

State of Florida



# Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

**DATE:** July 19, 2007

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Rendell, Bruce, Bulecza-Banks, Edwards, Lingo)  
Office of the General Counsel (Holley) *JAM S.M.C.*

**RE:** Docket No. 060747-WS – Application for staff-assisted rate case in Highlands County by Mink Associates II, LLC d/b/a Crystal Lake Club Utilities.

**AGENDA:** 07/31/07 – Regular Agenda – Proposed Agency Action Except Issues 10 & 11 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Carter

**CRITICAL DATES:** Waived to 05/15/08 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\060747.RCM.DOC

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### Case Background

Mink Associates II, LLC d/b/a Crystal Lake Club Utilities (Crystal Lake Club or utility) is a Class C water and wastewater utility currently providing service to approximately 520 water and wastewater customers in Highlands County south of Avon Park. Crystal Lake Club is located in the Highlands Ridge Water Use Caution Area in the Southwest Florida Water Management District (SWFWMD). The utility's 2005 annual report shows combined operating revenues of \$137,585, operating expenses of \$217,458, and a net operating loss of \$79,873.

The utility was granted Certificate Nos. 454-S<sup>1</sup> and 525-W<sup>2</sup> in 1989. Crystal Lake has been transferred four times.<sup>3</sup> On May 27, 2003, CWS Communities LP (CWS) entered into a Mobile Home Park Purchase and Sale Agreement with Dockside Investors, L.L.C. (Dockside) for \$19 million. Dockside was created as a temporary, intermediate buyer. Upon closing on the transfer on September 3, 2003, all land was conveyed simultaneously and immediately by Dockside to Mink Associates I, LLC (Associates). A second entity was created for the operation of the Crystal Lake Club utility plant, called Mink Associates II, LLC. That same day, Dockside then transferred all of the utility facilities to Mink Associates II, LLC d/b/a Crystal Lake Club Utilities (Mink or buyer).

On December 14, 2004, Dockside and Mink submitted a joint application for transfer of Crystal Lake Club to Mink. No deficiencies were found in this application. Mink owns one other Public Service Commission regulated utility, Mink Associates II, LLC, d/b/a Timberwood Utilities. On November 15, 2006, the utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee. The official date of filing was established as January 12, 2007.

Staff has audited the utility's records for compliance with the Commission rules and orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information

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<sup>1</sup> Wastewater certificate issued pursuant to Order No. 21515, issued July 7, 1989, in Docket No. 881002-SU, In re: Application of Century Group, Inc. for a sewer certificate in Highlands County.

<sup>2</sup> Water certificate issued pursuant to Order No. 22300, issued December 12, 1989, in Docket No. 891011-WU, In re: Application of Century Group, Inc. for original water certificate in Highlands County.

<sup>3</sup> Century Group transferred the utility pursuant to Order No. 23974, issued January 9, 1991, in Docket No. 900527-WS, In re: Application for transfer of Certificates Nos. 525-W and 454-S from Century Group, Inc. to Crystal Lake Community, Limited Partnership, Diamond Valley Associates, Ltd., Friendly Village Lancaster Associates, Ltd. d/b/a Crystal Lake Club in Highlands County. The second transfer was approved pursuant to Order No. PSC-01-0428-PAA-WS, issued February 22, 2001, in Docket No. 991889-WS, In re: Application for transfer of Certificates Nos. 525-W and 454-S in Highlands County from Crystal Lake Club to CWS Communities LP d/b/a Crystal Lake Club. The third transfer was approved pursuant to Order No. PSC-02-1027-FOF-WS, issued July 29, 2002, in Docket No. 020101-WS, In re: Request for approval of transfer of majority organizational control of CWS Communities LP d/b/a Crystal Lake Club, holder of Certificate Nos. 525-W and 454-S in Highlands County, from CWS Communities Trust to CP Limited Partnership, known in Florida as Chateau Communities Limited Partnership. The fourth transfer was approved pursuant to Order No. PSC-05-0428-FOF-WS, issued April 20, 2005, in Docket No. 041394-WS, In re: Request for approval of transfer of CWS Communities LP d/b/a Crystal Lake Club, holder of Certificate Nos. 525-W and 454-S in Highlands County, to Mink Associates II, LLC d/b/a Crystal Lake Club Utilities.

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about the physical plant operating costs. Staff has selected a historical test year ending September 30, 2006, for this rate case.

The Commission has jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

### Discussion of Issues

**Issue 1:** Is the quality of service provided by Crystal Lake Club Utilities, satisfactory?

**Recommendation:** Yes. The quality of service should be considered satisfactory. (Edwards)

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

#### Quality of Service

Crystal Lake Club is a Class C utility, which provides both water and wastewater services to approximately 513 residential and 7 commercial connections in Highlands County. The utility's service area is located at Crystal Lake Club Estate, in Avon Park, Florida. The raw water source is ground water which is obtained from one well in the service area and treated. Wastewater service is provided to existing customers by the Crystal Lake Club's wastewater treatment plant.

#### Quality of Utility's Product

Staff reviewed the utility's and DEP's records. According to DEP's last sanitary survey report, the utility's water quality complies with DEP standards. In Highlands County, both the potable water and the wastewater programs are regulated by DEP's south district office, which is located in Ft. Myers, Florida. In addition, this utility is located within the Southwest Florida Water Management District. The wastewater treatment plant's last inspection was December 12, 2006, at which time the inspector noticed several deficiencies. However, the utility indicated it has made all of the necessary corrections, and on June 7, 2007, DEP confirmed the utility's compliance status. Therefore, it appears the quality of the finished water and the treated wastewater products are satisfactory.

#### Operating Condition of the Water and Wastewater Treatment Facilities

Based on the DEP's inspection and staff's field inspection, the operating condition of the water treatment facility complies with DEP's regulatory standards. In addition, the wastewater treatment facilities comply with regulatory standards. Presently, the utility has no outstanding violations, citations, or corrective orders. Based on the above, it appears the operating condition of the water and wastewater treatment facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and determined there were no customer complaints recorded during the test year. In addition, staff reviewed DEP's records and found no customer complaints on file. On May 23, 2007, staff conducted a customer meeting near the utility's service territory. This meeting gave the customers an opportunity to present specific concerns regarding the utility's attitude and responsiveness to quality of service issues. Of the utility's 513 residential customers, only one customer attended the meeting and no customer signed up to speak. In response to whether he had any items of concern, the customer stated he was pleased with the utility's service and its product. Therefore, it appears the utility is attempting to satisfy its customers.

Summary

Based on staff's review of the water and wastewater treatment systems, it appears the systems are operating properly and comply with DEP standards. In addition, staff believes the utility is actively attempting to address the concerns of the customers. Therefore, staff recommends the quality of service provided by Crystal Lake Club should be considered satisfactory.

**Issue 2:** What are the used and useful percentages for Crystal Lake Club's water and wastewater systems?

**Recommendation:** Crystal Lake Club's used and useful percentages (U&U) should be considered 100% for water, 69.71% for wastewater treatment plants, and 93.29% for both water distribution and wastewater collection systems. (Edwards)

**Staff Analysis:** Staff has performed an analysis of the utility's facilities and the result of our analyses and recommendations are discussed below.

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

The water treatment plant has a permitted maximum day capacity of 0.500 million gallons per day (mgd). This plant has only one well. Therefore consistent with past Commission practice<sup>4</sup> for water treatment plants with one well, staff recommends the U&U percentage is 100% U&U.

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

The wastewater treatment plant has an actual treatment design capacity of 0.140 mgd. Pursuant to Rule 25-30.432, F.A.C.:

The flow data to be used in the numerator of the equation for calculating the used and useful percentage of a wastewater treatment plant shall be the same period or basis (such as annual average daily flow, three-month average daily flow, maximum month average daily flow) as the period or basis stated for the permitted capacity on the most recent operating permit issued by the Florida Department of Environmental (DEP). The DEP permitted capacity shall be used in the denominator of the equation. In determining the used and useful amount, the Commission will also consider other factors such as the allowance for growth pursuant to Section 367.081(2)(a)2., F.S., infiltration and inflow, the extent to which the area served by the plant is built out, whether the permitted capacity differs from the design capacity, whether there are differences between the actual capacities of the individual components of the wastewater treatment plant and the permitted capacity of the plant, and whether flows have decreased due to conservation or a reduction in the number of customers.

The DEP designated units of permitted capacity is usually used to calculate the U&U percentage. For Crystal Lake Club, the DEP permitted capacity is 0.090 mgd based on Three Month Average Daily Flow (TMADF). For this utility, the permitted capacity was reduced since the percolation ponds are a limiting factor; therefore, staff believes the permitted rather than the design capacity should be used to recognize this limiting factor. This is consistent with the

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<sup>4</sup> See 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 and Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In Re: Application for staff-assisted rate case in Lake County by Brendenwood Water System

methodology approved by this Commission in Crystal Lake Club's last rate case<sup>5</sup>, as well as past Commission practice.<sup>6</sup> The TMADF, per the utility's records, is 58,000 gallons per day (gpd). Pursuant to Section 367.0871(2)(a)2b, F.S., customer growth for the previous five years was calculated to be approximately 8.3 equivalent residential connections (ERCs) per year, which equates to 4,738 gpd. In accordance with the formula method for calculating U&U, the wastewater plant is considered 69.71% U&U (see Attachment A, page 1 of 2). This is calculated by taking the TMADF adding the growth allowance and subtracting the excess infiltration, and then dividing by the plant capacity. Staff notes the utility's used and useful percentage approved in its last rate case in 1994 was 68% used and useful.

#### Water Distribution and Wastewater Collection Systems

Crystal Lake Club's customer base is primarily residential and for this case, lots are equivalent to ERCs. In addition, the utility has 7 commercial customers. The water distribution and wastewater collection systems have the potential to serve an estimated 589 connections without the construction of additional distribution or collection mains. The average number of connections served during the test year was 508. Growth over the previous five years was calculated to be 8.3 ERCs per year. In accordance with the formula and the method of calculating U&U, staff calculates the distribution and collection systems as 93.29% U&U. This is calculated by taking the average test year number of lots plus the growth allowance then dividing that total by the estimated capacity in lots (see Attachment A, page 2 of 2).

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<sup>5</sup> See Order No. PSC-94-0243-FOF-WS, issued March 4, 1994 in Docket No. 930572-WS, In re: Application for Staff-Assisted Rate Case in Highlands County by Crystal Lake Club.

<sup>6</sup> See Order No. PSC-01-1246-PAA-WS, issued June 4, 2001 in Docket No. 001382-WS, In re: Application for Staff Assisted Rate Case in Lake County by Pennbrooke Utilities, Inc.



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

**Recommendation:** The appropriate average test year rate base for this utility is \$182,851 for water and \$208,203 for wastewater. (Rendell)

**Staff Analysis:** The utility's rate base was established by Order No. PSC-01-0428-PAA-WS. Staff has selected a historical test year ended September 30, 2006, for this rate case. Rate base components established in Order No. PSC-01-0428-PAA-WS have been updated through September 30, 2006, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follow:

**Utility Plant in Service (UPIS):** As stated previously, the utility has been transferred four times. The most recent transfer was approved in 2005. According to Audit Finding No. 2, the utility has not recorded the Commission approved rate base, with adjustments, as required in Order No. PSC-05-0428-FOF-WS, issued April 20, 2005, in Docket No. 041394-WS. This order states:

Rate base was last set for the utility as of August 30, 1999.<sup>7</sup> Pursuant to section 367.071, Florida Statutes, we may set rate base in transfer dockets. Although rate base is typically set in transfer proceedings, no audit was performed in this docket. According to the contract in this transfer, the buyer and seller agreed that the portion of the purchase price allocable or attributable to the utility property is to be the net book value of the utility assets as established by this Commission. In the absence of this Commission setting rate base in this docket, the buyer will rely on the rate base established by the Commission in 1999 and subsequent adjustments made by the seller. In addition, because the purchase price is an allocated amount equal to rate base, there will be no resulting acquisition adjustment pursuant to Rule 25-30.0371, Florida Administrative Code.

The audit staff therefore relied on the utility's 2005 Annual Report. According to the utility's books and records, UPIS is recorded at \$411,336 for water and \$706,901 for wastewater for the test year ending September 30, 2006. According to Audit Finding No. 3, the utility did not record retirements appropriately when it added plant to replace existing plant. Staff decreased UPIS for water by \$4,499 and wastewater by \$17,498 for retirements. In addition, Audit Finding No. 3 identified plant for which the utility was unable to provide supporting documentation. Staff decreased water plant by \$4,554 for unsupported plant. Audit Finding No. 3 also identified plant additions which were not recorded by the utility. Staff increased water plant by \$4,951 and wastewater plant by \$14,223 for unrecorded plant additions. The utility recorded \$6,295 in capitalized expenses for wastewater. Per Audit Finding No. 3 staff decreased wastewater plant by \$6,295 to remove these expense items.

The utility provided the auditor with invoices for wastewater plant placed into service after the historic test year. These wastewater items total \$10,585 and staff has included these

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<sup>7</sup> Rate base was last set for the utility pursuant to Order No. PSC-01-0428-PAA-WS, issued February 22, 2001, in Docket No. 991889-WS, In Re: Application for transfer of Certificates Nos. 525-W and 454-S in Highlands County from Crystal Lake Club to CWS Communities LP d/b/a Crystal Lake Club.

items as pro forma plant additions. In addition, subsequent to the customer meeting, the utility provided staff with a signed proposal for replacing the top portion of the water storage tank. This storage tank is in poor condition and in need of repair. Staff believes this is a prudent item and recommends it be included as part of water plant in service. An adjustment has been made to increase water plant by \$55,063, net of retirement.

Finally, staff decreased UPIS by \$743 for water and \$6,009 for wastewater for an averaging adjustment. Staff recommends a UPIS balance of \$461,554 for water and \$701,907 for wastewater.

**Land:** In Order No. PSC-94-0243-FOF-WS, issued in Docket No. 930572-WS,<sup>8</sup> which was the utility's last rate case, the Commission approved land in the amount of \$3,403 for water and \$7,914 for wastewater. In Order No. PSC-01-0428-PAA-WS, supra, the Commission once again approved these amounts when establishing the appropriate rate base for that transfer. Pursuant to Order No. PSC-05-0428-FOF-WS, supra, the Commission did not establish rate base. That order specifically states:

The application contained a copy of an executed 99-year lease between the association and Mink giving Mink long-term use of the land for its water and wastewater facilities. Mink shall file a recorded copy of the 99-year lease for the land for the water and wastewater facilities within 30 days of the issuance date of this Order. It is noted that Crystal Lake owned the land during the 1993 staff assisted rate case; therefore, land was included in the utility's rate base. The prudence of the annual land rental will be addressed in the utility's next rate proceeding.

The utility submitted a 99-year lease agreement for water and wastewater treatment facilities to the staff auditors. This lease was entered into between Mink Associates I, LLC a Florida limited liability company and Mink Associates II, LLC, d/b/a Crystal Lake Utilities, and is signed by the same managing partner for both parties. The lease agreement for the land is a related party transaction. By Order No. PSC-00-1513-TRF-WS,<sup>9</sup> this Commission found as follows:

Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence

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<sup>8</sup> Order No. PSC-94-0243-FOF-WS, issued March 4, 1994 in Docket No. 930572-WS, In re: Application for Staff-Assisted Rate Case in Highlands County by Crystal Lake Club.

<sup>9</sup> Order No. PSC-00-1513-TRF-WS, issued August 21, 2000, in Docket No. 991835-WS, In Re: Application for allowance for funds prudently invested (AFPI) charge for additional water improvements and for additional lines associated with wastewater extension into George Mayo subdivision in Marion County, by Tradewinds Utilities, Inc.

to contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair.

Further, it is Commission practice that the appropriate rent amount for land, previously approved in rate base, shall be the annual rate of return, based on the utility's current capital structure, times the original cost of the land in service.<sup>10</sup> In this case, staff believes it is appropriate to reflect the Commission-approved amount of land in Crystal Lake Club's rate base. According to the lease agreement submitted, it is the lessees responsibility to pay monthly rent in the amount of \$6,240 for water and \$31,200 for wastewater. This amount is increased annually based on the Consumer Price Index. In addition, Crystal Lake Club is required to pay real estate taxes and personal property taxes. Staff believes these amounts are unreasonable. Accordingly, staff has included land in the amount of \$3,403 for water and \$7,914 for wastewater.

**Non-used and Useful Plant:** As discussed in Issue 2, the utility's water treatment plant should be considered 100% used and useful. The wastewater treatment plant should be considered 69.71% used and useful. Further, the water distribution and wastewater collection systems should be considered 93.29% used and useful. Staff made adjustments to reduce water plant by \$12,522 and wastewater plant by \$15,744, to reflect the appropriate used and useful amount.

**Contributions-in-Aid-of-Construction (CIAC):** The utility's records indicate CIAC balances of \$189,675 for water and \$210,025 for wastewater. Pursuant to Audit Finding No. 6, these balances are understated. Staff has made adjustments to increase water CIAC by \$9,500 and wastewater by \$14,000. Further, staff decreased CIAC by \$2,138 for water and \$3,150 for wastewater for averaging adjustments.

**Accumulated Depreciation:** The utility's records indicate accumulated depreciation balances of \$195,291 for water and \$373,916 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation on September 30, 2006, is \$202,993 for water and \$416,246 for wastewater. Therefore, staff increased water accumulated depreciation by \$7,702 and wastewater by \$22,330 to reflect depreciation calculated by staff. Staff also made a corresponding adjustments to include accumulated depreciation on the pro forma plant items. These adjustments result in a decrease in the amount \$33,297 for water, due to a retirement, and an increase in the amount of \$706 for wastewater. Further, staff decreased accumulated depreciation by \$6,543 for water and \$15,350 for wastewater for averaging adjustments. These adjustments result in accumulated depreciation balances of \$196,449 for water and \$380,895 for wastewater.

**Accumulated Amortization of CIAC:** The utility's records indicate accumulated amortization of CIAC balances of \$83,536 for water and \$96,819 for wastewater for the test year. Staff recalculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C.

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<sup>10</sup> See Order No. PSC-04-1264-PAA-SU, issued December 21, 2004, in Docket No. 040300-SU, In Re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In Re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.; Order No. PSC-00-0807-PAA-WU, issued April 25, 2000 in Docket No. 991290-WU, In Re: Application for staff-assisted rate case in Lake County by Brendenwood Water System.

for the CIAC. Based on this recalculation, staff increased accumulated amortization of CIAC by \$6,526 for water and by \$20,955 for wastewater. In addition, staff decreased this account by \$3,166 for water and by \$4,793 for wastewater to reflect averaging adjustments. Staff recommends accumulated amortization of CIAC of \$86,893 for water and \$112,980 for wastewater.

**Working Capital Allowance:** Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$9,489 for water (based on O&M of \$75,909) and \$5,916 for wastewater (based on O&M of \$47,329). Working capital has been increased by these amounts to reflect one-eighth of staff's recommended O&M expenses.

**Rate Base Summary:** Based on the forgoing, staff recommends that the appropriate test year rate base is \$182,851 for water and \$208,203 for wastewater. A calculation of rate base is shown on Schedule Nos. 1-A, 1-B and 1-C.

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

**Recommendation:** The appropriate return on equity is 9.06% with a range of 8.06% - 10.06%. The appropriate overall rate of return is 9.06%. (Rendell)

**Staff Analysis:** The utility's records indicate a negative retained earnings in the amount of \$311,135; and debt to parent in the amount of \$382,113. The debt to parent is an amount owed to Mink Associates for past expenses. However, there was no debt instrument presented, and no payments have been made. Consistent with past Commission practice, staff included this amount as common equity and has made an adjustment in the amount of \$382,113.

The utility's capital structure has been reconciled with staff's recommended rate base. Using the leverage formula approved by Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 9.06%.

Staff recommends a return on equity of 9.06% with a range of 8.06% - 10.06% and an overall rate of return of 9.06%. The return on equity and overall rate of return are shown on Schedule No. 2

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**Issue 5:** What are the appropriate test year revenues?

**Recommendation:** The appropriate test year revenues are \$90,906 for water and \$70,079 for wastewater. (Rendell)

**Staff Analysis:** The utility recorded revenues of \$104,195 for water and \$49,938 for wastewater for the test year. Pursuant to Audit Finding No. 7, the utility's revenues are overstated for water and understated for wastewater. Staff calculated annualized revenue for the test period using the current rates multiplied by the number of bills and consumption provided in the billing analysis. Test year revenues were decreased by \$13,289 for water and increased by \$20,141 for wastewater to reflect annualized revenue based on the existing rates. Staff recommends test year revenues of \$90,906 for water and \$70,079 for wastewater.

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

**Issue 6:** What is the appropriate amount of pre-repression operating expense?

**Recommendation:** The appropriate amount of pre-repression operating expense for the utility is \$92,550 for water and \$69,245 for wastewater. (Rendell)

**Staff Analysis:** The utility's books reflected operating expenses of \$94,094 for water and \$115,522 for wastewater for the test year ending September 30, 2006. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

### **Operation and Maintenance Expenses (O&M)**

Sludge Removal – (711) – Pursuant to Audit Finding No. 9, the utility incorrectly recorded sludge removal expense in the amount of \$10,450 in Account 736. This amount should have been recorded in Account 711. Staff made an adjustment to reclassify sludge removal expense from Account 736 to 711.

Purchased Power – (615/715) – Pursuant to Audit Finding No. 8, the water operating expenses were understated and the wastewater operating expenses were overstated. The utility recorded \$13,147 for water and wastewater in this account for the test year. In accordance with Audit Finding No. 8, staff increased this account by \$5,903 for water and decreased wastewater by \$6,023. Staff recommends purchased power of \$19,050 for water and \$7,124 for wastewater.

Chemicals – (618/718) – Pursuant to Audit Finding No. 8, the water operating expenses were understated and the wastewater operating expenses were overstated. The utility recorded \$6,338 for water and wastewater in this account for the test year. In accordance with Audit Finding No. 8, staff decreased this account by \$979 for water and increased wastewater by \$63. Staff recommends chemicals of \$5,359 for water and \$6,401 for wastewater.

Materials and Supplies – (620/720) – Pursuant to Audit Finding No. 8, the water operating expenses were understated and the wastewater operating expenses were overstated. The utility recorded \$1,400 for water and wastewater in this account for the test year. In accordance with Audit Finding No. 8, staff increased this account by \$144 for water and decreased wastewater by \$39. Staff recommends materials and supplies expense of \$763 for water and \$1,362 for wastewater.

Contractual Services – Professional (631/731) – The utility recorded \$475 for water and wastewater in these accounts for the test year. Pursuant to Audit Finding No. 8, the water operating expenses were understated and the wastewater operating expenses were overstated. In accordance with this finding, staff increased this account by \$3,508 for water and \$3,188 for wastewater. Staff recommends Contractual Services - Professional expense of \$3,983 for water and \$3,663 for wastewater.

Contractual Services – Testing – (635/735) – The utility recorded \$0 for water and \$0 for wastewater in this account for the test year. In accordance with Audit Finding No. 9, staff

increased water by \$5,796 and wastewater by \$9,154 to reclassify testing expenses from Accounts 636 and 736, Contractual Services - Other.

State and local authorities require that several analyses be submitted in accordance with Rule 62-550, F.A.C. The list below includes monthly monitoring and other less frequent tests required by DEP.

Water

| Description          | Frequency     |
|----------------------|---------------|
| Total Coliform       | 5/month       |
| TDS                  | 2/ month      |
| Chloride             | 2/quarter     |
| Spec. Cond.          | 2/year        |
| Ph                   | 2/year        |
| TDS                  | 2/year        |
| Turbidity            | 2/year        |
| Sulfate              | 2/year        |
| Chloride             | 2/year        |
| Sodium               | 2/year        |
| Gross Alpha          | 1/quarter     |
| Radium 226/228       | 1/quarter     |
| Uranium              | 1/quarter     |
| Nitrate              | 1/year        |
| Nitrite              | 1/year        |
| TDS                  | 1/year        |
| Lead/Copper          | Every 3 years |
| HAA3                 | 1/year        |
| TTHM                 | 1/year        |
| Primary Inorganics   | Every 3 years |
| Secondary Inorganics | Every 3 years |
| SOC                  | Every 3 years |
| VOC                  | Every 3 years |

Wastewater

| Description | Frequency |
|-------------|-----------|
| TSS         | 3/week    |
| Fecal       | 3/week    |
| Nitrite     | 1/month   |
| CBOD        | 2/month   |
| Ph          | 4/year    |
| TDS         | 4/year    |
| Nitrate     | 4/year    |
| Sulfate     | 4/year    |



|          |        |
|----------|--------|
| Chloride | 4/year |
| Fecal    | 4/year |
| Arsenic  | 4/year |
| Cadmium  | 4/year |
| Chromium | 4/year |
| Lead     | 4/year |

Staff recommends contractual services – testing expense of \$5,796 for water and \$9,154 for wastewater.

Contractual Services – Other (636/736) – The utility recorded \$56,426 for water and wastewater in these accounts for the test year. In accordance with Audit Finding No. 8, staff increased this account by \$3,953 for water and decreased wastewater by \$1,167. In accordance with Audit Finding No. 9, staff also decreased this account by \$1,096 for water and \$11,048 to recognize plant items that should have been capitalized. As stated earlier, staff made adjustments of \$5,796 for water and \$9,154 for wastewater to reclassify testing expenses to Accounts 635 and 735. In addition, staff also reclassified \$10,450 in wastewater expenses to sludge removal.

According to a letter from the property manager to staff auditors, Mink Associates I, LLC purchased the 176 acre mobile home park in 2003. This included the utility facilities. A second entity was created for the operation of the Crystal Lake Club utility plant, called Mink Associates II, LLC. This entity is billed each month for the use of Mink Associates I employees, as well as for indirect expenses. A schedule of these non-direct expenses were as follows:

| Mink Associates I, LLC Cost of Allocated Operations |             |                   |          |            |
|---|-------------|-------------------|----------|------------|
|   | Total Cost  | Utility Allocated | Water    | Wastewater |
| Manager's Salary                                    | \$40,000    | \$1,500           | \$750    | \$750      |
| Office Salaries                                     | \$28,000    | \$1,390           | \$695    | \$695      |
| Park Maintenance                                    | \$28,000    | \$1,000           | \$500    | \$500      |
| Payroll Tax at 10%                                  | \$9,600     | \$390             | \$195    | \$195      |
| Health Insurance                                    | \$12,000    | \$600             | \$300    | \$300      |
| Property Insurance                                  | \$60,000    | \$900             | \$450    | \$450      |
| Real Estate Tax                                     | \$155,000   | \$6,000           | \$3,000  | \$3,000    |
| Mortgage Interest (\$15,300,000)                    | \$863,000   | \$30,000          | \$15,000 | \$15,000   |
| Total   | \$1,213,600 | \$41,780          | \$20,890 | \$20,890   |

In addition, the utility was charged a total management fee of \$7,537 from GDR Management. This is a management firm owned by Mr. Gerald D. Ross (GDR), who is also the property manager for Mink Associates I, LLC. Staff believes this is a reasonable amount of management fee for a utility this size. This fee is based on 5% of gross revenues. However, staff does not believe there should also be a management fee charged by Mink Associates I. This appears to be duplicative in nature; therefore, staff made an adjustment to reduce this account by \$750 for water and wastewater. In addition, staff does not believe it is appropriate to include the mortgage interest amount for the purchase of the mobile home park. Interest expense is

accounted for by including any utility related long-term debt in the capital structure. This amount is related to the purchase of the mobile home park, as well as the utility. However, there is no debt instrument associated with this amount, and no payments have been made to the parent company. There was an amount allowed in the capital structure, as discussed in Issue 4. Accordingly, staff made an adjustment in the amount of \$15,000 for water and wastewater to remove the interest expense related to a mortgage.

Staff also made an adjustment in the amount of \$500 for water and wastewater to remove the allocation of the park maintenance personnel. This Mink Associates I employee appears to be non-utility related. Staff also made an adjustment in the amount of \$3,000 for water and wastewater to reclassify the property tax allocation to taxes other than income. In summary, staff recommends \$34,237 for water and \$5,357 for wastewater for contractual services – other expense.

Rents – (640/740) – As discussed in Issue 3, the utility recorded \$6,240 for water and \$31,200 for wastewater related to rent on the land the water and wastewater treatment facilities are located. As discussed in Issue 3, staff does not believe this related party transaction is appropriate. Staff has included the previously approved amount for land in rate base. Thus, staff decreased these accounts by \$6,240 for water and \$31,200 for wastewater.

However, the utility submitted information related to the rental of office space for the utility. The utility’s consultant submitted data obtained from three separate third party real estate agencies. Based on this information, staff increased rent expense by \$1,620 for water and wastewater.

Regulatory Commission Expense – 665/765 - The utility recorded \$0 for water and \$1,000 for wastewater in these accounts for the test year. The utility paid a \$1,000 filing fee for water and \$1,000 for wastewater in this rate case. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. This results in an increase to water of \$250 and a decrease to wastewater of \$750 to recognize the annual amortization of the filing fee.

The utility submitted a request for rate case expense in the amount of \$10,664. The requested amount is as follows:

|                   | Actual  | Estimate to Complete | Total    |
|-------------------|---------|----------------------|----------|
| Ruden McClosky    | \$2,784 | \$3,155              | \$5,939  |
| Excel Engineering | \$3,975 | \$750                | \$4,725  |
| Total             | \$6,759 | \$3,905              | \$10,664 |

Rule 25-30.455(1), F.A.C., specifies:

If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff’s schedules and conclusions, the reasonable and prudent expense will be recoverable through the rates developed by staff.

The utility's attorney included \$2,125 related to finalizing the rate case expense document, reviewing staff's recommendation, preparing for agenda, reviewing the Commission's order, and preparing tariffs and notices. There was also an amount of \$80 for copying and postage. The utility filed for a staff assisted rate case, which pursuant to Section 367.0814(6), F.S., cannot be protested by the utility if it receives an increase. The staff prepares the final notice and tariffs for the utility and submits them for their distribution. Further, as addressed below, staff is recommending an amount for copying and noticing for the utility. Staff does not believe the requested amount is reasonable or required; therefore, staff has decreased rate case expense by \$2,205. The total rate case expense for the utility's attorney and engineer is \$8,459.

Further, the utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers and by Rule 25-30.475(1)(a), F.A.C., to mail notices of any rate increase to its customers. Staff believes that \$1,061 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case. Staff recommends that total rate case expense is \$11,520, or \$5,760 for water and wastewater. Amortized over four years the annual amount is \$1,440 each for water and wastewater. As a result, staff's total adjustment is to increase rate case expense by \$1,440 for water and \$440 for wastewater.

Miscellaneous Expense (675/775) – The utility recorded \$3,567 for water and \$2,768 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 8, the water operating expenses were understated and the wastewater operating expenses were overstated. In accordance with this finding, staff increased this account by \$94 for water and \$758 for wastewater. In accordance with Audit Finding No. 9, staff decreased wastewater by \$2,768 to reclassify taxes other than income.

Operation and Maintenance Expense (O&M) Summary – The total O&M adjustment is a decrease of \$11,684 for water and \$65,425 for wastewater. Staff recommends O&M expenses of \$75,909 for water and \$47,329 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The utility's records indicate depreciation expense of \$2,934 for water and \$0 for wastewater for the test year. Depreciation was calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff increased water by \$10,153 and wastewater by \$30,701 to reflect staff's calculated depreciation of \$13,087 for water and \$30,701 for wastewater. Staff calculated amortization of CIAC based on rates prescribed in Rule 25-30.140, F.A.C., for the CIAC that can be specifically identified by account and composite rates for the remainder. Staff further decreased these accounts by \$6,332 for water and \$9,587 for wastewater to reflect staff's calculated amortization of CIAC. Amortization of CIAC has a negative impact on depreciation expense. Staff also made adjustments to decrease water by \$608 and wastewater by \$6,706 to reflect the non-used and useful portion of depreciation expense. Adjustments were also made to increase depreciation expense by \$2,789 for water and \$706 for wastewater to reflect the appropriate pro forma plant items recommended by staff. Therefore, staff recommends annual net depreciation expense of \$8,936 for water and \$15,114 for wastewater.

Taxes Other Than Income – The utility recorded taxes other than income of \$3,567 for water and \$2,768 for wastewater for the test year. These amounts include regulatory assessment fees (RAFs) of \$3,542 for water and \$2,743 for wastewater. Staff increased this account by \$549 for water and \$411 for wastewater to include the appropriate RAFs on staff's annualized revenue adjustment. Pursuant to Audit Finding No. 10, the amount reflected by the utility included penalty amounts for late payment of \$52 for water and \$40 for wastewater for RAFs. Consistent with Commission practice, staff removed these penalty amounts as imprudent. As discussed previously, staff also increased this account by \$3,000 for water and wastewater to reflect property taxes. Further, staff made an adjustment to reflect the non used and useful portion of property tax. Thus, staff reduced property taxes by \$179 for water and \$147 for wastewater.

Income Tax – The utility is a limited liability partnership. Since the partners are assessed income taxes based on their income, no income taxes have been included.

Operating Revenues – Revenues have been increased by \$18,210 for water and increased by \$18,029 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – Taxes other than income has been increased by \$819 for water and \$811 for wastewater to reflect RAFs of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated pre-repression operating expenses of \$92,550 for water and \$69,245 for wastewater. Operating expenses are shown on Schedules 3-A through 3E.

**Issue 7:** What is the appropriate pre-repression revenue requirement?

**Recommendation:** The appropriate pre-repression revenue requirement is \$109,116 for water and \$88,109 for wastewater. (Rendell)

**Staff Analysis:** Based on staff's calculated revenue requirement below, the utility earned below its recommended rate of return on its water and wastewater systems. According to staff's calculations, the appropriate annual revenue increase is \$18,210 (20.03%) for water and an annual increase of \$18,029 (25.73%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.06 percent return on its investment. The calculations are as follows:

|                             | <u>Water</u>     | <u>Wastewater</u> |
|-----------------------------|------------------|-------------------|
| Adjusted Rate Base          | \$182,851        | \$208,203         |
| Rate of Return              | x .0906          | x .0906           |
| Return on Rate Base         | \$16,566         | \$18,863          |
| Adjusted O & M expense      | \$75,909         | \$47,329          |
| Depreciation expense (Net)  | \$ 8,936         | \$15,114          |
| Amortization                | \$0              | \$0               |
| Taxes Other Than Income     | \$ 7,705         | \$ 6,803          |
| Income Taxes                | \$0              | \$0               |
| Revenue Requirement         | <u>\$109,116</u> | <u>\$88,109</u>   |
| Adjusted Test Year Revenues | <u>\$90,906</u>  | <u>\$70,079</u>   |
| Percent Increase/(Decrease) | <u>20.03%</u>    | <u>25.73%</u>     |

Based on the foregoing, staff recommends the appropriate annual revenue increase is \$18,210 (20.03%) for water and an annual increase of \$18,029 (25.73%) for wastewater. Revenue requirements are shown on Schedule Nos. 3-A and 3-B.

## **RATES AND CHARGES**

**Issue 8:** What are the appropriate rate structures for the utility's water and wastewater systems?

**Recommendation:** The appropriate rate structure for the water system is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC should continue to recover 19.70% of the cost to provide service. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure with a 6 kgal gallon cap for residential customers. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%. (Bruce, Lingo)

**Staff Analysis:** The utility currently has a base facility charge (BFC)/uniform gallonage charge rate structure for its water system. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$2.90 per month. The usage charge prior to filing for rate relief was \$1.35 per kgal.

Crystal Lake Utilities is located in Highlands County within the Southwest Florida Water Management District (SWFWMD or District) in the Southern Water Use Caution Area. The Commission's preferred rate structure had traditionally been the BFC/uniform gallonage charge rate structure. However, over the past several years, the Water Management Districts have requested whenever possible that an inclining block rate structure be implemented. This is also consistent with the recommendations resulting from the Water Conservation Initiative.

**Water Rates:** Staff performed a detailed 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 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 the Commission's Memorandum of Understanding with the state's Water Management Districts.

Based on staff's analysis and conversations with a utility representative, it was determined that the customer base is seasonal, and that the average residential consumption during the test year was 8.7 kgal/month. This level of usage indicates a relatively high level of discretionary usage. Based on the consumption pattern above, staff attempted to design an inclining block rate structure. However, since the current rates are low, and staff's recommended revenue requirement increase is relatively small, staff was unable to design a meaningful inclining block rate structure consistent with how the Commission typically sets water rates. Therefore, staff recommends that the current BFC/uniform gallonage charge rate structure be continued for the water system. Furthermore, staff recommends that the 20.03% revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 19.7%, and BFC and gallonage charges of \$3.48 and \$1.63, respectively.

Wastewater Rates: The utility's current wastewater system rate structure consists of a BFC/gallage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$3.91 per month. The corresponding monthly gallage charge for residential service was \$1.53, capped at a monthly usage of 6 kgal. The general service gallage charge rate was 1.2 times greater than the residential charge, at \$1.84 per kgal.

Based on initial accounting allocations and before any rate design adjustments, the wastewater BFC would recover 36.17% of the cost of service. However, due to the capital-intensive nature of wastewater plants, staff recommends that the BFC cost recovery allocation be changed to 50%. The residential wastewater gallage cap should remain at 6 kgal per month.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system is a continuation of the BFC/uniform gallage charge rate structure. The water system's BFC should continue to recover 19.70% of the cost to provide service. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallage charge rate structure with a 6 kgal gallage cap for residential customers. The general service gallage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50%.

**Issue 9:** Is a repression adjustment appropriate in this case?

**Recommendation:** No. However, in order to monitor the effects resulting from the changes in revenues, the utility should prepare monthly reports for the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, these reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning 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 should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce, Lingo)

**Staff Analysis:** Based on staff's analysis, a repression adjustment is not warranted in this case due to the small magnitude of the recommended revenue increase and rate design changes. However, staff recommends that monthly reports be prepared to monitor the effects resulting from the changes in revenues to both the water and wastewater systems. These reports should reflect the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, these reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning 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 should be ordered to file a revised monthly report for that month within 30 days of any revision.



**Issue 10:** What are the appropriate monthly rates for each system?

**Recommendation:** The appropriate water and wastewater monthly rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of \$109,116 for water and \$88,109 for wastewater, excluding miscellaneous service charges. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Lingo Rendell)

**Staff Analysis:** The recommended rates are designed to produce revenue of \$109,116 for water and \$88,109 for wastewater, excluding miscellaneous service charges. Staff calculated rates using test-year number of bills and consumption. Staff's recommended rates for wastewater have been calculated based on 80% of the water used by residential customers being returned to the system. Staff's recommended rates also include a 6,000 gallon monthly gallonage cap for residential wastewater customers.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

A comparison of the utility's original rates and staff's recommended water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively.

**Issue 11:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$25,007. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

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

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

**Staff Analysis:** Section 367.0816, F.S. requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$1,508 annually for both water and wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

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

**Issue 13:** Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

**Recommendation:** Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Rendell)

**Staff Analysis:** The miscellaneous service charges were approved for Crystal Lake Club on March 4, 1994, and have not changed since that date. The approved charges have been the industry standard charge since at least 1990 – a period of 17 years. Staff believes these charges should be updated to reflect current costs. The utility agrees with this update. Staff recommends that Crystal Lake Club be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$22 and to \$44 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 recommended charges are shown below.

Water Miscellaneous Service Charges

|   | <u>Current Charges</u> |                  | <u>Staff Recommended</u> |                  |
|---|------------------------|------------------|--------------------------|------------------|
|   | <u>Normal Hrs</u>      | <u>After Hrs</u> | <u>Normal Hrs</u>        | <u>After Hrs</u> |
| Initial Connection                        | \$15                   | N/A              | \$22                     | N/A              |
| Normal Reconnection                       | \$15                   | N/A              | \$22                     | \$44             |
| Violation Reconnection                    | \$15                   | N/A              | \$22                     | \$44             |
| Premises Visit (in lieu of disconnection) | \$10                   | N/A              | N/A                      | N/A              |
| Premises Visit                            | N/A                    | N/A              | \$22                     | \$44             |

Wastewater Miscellaneous Service Charges

|   | <u>Current Charges</u> |                  | <u>Staff Recommended</u> |                  |
|---|------------------------|------------------|--------------------------|------------------|
|   | <u>Normal Hrs</u>      | <u>After Hrs</u> | <u>Normal Hrs</u>        | <u>After Hrs</u> |
| Initial Connection                        | \$15                   | N/A              | \$22                     | N/A              |
| Normal Reconnection                       | \$15                   | N/A              | \$22                     | \$44             |
| 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              | \$22                     | \$44             |

As previously stated, the industry-wide miscellaneous service charges have not been updated in over 17 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 60% in that period of time. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,<sup>11</sup> the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed 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, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff believes a \$22 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,<sup>12</sup> and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,<sup>13</sup> the Commission approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for MSM Utilities, LLC, and for Mad Hatter Utilities, Inc.

Crystal Lake Club'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. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should 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), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,<sup>14</sup> the Commission 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, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge is reasonable and should be approved.

In summary, staff recommends the utility's miscellaneous service charges of \$22 and after hours charges of \$44, should be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date

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<sup>11</sup> 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.

<sup>12</sup> Docket No. 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

<sup>13</sup> 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.

<sup>14</sup> Docket No. 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.

Docket No. 060747-WS

Date: July 19, 2007

of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date the notice was sent.



**Issue 14:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively. (Rendell, Holley)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively.

**WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA**

|    |  |        |                 |
|----|--|--------|-----------------|
| 1) | Permitted Capacity of Plant (TMADF)  | 90,000 | gallons per day |
| 2) | Average Daily Glow (TMADF)   | 58,000 | gallons per day |
| 3) | Growth   |        |                 |
| a) | Average Test Year Customers in ERCs:<br>Customer Growth in ERCs using Regression | 508    | ERCs            |
| b) | Analysis for most recent 5 years including Test Year                             | 8.3    | ERCs            |
| c) | Statutory Growth Period  | 5      | Years           |
| d) | Growth = (3b)x(3c)x[2\^(3a)]   | 4,738  | gallons per day |
| 4) | Excessive Infiltration or Inflow (I&I)   | 0      | gallons per day |
| a) | Total I & I  | 0      | gallons per day |
| b) | Percent of Excessive   |        |                 |
| c) | Reasonable Amount<br>(500 gpd per inch diameter pipe per mile)                   |        | gallons per day |
| d) | Excessive Amount   | 0      | gallons per day |

**USED AND USEFUL FORMULA**

$$[(2) + (3) - (4)] / (1) =$$

$$(58,000 + 4,738 / 90,000 = (69.71\%) \text{ Used \& Useful}$$

**Crystal Lake Club Utilities**  
**Docket No: 060747-WS**

**WATER DISTRIBUTION and WASTEWATER COLLECTION SYSTEMS  
 USED AND USEFUL**

|    |   |      |         |
|----|---|------|---------|
| 1) | Capacity of System (ERCs)   | 589  | ERCs    |
| 2) | Average Test Year Connections   | 508  | ERCs    |
| 3) | Growth  |      |         |
| a) | Customer growth in connections for last 5 years including test year using Regression Analysis | 8.3  | ERCs/yr |
| b) | Statutory Growth Period   | 5    | Years   |
| c) | Growth = (a)x(b)<br>Connections allowed for growth  | 41.5 | ERCs    |

**USED AND USEFUL FORMULA**

$[2+3]/(1) = 93.29\%$  Used and Useful

| CRYSTAL LAKE CLUB UTILITIES       |                           | SCHEDULE NO. 1-A                     |                         |
|-----------------------------------|---------------------------|--------------------------------------|-------------------------|
| TEST YEAR ENDING 09/30/06         |                           | DOCKET NO. 060747-WS                 |                         |
| SCHEDULE OF WATER RATE BASE       |                           |                                      |                         |
| DESCRIPTION                       | BALANCE<br>PER<br>UTILITY | STAFF<br>ADJUST.<br>TO UTIL.<br>BAL. | BALANCE<br>PER<br>STAFF |
| 1. UTILITY PLANT IN SERVICE       | \$411,336                 | \$50,218                             | \$461,554               |
| 2. LAND & LAND RIGHTS             | \$3,403                   | \$0                                  | \$3,403                 |
| 3. NON-USED AND USEFUL COMPONENTS | \$0                       | (\$12,522)                           | (\$12,522)              |
| 4. CIAC                           | (\$189,675)               | (\$7,363)                            | (\$197,038)             |
| 5. ACCUMULATED DEPRECIATION       | (\$195,291)               | \$32,139                             | (\$163,152)             |
| 6. AMORTIZATION OF CIAC           | \$83,536                  | \$3,360                              | \$86,896                |
| 7. Net Acquisition Adjustment     | \$0                       | \$0                                  | \$0                     |
| 8. WORKING CAPITAL ALLOWANCE      | <u>\$0</u>                | \$3,710                              | <u>\$3,710</u>          |
| WATER RATE BASE                   | \$113,309                 | \$69,542                             | \$182,851               |

| CRYSTAL LAKE CLUB UTILITIES          |                           | SCHEDULE NO. 1-B                  |                         |
|--------------------------------------|---------------------------|-----------------------------------|-------------------------|
| TEST YEAR ENDING 09/30/06            |                           | DOCKET NO. 060747-WS              |                         |
| SCHEDULE OF WASTEWATER RATE BASE     |                           |                                   |                         |
| DESCRIPTION                          | BALANCE<br>PER<br>UTILITY | STAFF<br>ADJUST.<br>TO UTIL. BAL. | BALANCE<br>PER<br>STAFF |
| 1. UTILITY PLANT IN SERVICE          | \$706,901                 | (\$4,994)                         | \$701,907               |
| 2. LAND & LAND RIGHTS                | \$7,914                   | \$0                               | \$7,914                 |
| 3. NON-USED AND USEFUL<br>COMPONENTS | \$0                       | (\$15,744)                        | (\$15,744)              |
| 4. CIAC                              | (\$210,025)               | (\$10,850)                        | (\$220,875)             |
| 5. ACCUMULATED DEPRECIATION          | (\$373,916)               | (\$7,685)                         | (\$381,601)             |
| 6. AMORTIZATION OF CIAC              | \$96,819                  | \$16,161                          | \$112,980               |
| 7. Net Acquisition Adjustment        | \$0                       | \$0                               | \$0                     |
| 8. WORKING CAPITAL ALLOWANCE         | <u>\$0</u>                | \$3,622                           | <u>\$3,622</u>          |
| WASTEWATER RATE BASE                 | \$227,693                 | (\$19,490)                        | \$208,203               |

| <b>CRYSTAL LAKE CLUB UTILITIES</b>                         |                     | <b>SCHEDULE NO. 1-C</b>     |  |
|--|---------------------|-----------------------------|--|
| <b>TEST YEAR ENDING 09/30/06</b>                           |                     | <b>DOCKET NO. 060747-WS</b> |  |
| <b>ADJUSTMENTS TO RATE BASE</b>                            |                     |                             |  |
|  | <u><b>WATER</b></u> | <u><b>WASTEWATER</b></u>    |  |
| <b><u>UTILITY PLANT IN SERVICE</u></b>                     |                     |                             |  |
| 1. To reflect retirements not recorded properly            | (\$4,499)           | (\$17,498)                  |  |
| 2. To reflect additions with no supported documentations   | (\$4,554)           | \$0                         |  |
| 3. To reflect additions not recorded                       | \$4,951             | \$14,223                    |  |
| 4. To reflect capitalized expenses                         | \$0                 | (\$6,295)                   |  |
| 5. Pro forma items   | \$55,063            | \$10,585                    |  |
| 6. To reflect averaging adjustment                         | (\$743)             | (\$6,009)                   |  |
| Total  | <u>\$50,218</u>     | <u>(\$4,994)</u>            |  |
| <b><u>Non-Used and Useful</u></b>                          |                     |                             |  |
| 1. To reflect net non-used and useful adjustment           | (\$12,522)          | (\$15,744)                  |  |
| Total  | <u>(\$12,522)</u>   | <u>(\$15,744)</u>           |  |
| <b><u>Contributions In Aid of Construction</u></b>         |                     |                             |  |
| 1. To adjust CIAC based on audit                           | (\$9,500)           | (\$14,000)                  |  |
| 2. Averaging Adjustment                                    | \$2,138             | \$3,150                     |  |
| Total  | <u>(\$7,363)</u>    | <u>(\$10,850)</u>           |  |
| <b><u>ACCUMULATED DEPRECIATION</u></b>                     |                     |                             |  |
| 1. Depreciation Adjustment Per Rule 25-30.140 FAC          | (\$7,702)           | (\$22,330)                  |  |
| 2. Pro forma items   | \$33,297            | (\$706)                     |  |
| 3. Averaging Adjustment                                    | \$6,543             | \$15,350                    |  |
| Total  | <u>\$32,139</u>     | <u>(\$7,685)</u>            |  |
| <b><u>AMORTIZATION OF CIAC</u></b>                         |                     |                             |  |
| 1. To adjust Amortization of CIAC based on composite rates | \$6,526             | \$20,955                    |  |
| 2. Averaging Adjustment                                    | (\$3,166)           | (\$4,793)                   |  |
| Total  | <u>\$3,360</u>      | <u>\$16,161</u>             |  |
| <b><u>WORKING CAPITAL ALLOWANCE</u></b>                    |                     |                             |  |
| 1. To reflect 1/8 of test year O & M expenses.             | \$9,489             | \$5,916                     |  |

| CRYSTAL LAKE CLUB UTILITIES    |                   |                      |                             |                      |                   |                  | SCHEDULE NO. 2       |               |
|--------------------------------|-------------------|----------------------|-----------------------------|----------------------|-------------------|------------------|----------------------|---------------|
| TEST YEAR ENDING 09/30/06      |                   |                      |                             |                      |                   |                  | DOCKET NO. 060747-WS |               |
| SCHEDULE OF CAPITAL STRUCTURE  |                   |                      |                             |                      |                   |                  |                      |               |
| CAPITAL COMPONENT              | PER UTILITY       | SPECIFIC ADJUSTMENTS | BALANCE                     |                      | BALANCE PER STAFF | PERCENT OF TOTAL | COST                 | WEIGHTED COST |
|                                |                   |                      | BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS |                   |                  |                      |               |
| 1. COMMON STOCK                | \$0               | \$0                  | \$0                         |                      |                   |                  |                      |               |
| 2. RETAINED EARNINGS           | (146,932)         | 382,113              | 235,181                     |                      |                   |                  |                      |               |
| 3. PAID IN CAPITAL             | 0                 | 0                    | 0                           |                      |                   |                  |                      |               |
| 4. TREASURY STOCK              |                   |                      | <u>0</u>                    |                      |                   |                  |                      |               |
| 5. TOTAL COMMON EQUITY         | (\$146,932)       | \$382,113            | 235,181                     | \$155,872            | 391,053           | 100.00%          | 9.06%                | 9.06%         |
| 6. LONG TERM DEBT              | 0                 | 0                    | 0                           | 0                    | 0                 | 0.00%            | 0.00%                | 0.00%         |
| 7. LONG TERM DEBT              | <u>0</u>          | <u>0</u>             | <u>0</u>                    | <u>0</u>             | <u>0</u>          | <u>0.00%</u>     |                      | 0.00%         |
| TOTAL LONG TERM DEBT           | 0                 | 0                    | 0                           | 0                    | 0                 | 0.00%            |                      |               |
| 8. CUSTOMER DEPOSITS           | <u>0</u>          | <u>0</u>             | <u>0</u>                    | <u>0</u>             | <u>0</u>          | <u>0.00%</u>     |                      | <u>0.00%</u>  |
| 9. TOTAL                       | <u>-\$146,932</u> | <u>\$382,113</u>     | <u>\$235,181</u>            | <u>\$155,872</u>     | <u>\$391,053</u>  | <u>100.00%</u>   |                      | <u>9.06%</u>  |
| <b>RANGE OF REASONABLENESS</b> |                   |                      |                             |                      |                   | <b>LOW</b>       | <b>HIGH</b>          |               |
| RETURN ON EQUITY               |                   |                      |                             |                      |                   | <u>8.06%</u>     | <u>10.06%</u>        |               |
| OVERALL RATE OF RETURN         |                   |                      |                             |                      |                   | <u>8.06%</u>     | <u>10.06%</u>        |               |

| CRYSTAL LAKE CLUB UTILITIES        |                             |                      | SCHEDULE NO. 3-A               |                            |                        |
|------------------------------------|-----------------------------|----------------------|--------------------------------|----------------------------|------------------------|
| TEST YEAR ENDING 09/30/06          |                             |                      | DOCKET NO. 060747-WS           |                            |                        |
| SCHEDULE OF WATER OPERATING INCOME |                             |                      |                                |                            |                        |
|                                    | TEST YEAR<br>PER<br>UTILITY | STAFF<br>ADJUSTMENTS | STAFF<br>ADJUSTED<br>TEST YEAR | ADJUST.<br>FOR<br>INCREASE | REVENUE<br>REQUIREMENT |
| 1. OPERATING REVENUES              | <u>\$104,195</u>            | <u>-\$13,289</u>     | <u>\$90,906</u>                | <u>\$18,210</u><br>20.03%  | <u>\$109,116</u>       |
| <b>OPERATING EXPENSES:</b>         |                             |                      |                                |                            |                        |
| 2. OPERATION & MAINTENANCE         | 87,593                      | (11,684)             | <u>\$75,909</u>                | 0                          | 75,909                 |
| 3. DEPRECIATION (NET)              | 2,934                       | 6,002                | 8,936                          | 0                          | 8,936                  |
| 4. AMORTIZATION                    | 0                           | 0                    | 0                              | 0                          | 0                      |
| 5. TAXES OTHER THAN INCOME         | 3,567                       | 3,318                | 6,885                          | 819                        | 7,705                  |
| 6. INCOME TAXES                    | <u>0</u>                    | <u>0</u>             | <u>0</u>                       | <u>0</u>                   | <u>0</u>               |
| 7. TOTAL OPERATING EXPENSES        | <u>\$94,094</u>             | <u>(\$2,364)</u>     | <u>\$91,730</u>                | <u>\$819</u>               | <u>\$92,550</u>        |
| 8. OPERATING INCOME/(LOSS)         | <u>\$10,101</u>             |                      | <u>(\$825)</u>                 |                            | <u>\$16,566</u>        |
| 9. WATER RATE BASE                 | <u>\$113,309</u>            |                      | <u>\$182,851</u>               |                            | <u>\$182,851</u>       |
| 10. RATE OF RETURN                 | 8.91%                       |                      | -0.45%                         |                            | 9.06%                  |



## CRYSTAL LAKE CLUB UTILITIES

TEST YEAR ENDING 09/30/06

## SCHEDULE OF WASTEWATER OPERATING INCOME

|                             | TEST YEAR<br>PER<br>UTILITY | STAFF<br>ADJUSTMENTS | STAFF<br>ADJUSTED<br>TEST YEAR | ADJUST.<br>FOR<br>INCREASE | REVENUE<br>REQUIREMENT |
|-----------------------------|-----------------------------|----------------------|--------------------------------|----------------------------|------------------------|
| 1. OPERATING REVENUES       | <u>\$49,938</u>             | <u>\$20,141</u>      | <u>\$70,079</u>                | <u>\$18,029</u><br>25.73%  | <u>\$88,109</u>        |
| <b>OPERATING EXPENSES:</b>  |                             |                      |                                |                            |                        |
| 2. OPERATION & MAINTENANCE  | 112,754                     | (65,425)             | 47,329                         | 0                          | 47,329                 |
| 3. DEPRECIATION (NET)       | 0                           | 15,114               | 15,114                         | 0                          | 15,114                 |
| 4. AMORTIZATION             | 0                           | 0                    | 0                              | 0                          | 0                      |
| 5. TAXES OTHER THAN INCOME  | 2,768                       | 3,224                | 5,992                          | 811                        | 6,803                  |
| 6. INCOME TAXES             | <u>0</u>                    | <u>0</u>             | <u>0</u>                       | <u>0</u>                   | <u>0</u>               |
| 7. TOTAL OPERATING EXPENSES | <u>\$115,522</u>            | <u>-\$47,088</u>     | <u>\$68,434</u>                | <u>\$811</u>               | <u>\$69,245</u>        |
| 8. OPERATING INCOME/(LOSS)  | <u>(\$65,584)</u>           |                      | <u>\$1,645</u>                 |                            | <u>\$18,863</u>        |
| 9. WASTEWATER RATE BASE     | <u>\$227,693</u>            |                      | <u>\$208,203</u>               |                            | <u>\$208,203</u>       |
| 10. RATE OF RETURN          | <u>-28.80%</u>              |                      | <u>0.79%</u>                   |                            | <u>9.06%</u>           |

| <b>CRYSTAL LAKE CLUB UTILITIES</b>                         |                     | <b>SCHEDULE NO. 3-C</b>     |  |
|--|---------------------|-----------------------------|--|
| <b>TEST YEAR ENDING 09/30/06</b>                           |                     | <b>DOCKET NO. 060747-WS</b> |  |
| <b>ADJUSTMENTS TO OPERATING INCOME</b>                     |                     | <b>PAGE 1 OF 2</b>          |  |
|  | <u><b>WATER</b></u> | <u><b>WASTEWATER</b></u>    |  |
| <b>OPERATING REVENUES</b>                                  |                     |                             |  |
| 1. a. To reflect the appropriate test year revenue         | <u>(13,289)</u>     | <u>20,141</u>               |  |
| Subtotal   | <u>(13,289)</u>     | <u>20,141</u>               |  |
| <b>OPERATION AND MAINTENANCE EXPENSES</b>                  |                     |                             |  |
| 1. Sludge Removal Expense (711)                            |                     |                             |  |
| a. To reclassify from Acct. 736 to 711                     |                     | 10,450                      |  |
| Total  |                     | <u>10,450</u>               |  |
| 2. Purchased Power (615/ 715)                              |                     |                             |  |
| a. To reflect appropriate amount per AF8                   | <u>5,903</u>        | (6,023)                     |  |
| Subtotal   | <u>5,903</u>        | <u>(6,023)</u>              |  |
| 3. Chemicals (618/ 718)                                    |                     |                             |  |
| a. To reflect appropriate amount per AF8                   | <u>(979)</u>        | 63                          |  |
| Subtotal   | <u>(979)</u>        | 63                          |  |
| 4. Material & Supplies (620/720)                           |                     |                             |  |
| a. To reflect appropriate amount per AF8                   | 144                 | (38)                        |  |
| b. To remove capitalized plant (AF9)                       | <u>(781)</u>        | 0                           |  |
| Subtotal   | <u>(637)</u>        | <u>(38)</u>                 |  |
| 5. Contractual Services- Professional (631/731)            |                     |                             |  |
| a. To reflect appropriate amount per AF8                   | <u>3,508</u>        | <u>3,188</u>                |  |
| Subtotal   | <u>3,508</u>        | <u>3,188</u>                |  |
| 6. Contractual Services - Testing (635/ 735)               |                     |                             |  |
| a. To reflect reclassification from Accts. 636/736 - (AF9) | <u>5,796</u>        | <u>9,154</u>                |  |
| Subtotal   | <u>5,796</u>        | <u>9,154</u>                |  |
| 7. Contractual Services - Other (636/ 736)                 |                     |                             |  |
| a. To reflect appropriate amount per AF8                   | 3,953               | (1,167)                     |  |
| b. To remove capitalized plant (AF9)                       | (1,096)             | (11,048)                    |  |
| c. To reflect reclassification to Accts. 635/735 - (AF9)   | (5,796)             | (9,154)                     |  |
| d. To reflect reclassification to Acct. 711 - (AF9)        | 0                   | (10,450)                    |  |
| e. To remove the mortgage interest related to purchase     | (15,000)            | (15,000)                    |  |
| f. To remove duplicate management fee                      | (750)               | (750)                       |  |
| g. To remove non-utility park employee                     | (500)               | (500)                       |  |
| h. To reclassify property taxes                            | <u>(3,000)</u>      | <u>(3,000)</u>              |  |
| Subtotal   | <u>(22,189)</u>     | <u>(51,069)</u>             |  |

| <b>CRYSTAL LAKE CLUB UTILITIES</b>                                 |                     | <b>SCHEDULE NO. 3-C</b>     |                          |
|--|---------------------|-----------------------------|--------------------------|
| <b>TEST YEAR ENDING 09/30/06</b>                                   |                     | <b>DOCKET NO. 060747-WS</b> |                          |
| <b>ADJUSTMENTS TO OPERATING INCOME</b>                             |                     | <b>PAGE 2 OF 2</b>          |                          |
|  | <u><b>WATER</b></u> | -                           | <u><b>WASTEWATER</b></u> |
| 8. Rents (640/ 740)  |                     | -                           |                          |
| a. To remove land rent charged to utility                          | (6,240)             |                             | (31,200)                 |
| b. To include office rent  | <u>1,620</u>        |                             | <u>1,620</u>             |
| Subtotal   | <u>(4,620)</u>      |                             | <u>(29,580)</u>          |
| 9. Regulatory Expense (665/ 765)                                   |                     | -                           |                          |
| a. To reflect staff's recommended rate case expense                | <u>1,440</u>        |                             | <u>440</u>               |
| Subtotal   | <u>1,440</u>        |                             | <u>440</u>               |
| 10. Miscellaneous Expense (675/ 775)                               |                     | -                           |                          |
| a. To reflect appropriate amount per AF8                           | 94                  |                             | <u>758</u>               |
| b. To reclassify taxes other than income (AF9)                     | 0                   |                             | <u>(2,768)</u>           |
| Subtotal   | <u>94</u>           |                             | <u>(2,010)</u>           |
| <b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>               | <u>(11,684)</u>     | -                           | <u>(65,425)</u>          |
| <b>DEPRECIATION EXPENSE</b>  |                     |                             |                          |
| 1. To reflect test year depreciation calculated per 25-30.140, FAC | 10,153              |                             | 30,701                   |
| 2. Non-used and useful depreciation                                | (608)               |                             | (6,706)                  |
| 3. Pro forma plant   | 2,789               |                             | 706                      |
| 4. To reflect test year CIAC amortization calculated by staff      | <u>(6,332)</u>      |                             | <u>(9,587)</u>           |
| Total  | <u>6,002</u>        |                             | <u>15,114</u>            |
| <b>TAXES OTHER THAN INCOME</b>                                     |                     |                             |                          |
| 1. To reflect rafs   | 549                 |                             | 411                      |
| 2. To remove penalties and interest                                | (52)                |                             | (40)                     |
| 3. To reflect the appropriate property tax                         | 3,000               |                             | 3,000                    |
| 4. To remove non u&u property tax                                  | <u>(179)</u>        |                             | <u>(147)</u>             |
| Total  | <u>3,318</u>        |                             | <u>3,224</u>             |

**CRYSTAL LAKE CLUB UTILITIES**

**TEST YEAR ENDING 09/30/06**

**WATER OPERATION AND MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-D  
 DOCKET NO. 060747-WS**

|  | <b>TOTAL<br/>PER<br/>PER UTILITY</b> | <b>STAFF<br/>PER<br/>ADJUST.</b> | <b>TOTAL<br/>PER<br/>PER STAFF</b> |
|--|--------------------------------------|----------------------------------|------------------------------------|
| (601) SALARIES AND WAGES - EMPLOYEES         | \$0                                  | \$0                              | \$0                                |
| (603) SALARIES AND WAGES - OFFICERS          | 0                                    | 0                                | \$0                                |
| (604) EMPLOYEE PENSIONS AND BENEFITS         | 0                                    | 0                                | \$0                                |
| (610) PURCHASED WATER                        | 0                                    | 0                                | \$0                                |
| (615) PURCHASED POWER                        | 13,147                               | 5,903                            | \$19,050                           |
| (616) FUEL FOR POWER PRODUCTION              | 0                                    | 0                                | \$0                                |
| (618) CHEMICALS                              | 6,338                                | -979                             | \$5,359                            |
| (620) MATERIALS AND SUPPLIES                 | 1,400                                | -637                             | \$763                              |
| (630) CONTRACTUAL SERVICES - BILLING         | 0                                    | 0                                | \$0                                |
| (631) CONTRACTUAL SERVICES -<br>PROFESSIONAL | 475                                  | 3,508                            | \$3,983                            |
| (635) CONTRACTUAL SERVICES - TESTING         | 0                                    | 5,796                            | \$5,796                            |
| (636) CONTRACTUAL SERVICES - OTHER           | 56,426                               | -22,189                          | \$34,237                           |
| (640) RENTS                                  | 6,240                                | (4,620)                          | \$1,620                            |
| (650) TRANSPORTATION EXPENSE                 | 0                                    | 0                                | \$0                                |
| (655) INSURANCE EXPENSE                      | 0                                    | 0                                | \$0                                |
| (665) REGULATORY COMMISSION EXPENSE          | 0                                    | 1,440                            | \$1,440                            |
| (670) BAD DEBT EXPENSE                       | 0                                    | 0                                | \$0                                |
| (675) MISCELLANEOUS EXPENSES                 | <u>3,567</u>                         | <u>94</u>                        | <u>\$3,661</u>                     |
| Total  | 87,593                               | (11,684)                         | 75,909                             |

## CRYSTAL LAKE CLUB UTILITIES

SCHEDULE NO. 3-E

TEST YEAR ENDING 09/30/06

DOCKET NO. 060747-WS

## WASTEWATER OPERATION AND MAINTENANCE EXPENSE

|  | TOTAL<br>PER<br>UTILITY | STAFF<br>ADJUST-<br>MENT | TOTAL<br>PER<br>STAFF |
|--|-------------------------|--------------------------|-----------------------|
| (701) SALARIES AND WAGES - EMPLOYEES         | \$0                     | \$0                      | \$0                   |
| (703) SALARIES AND WAGES - OFFICERS          | 0                       | 0                        | \$0                   |
| (704) EMPLOYEE PENSIONS AND BENEFITS         | 0                       | 0                        | \$0                   |
| (710) PURCHASED SEWAGE TREATMENT             | 0                       | 0                        | \$0                   |
| (711) SLUDGE REMOVAL EXPENSE                 | 0                       | 10,450                   | \$10,450              |
| (715) PURCHASED POWER                        | 13,147                  | (6,023)                  | \$7,124               |
| (716) FUEL FOR POWER PRODUCTION              | 0                       | 0                        | \$0                   |
| (718) CHEMICALS                              | 6,338                   | 63                       | \$6,401               |
| (720) MATERIALS AND SUPPLIES                 | 1,400                   | -38                      | \$1,362               |
| (730) CONTRACTUAL SERVICES - BILLING         | 0                       | 0                        | \$0                   |
| (731) CONTRACTUAL SERVICES -<br>PROFESSIONAL | 475                     | 3,188                    | \$3,663               |
| (735) CONTRACTUAL SERVICES - TESTING         | 0                       | 9,154                    | \$9,154               |
| (736) CONTRACTUAL SERVICES - OTHER           | 56,426                  | (51,069)                 | \$5,357               |
| (740) RENTS                                  | 31,200                  | (29,580)                 | \$1,620               |
| (750) TRANSPORTATION EXPENSE                 | 0                       | 0                        | \$0                   |
| (755) INSURANCE EXPENSE                      | 0                       | 0                        | \$0                   |
| (765) REGULATORY COMMISSION EXPENSES         | 1,000                   | 440                      | \$1,440               |
| (770) BAD DEBT EXPENSE                       | 0                       | 0                        | \$0                   |
| (775) MISCELLANEOUS EXPENSES                 | <u>2,768</u>            | <u>-2,010</u>            | <u>\$758</u>          |
| Total  | <u>112,754</u>          | <u>(65,425)</u>          | <u>47,329</u>         |

**CRYSTAL LAKE CLUB UTILITIES**

**SCHEDULE NO. 4-A**

**TEST YEAR ENDING 09/30/06**

**DOCKET NO. 060747-WS**

**RECOMMENDED RATES AND RATE REDUCTION AMOUNT**

**AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS**

**MONTHLY WATER RATES**

|  | EXISTING<br>RATES | MONTHLY<br>RECOMMENDED<br>RATES | MONTHLY<br>RATE<br>REDUCTION |
|--|-------------------|---------------------------------|------------------------------|
| Residential, Multi-Family and General Service: |                   |                                 |                              |
| <u>Base Facility Charge:</u>                   |                   |                                 |                              |
| Meter Size:                                    |                   |                                 |                              |
| 5/8"X3/4"                                      | \$2.90            | \$3.48                          | \$0.05                       |
| 3/4"   | \$4.34            | \$5.22                          | \$0.07                       |
| 1"   | \$7.24            | \$8.70                          | \$0.12                       |
| 1-1/2"   | \$14.48           | \$17.40                         | \$0.24                       |
| 2"   | \$23.16           | \$27.84                         | \$0.38                       |
| 3"   | \$46.34           | \$55.68                         | \$0.77                       |
| 4"   | \$72.40           | \$87.00                         | \$1.20                       |
| 6"   | \$144.82          | \$174.00                        | \$2.40                       |
| <u>Gallorage Charge</u>                        |                   |                                 |                              |
| Per 1,000 gallons                              | \$1.35            | \$1.63                          | \$0.02                       |

| <b>CRYSTAL LAKE CLUB UTILITIES</b>  |                           | <b>SCHEDULE NO. 4-B</b>                  |                                       |
|---|---------------------------|--|---------------------------------------|
| <b>TEST YEAR ENDING 09/30/06</b>  |                           | <b>DOCKET NO. 060747-WS</b>              |                                       |
| <b>RECOMMENDED RATES AND RATE REDUCTION AMOUNT</b>                                  |                           |  |                                       |
| <b><u>AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS</u></b> |                           |  |                                       |
| <b><u>MONTHLY WASTEWATER RATES</u></b>  | <b>EXISTING<br/>RATES</b> | <b>MONTHLY<br/>RECOMMENDED<br/>RATES</b> | <b>MONTHLY<br/>RATE<br/>REDUCTION</b> |
| <u>Residential Service</u>  |                           |  |                                       |
| <u>Base Facility Charge</u>   |                           |  |                                       |
| All Meter Sizes   |                           | \$7.22                                   | \$0.12                                |
| <u>Gallonage Charge</u>   |                           |  |                                       |
| Per 1,000 gallons (6,000 gallon cap)  |                           | \$1.46                                   | \$0.02                                |
| <u>Residential Service</u>  |                           |  |                                       |
| <u>Base Facility Charge</u>   |                           |  |                                       |
| Meter Size:   |                           |  |                                       |
| 5/8"X3/4"   | \$3.91                    |  |                                       |
| 3/4"  | \$5.87                    |  |                                       |
| 1"  | \$9.78                    |  |                                       |
| 1-1/2"  | \$19.54                   |  |                                       |
| 2"  | \$31.27                   |  |                                       |
| 3"  | \$62.53                   |  |                                       |
| 4"  | \$97.71                   |  |                                       |
| 6"  | \$195.42                  |  |                                       |
| <u>Gallonage Charge</u>   |                           |  |                                       |
| Per 1,000 gallons (6,000 gallon cap)  | \$1.53                    |  |                                       |
| <u>Multi-Family and General Service</u>   |                           |  |                                       |
| <u>Base Facility Charge</u>   |                           |  |                                       |
| Meter Size:   |                           |  |                                       |
| 5/8"X3/4"   | \$3.91                    | \$7.22                                   | \$0.12                                |
| 3/4"  | \$5.87                    | \$10.83                                  | \$0.19                                |
| 1"  | \$9.78                    | \$18.05                                  | \$0.31                                |
| 1-1/2"  | \$19.54                   | \$36.10                                  | \$0.62                                |
| 2"  | \$31.27                   | \$57.76                                  | \$0.99                                |
| 3"  | \$62.53                   | \$115.52                                 | \$1.98                                |
| 4"  | \$97.71                   | \$180.50                                 | \$3.09                                |
| 6"  | \$195.42                  | \$361.00                                 | \$6.18                                |
| <u>Gallonage Charge</u>   |                           |  |                                       |
| Per 1,000 gallons   | \$1.84                    | \$1.75                                   | \$0.03                                |