-WS, In re: Application for staff assisted rate case in Polk County by River Ranch Water Management, L.L.C.

²⁷ Docket No. 041040-WU, In re: Application for certificate to operate water utility in Baker and Union Counties by B & C Water Resources, L.L.C.

²⁸ Docket No. 020388-WS, In re: Request for approval to increase meter installation fees to conform to current cost in Lake County by Sun Communities Finance, LLC d/b/a/ Water Oak Utility.

As discussed previously, we are approving a pro forma water plant increase of \$1,178,493 for the utility's electric control upgrade project. According to the support documentation provided for this project, the first invoice of \$40,165 was dated June 22, 2004, and the second invoice of \$4,877 was dated April 26, 2005. Based on these invoice dates, it appears the utility had suspended this project for approximately 10 months. However, the utility did not notify the Commission of this project's suspension, nor did it submit a proposed accounting treatment, as required by Rule 25-30.116(1)(d)5., Florida Administrative Code.

In response to staff's first inquiry, the Vice President of Operations in Florida (VPOF) stated that the 10-month suspension reflected the completion of the work at the Des Pinar water treatment plant (WTP) and the start-up of the work at the Wekiva WTP. The VPOF asserted that, due to the size and complexity of the Wekiva WTP design as well as the impact of Hurricane Katrina on the costs of materials, the portion of the project associated with Wekiva WTP was reexamined in an effort to verify the cost effectiveness of the design. Based on this initial response, it appeared that the work on the Des Pinar WTP was completed in June 2004. However, upon a further data request from the corporate office personnel of the utility's parent, UI stated that the work on the Des Pinar WTP was not completed until January 2006. UI also asserted that the invoices for this work totaled \$169,688 and that this amount remained in construction work in progress and accrued as AFUDC.

As stated above, the work on the Des Pinar plant was completed almost one year before the Wekiva plant. Because the work on each plant was independent of one another, the utility is encouraged not to combine projects like this one, but rather to separate them as one project for each independent purpose. By separating them into distinct projects, it should avoid the likelihood of any excessive AFUDC accrual. As discussed previously, we approved the appropriate amount of AFUDC for this project in accordance with Rule 25-30.116, Florida Administrative Code. Thus, Sanlando will not realize a return on any unwarranted AFUDC resulting from the suspension of the electric control upgrade project.

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to notify this Commission of this project's suspension and to submit a proposed accounting treatment, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., having found that the company had not intended to violate the rule, we nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

We realize that there are going to be numerous plant projects to keep track of for such a large water system like Sanlando's. However, Sanlando's parent, UI, is a very large and sophisticated company providing water and wastewater service to customers in several states,

and, as such, should be more cognizant of our rules than the smaller water and wastewater companies. UI's continued pattern of disregard for the Commission's rules, statutes, and orders warrants more than just a warning.

Based on the above, we find it appropriate that Sanlando shall show cause in writing, within 21 days, why it should not be fined a total of \$500 for its apparent violation noted above. The show cause order incorporates the following conditions:

1. The utility's response to the show cause order shall contain specific allegations of fact and law;
2. Should Sanlando file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), Florida Statutes, a further proceeding will be scheduled before a final determination of this matter is made;
3. A failure to file a timely written response to the show cause order shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
4. In the event that Sanlando fails to file a timely response to the show cause order, the fine shall be deemed assessed with no further action required by the Commission;
5. If the utility responds timely but does not request a hearing, a recommendation shall be presented to the Commission regarding the disposition of the show cause order; and
6. If the utility responds to the show cause order by remitting the fine, this show cause matter shall be considered resolved.

Further, the utility is put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, Florida Statutes.

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decisions herein, Sanlando shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Sanlando Utilities Corp.'s application for increase in water and wastewater rates is approved as set forth herein. Sanlando Utilities Corp. is hereby authorized to charge the new water, wastewater, and service charges as set forth in the body of this order. It is further

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 schedules attached hereto are incorporated herein by reference. It is further

ORDERED that in order to monitor the effect of the rate structure and rate changes, Sanlando Utilities Corp. shall file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with Commission staff, on a quarterly basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, it shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that Sanlando Utilities Corp. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the rates approved herein for the water and wastewater systems. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The approved rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that no rate shall be established for Sanlando Utilities Corp.'s large reuse end-users at this time. However, the utility is encouraged to begin negotiating with its large reuse end-users regarding charging for this service in the future. Within twelve months of the effective date of the final order in this docket, the utility shall submit a report outlining the results of its negotiations with its large reuse end-users and provide a copy of all corresponding related to those negotiations. It is further

ORDERED that Sanlando Utilities Corp. shall file tariff sheets which are consistent with our decision with respect to reuse rates and charges within 30 days from the vote. The tariff sheets shall be approved upon Commission staff's verification that the tariffs are consistent with our decision herein. 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. It is further

ORDERED that Sanlando Utilities Corp. is authorized to revise its miscellaneous service charges as set forth herein. The utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. Within 10 days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within 10 days after the date that the notice was sent. It is further

ORDERED that no refund of interim rates is required. It is further

ORDERED that upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$23,126 of water rate case expense and \$17,685 of wastewater rate case expense, grossed-up for regulatory assessment fees. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. Sanlando Utilities Corp. shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Sanlando Utilities Corp. shall be authorized to collect water and reuse meter installation fees of \$150 for a 5/8"x3/4" meter and actual cost for meters greater than 5/8"x3/4". The utility shall file a proposed customer notice to reflect the charges approved herein. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by Commission staff. Within 10 days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within 10 days after the date that the notice was sent. It is further

ORDERED that Sanlando Utilities Corp. is hereby ordered to show cause in writing, within 21 days, why it should not be fined a total of \$500 for its apparent violation of Rule 25-30.116(1)(d)5., Florida Administrative Code. The order to show cause shall incorporate the conditions set forth herein. It is further

ORDERED that Sanlando Utilities Corp. shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, 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 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 if no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order shall be issued and the corporate undertaking released. However, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

By ORDER of the Florida Public Service Commission this 6th day of March, 2007.

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

By: 

Ann Cole, Chief
Bureau of Records

(S E A L)

JSB

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.

The show cause portion of this Order is preliminary, procedural or intermediate in nature. Any person whose substantial interests are affected by this Show Cause Order may file a response within 21 days of issuance of the Show Cause Order as set forth herein. This response must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 27, 2007.

Failure to respond within the time set forth above shall constitute an admission of all facts and a waiver of the right to a hearing and a default pursuant to Rule 28-106.111(4), Florida Administrative Code. Such default shall be effective on the day subsequent to the above date.

If an adversely affected person fails to respond to the show cause portion of this Order within the time prescribed above, that party may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 of the effective date of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure.

As identified in the body of this Order, our action herein, except for the initiation of show cause proceedings, the four-year rate reduction, and proof of adjustment of books and records, 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 March 27, 2007. 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 concerning the four-year rate reduction and proof of adjustment of books and records may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, 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 and/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.

Sanlando Utilities Corp.

Attachment A
Page 1 of 3

Water Treatment System With Storage
Used and Useful Analysis

1	Firm Reliable Capacity		9,913,680 gpd
2	Demand		12,360,000 gpd
	a Maximum Day	12,360,000 gpd	
	b 5 Max Day Average	11,378,000 gpd	
	c Average Daily Flow	7,809,847 gpd	
3	Excessive Unaccounted for Water = a-b		0 gpd
	a Total Unaccounted for Water (7.67%)	599,203 gpd	
	b 10% of Average Daily Flow	780,985 gpd	
4	Required Fire Flow		150,000 gpd
5	Growth = ((2/5a) X 5b X 5 yrs)		284,280 gpd
	a Average Test Year Customers	11,117 ERCs	
	b Annual Customer Growth	51	
6	Used and Useful = (2 - 3 + 4 + 5)/1		100+%

Sanlando Utilities Corp.

Attachment A
Page 2 of 3

Wekiva Wastewater Treatment System
Used and Useful Analysis

1	Permitted Capacity (AADF)		2,900,000 gpd
2	Demand (AADF)		2,160,641 gpd
3	Excessive Infiltration and Inflow		0 gpd
	a Water demand per ERC	573 gpd	
	b AADF per ERC	280 gpd	
4	Growth = ((2/4a) X 4b X 5 yrs.)		34,586 gpd
	a Average Test Year Customers	7,728 ERCs*	
	b Customer Growth	24.7 ERCs	
5	Used and Useful = (2 - 3 + 4)/1		76%use100%

Sanlando Utilities Corp.

Attachment A
Page 3 of 3

Des Pinar Wastewater Treatment System
Used and Useful Analysis

1	Permitted Capacity (AADF)		500,000 gpd
2	Demand (AADF)		345,112 gpd
3	Excessive Infiltration and Inflow		0 gpd
	a Water demand per ERC	573 gpd	
	b AADF per ERC	280 gpd	
4	Growth = ((2/4a) X 4b X 5 yrs)		0 gpd
	a Average Test Year Customers	1258 ERCs*	
	b Customer Growth	Built Out	
5	Used and Useful = (2 - 3 + 4)/1		69% use 100%

Sanlando Utilities Corp. Schedule of Water Rate Base Test Year Ended 12/31/05				Schedule No. 1-A Docket No. 060258-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- Ments	Comm. Adjusted Test Year
1 Plant in Service	\$15,392,075	\$455,549	\$15,847,624	(\$77,861)	\$15,769,763
2 Land and Land Rights	123,772	0	123,772	(33,460)	90,312
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(8,283,471)	(21,327)	(8,304,798)	206,528	(8,098,270)
5 CIAC	(11,463,717)	0	(11,463,717)	582,949	(10,880,768)
6 Amortization of CIAC	7,208,315	0	7,208,315	(374,213)	6,834,103
7 Working Capital Allowance	<u>115,186</u>	<u>0</u>	<u>115,186</u>	<u>180,790</u>	<u>295,976</u>
8 Rate Base	<u>\$3,092,160</u>	<u>\$434,222</u>	<u>\$3,526,382</u>	<u>\$484,734</u>	<u>\$4,011,116</u>

Sanlando Utilities Corp. Schedule of Wastewater Rate Base Test Year Ended 12/31/05				Schedule No. 1-B Docket No. 060258-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- Ments	Comm. Adjusted Test Year
1 Plant in Service	\$22,423,326	\$1,086,168	\$23,509,494	(\$439,833)	\$23,069,661
2 Land and Land Rights	202,552	0	202,552	0	202,552
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(10,546,485)	171,623	(10,374,862)	114,110	(10,260,752)
5 CIAC	(12,337,150)	0	(12,337,150)	698,756	(11,638,394)
6 Amortization of CIAC	8,278,582	0	8,278,582	(387,964)	7,890,619
7 Working Capital Allowance	<u>291,995</u>	<u>0</u>	<u>291,995</u>	<u>139,750</u>	<u>431,745</u>
8 Rate Base	<u>\$8,312,820</u>	<u>\$1,257,791</u>	<u>\$9,570,611</u>	<u>\$124,819</u>	<u>\$9,695,430</u>

Sanlando Utilities Corp.		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 060258-WS	
Test Year Ended 12/31/05			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(\$413,782)	(\$275,180)	
2 To included the appropriate net WSC rate base. (Issue 3)	13,600	9,020	
3 To reflect the appropriate allocated plant from UIF. (Issue 3)	(92,400)	(48,065)	
4 To reflect the appropriate amount of pro forma plant. (Issue 5)	<u>414,721</u>	<u>(125,609)</u>	
Total	<u>(\$77,861)</u>	<u>(\$439,833)</u>	
<u>Land</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(\$6,800)	\$0	
2 Remove land sold. (Issue 4)	<u>(26,660)</u>	<u>0</u>	
Total	<u>(\$33,460)</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	\$90,243	\$59,654	
2 To reflect the appropriate allocated plant from UIF. (Issue 3)	42,630	28,161	
3 To reflect the appropriate amount of pro forma plant. (Issue 5)	<u>73,655</u>	<u>26,294</u>	
Total	<u>\$206,528</u>	<u>\$114,110</u>	
<u>CIAC</u>			
To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	<u>\$582,949</u>	<u>\$698,756</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	<u>(\$374,213)</u>	<u>(\$387,964)</u>	
<u>Working Capital</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	\$125,309	\$58,819	
2 To reflect the appropriate working capital allowance. (Issue 7)	<u>55,481</u>	<u>80,931</u>	
Total	<u>\$180,790</u>	<u>\$139,750</u>	

Sanlando Utilities Corp. Capital Structure-13-Month Average Test Year Ended 12/31/05						Schedule No. 2 Docket No. 060258-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$125,564,135)	\$7,460,967	56.97%	6.65%	3.79%
2 Short-term Debt	4,522,923	0	4,522,923	(4,269,813)	253,110	1.93%	5.01%	0.10%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	91,510,699	0	91,510,699	(86,376,546)	5,134,153	39.20%	11.78%	4.62%
5 Customer Deposits	123,053	0	123,053	0	123,053	0.94%	6.00%	0.06%
6 Deferred Income Taxes	<u>125,710</u>	<u>0</u>	<u>125,710</u>	<u>0</u>	<u>125,710</u>	<u>0.96%</u>	<u>0.00%</u>	<u>0.00%</u>
10 Total Capital	<u>\$229,307,487</u>	<u>\$0</u>	<u>\$229,307,487</u>	<u>(\$216,210,494)</u>	<u>\$13,096,993</u>	<u>100.00%</u>		<u>8.56%</u>
Per Commission								
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$125,387,427)	\$7,637,675	55.72%	6.58%	3.66%
12 Short-term Debt	4,522,923	(119,308)	4,403,615	(4,150,780)	252,835	1.84%	5.14%	0.09%
13 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	91,510,699	3,093,004	94,603,703	(89,172,003)	5,431,700	39.63%	11.46%	4.54%
15 Customer Deposits	123,053	0	123,053	0	123,053	0.90%	6.00%	0.05%
16 Deferred Income Taxes	<u>125,710</u>	<u>135,573</u>	<u>261,283</u>	<u>0</u>	<u>261,283</u>	<u>1.91%</u>	<u>0.00%</u>	<u>0.00%</u>
20 Total Capital	<u>\$229,307,487</u>	<u>\$3,109,269</u>	<u>\$232,416,756</u>	<u>(\$218,710,210)</u>	<u>\$13,706,546</u>	<u>100.00%</u>		<u>8.36%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>	
OVERALL RATE OF RETURN						<u>7.96%</u>	<u>8.75%</u>	

Sanlando Utilities Corp. Statement of Water Operations Test Year Ended 12/31/05						Schedule No. 3-A Docket No. 060258-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$2,052,465</u>	<u>\$454,397</u>	<u>\$2,506,862</u>	<u>(\$420,123)</u>	<u>\$2,086,740</u>	<u>\$404,581</u> 19.39%	<u>\$2,491,321</u>
Operating Expenses							
2 Operation & Maintenance	1,408,097	198,023	1,606,120	(110,443)	1,495,677		1,495,677
3 Depreciation	181,254	44,929	226,183	47,074	273,257		273,257
4 Amortization	5,313	6,600	11,913	(10,281)	1,632		1,632
5 Taxes Other Than Income	227,119	27,731	254,850	2,588	257,438	18,206	275,645
6 Income Taxes	<u>35,074</u>	<u>70,688</u>	<u>105,762</u>	<u>(141,213)</u>	<u>(35,451)</u>	<u>145,393</u>	<u>109,942</u>
7 Total Operating Expense	<u>\$1,856,857</u>	<u>\$347,971</u>	<u>\$2,204,828</u>	<u>(\$212,274)</u>	<u>\$1,992,554</u>	<u>\$163,599</u>	<u>\$2,156,153</u>
8 Operating Income	<u>\$195,608</u>	<u>\$106,426</u>	<u>\$302,034</u>	<u>(\$207,848)</u>	<u>\$94,186</u>	<u>\$240,982</u>	<u>\$335,168</u>
9 Rate Base	<u>\$3,092,160</u>		<u>\$3,526,382</u>		<u>\$4,011,116</u>		<u>\$4,011,116</u>
10 Rate of Return	<u>6.33%</u>		<u>8.56%</u>		<u>2.35%</u>		<u>8.36%</u>

Sanlando Utilities Corp. Statement of Wastewater Operations Test Year Ended 12/31/05						Schedule No. 3-B Docket No. 060258-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$3,287,485</u>	<u>\$735,669</u>	<u>\$4,023,154</u>	<u>(\$690,688)</u>	<u>\$3,332,467</u>	<u>\$664,394</u> 19.94%	<u>\$3,996,861</u>
Operating Expenses							
2 Operation & Maintenance	1,997,793	186,685	2,184,478	(2,710)	2,181,768		2,181,768
3 Depreciation	291,577	50,953	342,530	33,485	376,015		376,015
4 Amortization	2,205	24,600	26,805	(24,600)	2,205		2,205
5 Taxes Other Than Income	305,428	41,108	346,536	(15,454)	331,082	29,898	360,980
6 Income Taxes	<u>126,411</u>	<u>176,672</u>	<u>303,083</u>	<u>(276,099)</u>	<u>26,984</u>	<u>238,761</u>	<u>265,745</u>
7 Total Operating Expense	<u>\$2,723,414</u>	<u>\$480,018</u>	<u>\$3,203,432</u>	<u>(\$285,378)</u>	<u>\$2,918,054</u>	<u>\$268,659</u>	<u>\$3,186,713</u>
8 Operating Income	<u>\$564,071</u>	<u>\$255,651</u>	<u>\$819,722</u>	<u>(\$405,309)</u>	<u>\$414,413</u>	<u>\$395,736</u>	<u>\$810,148</u>
9 Rate Base	<u>\$8,312,820</u>		<u>\$9,570,611</u>		<u>\$9,695,430</u>		<u>\$9,695,430</u>
10 Rate of Return	<u>6.79%</u>		<u>8.56%</u>		<u>4.27%</u>		<u>8.36%</u>

Sanlando Utilities Corp. Adjustment to Operating Income Test Year Ended 12/31/05		Schedule 3-C Docket No. 060258-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$420,905)	(\$691,470)	
2 To impute pro forma miscellaneous service revenues. (Issue 11)	783	783	
Total	<u>(\$420,123)</u>	<u>(\$690,688)</u>	
<u>Operation and Maintenance Expense</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	(\$50,005)	(\$240)	
2 To reflect the appropriate WSC allocated expenses. (Issue 12)	(14,217)	(10,871)	
3 To reflect the appropriate UIF allocated expenses. (Issue 12)	(498)	(381)	
4 Reflect appropriate pro forma salaries and pension & benefits. (Issue 13)	(43,962)	(22,232)	
5 To reflect the appropriate amount of rate case expense. (Issue 14)	(1,761)	(1,848)	
6 Reflect appropriate sanitary sewer cleaning expenses. (Issue 15)	0	32,862	
Total	<u>(\$110,443)</u>	<u>(\$2,710)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	\$29,818	\$46,276	
2 To included the appropriate net WSC rate base. (Issue 3)	(405)	(310)	
3 To reflect the appropriate allocated plant from UIF. (Issue 3)	(3,100)	(1,883)	
4 To reflect the appropriate amount of pro forma plant. (Issue 5)	20,761	(10,598)	
Total	<u>\$47,074</u>	<u>\$33,485</u>	
<u>Amortization-Other Expense</u>			
1 Reflect the appropriate treatment for gain on sale of land. (Issue 4)	(\$3,681)	\$0	
2 Remove tank painting & main cleaning amortization expenses. (Issue 15)	(6,600)	(24,600)	
Total	<u>(\$10,281)</u>	<u>(\$24,600)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$21,697)	(\$35,556)	
2 To reflect audit adjustments agreed to by the utility and staff. (Issue 2)	3,289	4,112	
3 To reflect the appropriate amount of pro forma plant. (Issue 16)	18,339	13,950	
4 Adjust RAFs for pro forma misc. service charge revenue. (Issue 11)	35	35	
5 To the appropriate WSC allocated property taxes. (Issue 12)	4,979	3,808	
6 To reflect the appropriate pro forma payroll taxes. (Issue 13)	(2,357)	(1,803)	
Total	<u>\$2,588</u>	<u>(\$15,454)</u>	
<u>Income Taxes</u>			
To reflect the appropriate income taxes.	<u>(\$141,213)</u>	<u>(\$276,099)</u>	

Sanlando Utilities Corp.			Schedule No. 4-A		
Water Monthly Service Rates			Docket No. 060258-WS		
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	4-year Rate Reduction
Residential, General Service, Bulk Sales, and Multi-Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$4.25	\$4.28	\$5.12	\$4.25	\$0.04
3/4"	\$6.36	\$6.40	\$7.66	\$6.38	\$0.06
1"	\$10.58	\$10.64	\$12.73	\$10.63	\$0.10
1-1/2"	\$21.19	\$21.32	\$25.50	\$21.25	\$0.20
2"	\$33.90	\$34.10	\$40.80	\$34.00	\$0.32
3"	\$67.79	\$68.19	\$81.59	\$68.00	\$0.63
4"	\$105.95	\$106.58	\$127.51	\$106.25	\$0.99
6"	\$211.89	\$213.15	\$255.02	\$212.50	\$1.97
8"	\$380.93	\$383.19	\$458.46	\$340.00	\$3.16
Gallonage Charge, per 1,000 Gallons					
<u>Residential Service</u>					
0 - 10,000 gallons	\$0.435	\$0.438	\$0.523	\$0.54	\$0.01
In Excess of 10,000 gallons	\$0.435	\$0.438	\$0.523	\$1.07	\$0.01
General Service, Bulk Sales, & Multi-Residential Service					
	\$0.435	\$0.438	\$0.523	\$0.84	\$0.01
<u>Private Fire Protection</u>					
Base Facility Charge by Meter Size:					
1 1/2"	\$86.96	\$87.48	\$104.16	\$1.77	\$0.02
2"	\$139.15	\$139.98	\$166.67	\$2.83	\$0.03
3"	\$278.27	\$279.92	\$333.31	\$5.67	\$0.05
4"	\$434.80	\$437.38	\$520.79	\$8.85	\$0.08
6"	\$869.61	\$874.77	\$1,041.58	\$17.71	\$0.16
8"	\$1,391.41	\$1,399.67	\$1,666.58	\$28.33	\$0.26
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$5.56	\$5.59	\$6.69	\$5.87	
5,000 Gallons	\$6.43	\$6.46	\$7.74	\$6.95	
10,000 Gallons	\$8.60	\$8.65	\$10.35	\$9.65	

Sanlando Utilities Corp.			SCHEDULE NO. 4-B		
Wastewater Monthly Service Rates			Docket No. 060258-WS		
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	Four-year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$11.35	\$11.69	\$13.71	\$11.91	\$0.05
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$1.51	\$1.56	\$1.82	\$1.58	\$0.01
<u>Flat Rate Service</u>					
Residential Single Family	\$24.00	\$24.72	\$29.06	\$25.19	\$0.11
Multiple Dwelling Unit	\$24.00	\$24.72	\$29.06	\$25.19	\$0.11
General Service	\$24.00	\$24.72	\$29.06	\$25.19	\$0.11
<u>Bulk Service</u>					
6"	\$566.93	\$583.93	\$686.33	\$595.05	\$2.63
8"	\$907.07	\$934.28	\$1,098.10	\$952.06	\$4.21
Gallonge Charge - Per 1,000	\$1.88	\$1.94	\$2.20	\$1.91	\$0.01
<u>Multi-Residential & General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$11.35	\$11.69	\$13.74	\$11.91	\$0.05
3/4"	\$17.01	\$17.52	\$20.59	\$17.87	\$0.08
1"	\$28.35	\$29.20	\$34.33	\$29.76	\$0.13
1-1/2"	\$56.70	\$58.40	\$68.66	\$59.51	\$0.26
2"	\$90.71	\$93.43	\$109.85	\$95.21	\$0.42
3"	\$181.40	\$186.84	\$219.68	\$190.40	\$0.84
4"	\$283.45	\$291.95	\$343.26	\$297.51	\$1.32
6"	\$566.93	\$583.93	\$686.55	\$595.05	\$2.63
8"	\$907.07	\$934.28	\$1,098.46	\$952.06	\$4.21
Gallonge Charge, per 1,000 Gallons	\$1.82	\$1.87	\$2.20	\$1.91	\$0.01
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$15.88	\$16.36	\$19.17	\$16.65	
5,000 Gallons	\$18.90	\$19.47	\$22.81	\$19.81	
10,000 Gallons	\$26.45	\$27.24	\$31.91	\$27.71	
(Wastewater Gallonge Cap - 10,000 Gallons)					