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Public Service Commission

December 14, 2007

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CLERK

Martin S. Friedman
Rose, Sundstrom & Bentley, LLP
Sanlando Center
2180 W. State Road 434, Suite 2118
Longwood, FL 32779

Re: Docket No. 070415-WS –Application for staff-assisted rate case in Polk County by CHC VII, Ltd.

Dear Mr. Friedman:

Staff has discovered that a revision needed to be made to the Staff Report for CHC VII, Ltd. Two copies of the corrected staff report dated December 13, 2007 are enclosed. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Swiss Golf and Tennis Club
1 Century Drive
Winter Haven, FL 33881

Should you have any questions about any of the matters contained herein, please do not hesitate contact me at (850) 413-6844.

Sincerely,


Jared Deason

Enclosures

cc: Division of Economic Regulation (Bulecza-Banks, Rendell, Deason, Edwards)
Office of Commission Clerk (Docket No. 070415-WS)
Office of Public Counsel
Ron Baxley

DOCUMENT NUMBER - DATE
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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: December 13, 2007

TO: Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

FROM: Jared Deason, Regulatory Analyst
Gerald Edwards, Engineer
Sonica Bruce, Regulatory Analyst III
Jennie Lingo, Economic Analyst

RE: Docket No. 070415-WS – Application for staff-assisted rate case in Polk County by CHC VII, Ltd.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

DOCUMENT NUMBER-DATE

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Case Background

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed February 21, 2008 for the March 4, 2008, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

CHC VII, Ltd. (CHC) is a Class C water and wastewater utility located in Polk County serving approximately 880 water and wastewater customers in Swiss Golf & Tennis Club Mobile Home Park and Hidden Golf Club Mobile Home Park. CHC is located in the Southwest Florida Water Management District (SWFWMD). The utility's 2006 annual report reflects operating revenues of \$142,085 for water and \$83,134 for wastewater service and an operating loss of (\$206,217) for water and (\$281,549) for wastewater.

CHC has been under Commission jurisdiction since May 14, 1996, when Polk County transferred jurisdiction to the Public Service Commission (PSC). The utility began operations in 1986. On October 14, 1998, CHC applied for grandfather certificates to operate a water and wastewater utility in Polk County. Certificate Nos. 609-W and 525-S were granted to CHC VII, Ltd. in 1999¹. Prior to that time, the utility's operations were not regulated except for specific provisions contained in Chapter 723, Florida Statutes (F.S.), which governs the operation of mobile home parks in the State of Florida and the environmental requirements of the Florida Department of Environmental Protection (DEP) and the Polk County Health Department (PCHD). On July 16, 2007, CHC applied for a staff-assisted rate case (SARC). The utility has not previously been subject to a rate case.

Staff has audited CHC's records for compliance with Commission rules and orders, and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water and wastewater facilities along with the service area. The Utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, CHC plant in service, and quality of service. Staff has selected a historical test year ended December 31, 2006.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, F.S.

¹ Certificate Nos. 609-W and 525-S were granted by Order No. PSC-99-1235-PAA-WS, issued June 22, 1999, in Docket No. 981341-WS, In Re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.

Discussion of Issues

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

Preliminary Recommendation: The determination of the quality of water and wastewater service provided by CHC will be deferred until after the customer meeting scheduled for January 9, 2008. (Edwards)

Staff Analysis: Pursuant to Rule 25-30.433(1), 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 preliminary analysis addresses each of these three components.

Quality of Service

CHC is a class "C" utility that, presently, provides water and wastewater services to approximately 873 residential and 7 general service connections in Polk County. The utility's service area is located at Swiss Golf and Tennis Club Mobile Home Park and Hidden Golf Club Mobile Home Park (MHP), in Winter Haven, Florida. The raw water source is ground water, which is obtained from one main well and the golf course irrigation well is used as a back-up source. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject liquid chlorine, pressurize/storage in a tank, and distribute. Wastewater service is provided via wastewater treatment plant with percolation ponds and drip fields.

Quality of Utility's Product

Staff reviewed the utility's and Department of Environmental Protection (DEP) records. According to DEP, the utility's wastewater finished product complies with regulatory standards. In Polk County, the Polk County Health Department (PCHD) regulates the potable water program. According to the PCHD inspector, the finished water product complies with regulatory standards. Therefore, it appears the quality of the finished water product is satisfactory. This utility is located within the Southwest Florida Water Management District (SWFWMD).

Operating Condition of the Water and Wastewater Treatment Facilities

The PCHD inspection of the water treatment plant's condition found it to be out of compliance. PCHD has issued a letter that listed the deficiencies as follows:

- The wells are not properly sealed
- The access port on well AAJ2900 is badly corroded
- There is a crack in the concrete apron around the well

- Well AAJ2901 is not equipped with a proper vent
- Well AAJ2901 is not equipped with an access port
- The valve on the discharged line for well AAJ2901 is leaking
- The air relief valve on the hydroneumatic tank is not protected
- There are cross connections with irrigation systems
- The double check assembly at well AAJ2900 has not been tested
- The implementation of the cross connection control program plan is unclear
- The auxiliary power unit is malfunctioning
- The hydropneumatic tank by pass is not properly constructed

According to DEP, a warning letter has been issued for the wastewater treatment plant. The wastewater treatment facilities are not in compliance. The letter stated the utility might possibly be violating Florida Statutes and Rules for the following:

- Not submitting monthly Discharge Monitoring Reports
- Not submitting round water monitoring reports
- Unlicensed personnel documenting utility's records
- Operator not attending plant on all of the required days
- Submitting incomplete 2006 Residual Summaries
- Taking improper grab samples for testing
- The annual effluent analysis report was not submitted

Based on the DEP's and PCHD's inspections, the condition of the wastewater and water treatment facilities do not comply with the two agencies regulatory standards. During the time of the field investigation, there were no responses to the warning letter or the letter of deficiencies, from the utility. Staff will continue to monitor this situation and will address this further in its recommendation.

Based on the above, it appears that the operating conditions of the wastewater and water treatment facilities are not satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and found that there were no complaints recorded during the test year. Further, staff reviewed the DEP's and PCHD's records and found one customer complaint on file. The complaint was regarding bad odor coming from the water. It was determined the problem was due to a clogged chlorine injection point. According to the DEP inspector, the situation was properly addressed and resolved. In addition, DEP is satisfied with the manner in which the utility solved the problem.

On January 9, 2008, staff will conduct a customer meeting in Winter Haven, Florida. This meeting will give the customers an opportunity to go on record with specific concerns regarding the utility's attitude and responsiveness to quality of service issues. All valid quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation. The recommendation is scheduled to go before the panel of Commissioners for review at the March 4, 2008, Agenda Conference.

Summary

Currently, staff has reviewed the water treatment plant's sanitary survey and the wastewater treatment plant's yearly evaluation for the past 3 years, which was provided by the PCHD and DEP. These reports indicate no water quality compliance problems. During the staff's on-site engineering investigation, staff reviewed the operating condition of the wastewater and the water treatment plants along with the wastewater collection and water distribution systems and found them to be functional. However, DEP and PCHD have indicated the conditions of the facilities are not in compliance. A complete determination of customer satisfaction will not be made until after the January 9, 2008 customer meeting.

Based on the above, staff will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

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

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

Water Treatment Facilities	100%
Wastewater Treatment Facilities	100%
Distribution and Collection System	100%

(Edwards)

Staff Analysis: Staff has performed a preliminary analysis of the utility's facilities and our analysis and recommendations are discussed below.

Water Treatment Plant

The utility has one well with a total capacity of 600 gpm. Consistent with past Commission practice, if the system is served by a single well, it is considered 100 percent U&U². Therefore, staff recommends the water treatment plant be considered 100% U&U.

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

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the wastewater treatment plant was calculated by taking 3 maximum month average daily flow (3MADF) plus the growth allowance minus the excess inflow and infiltration (I&I), and dividing the sum by the permitted capacity of the plant. The utility's test year 3MADF was 40,056 gpd (12 months ending December 30, 2006). The growth allowance is 0 gpd. In addition, the excessive I&I is calculated to be 0 %. The wastewater treatment plant's permitted capacity is 176,000 gpd. The calculation reflected 22.75 % used and useful. (see Attachment A 1 of 2) However, the utility's service territory is built out. The service territory the system is designed to serve is built out and there is no potential for expansion of the service territory; therefore, in accordance with Commission practice, staff recommends the wastewater treatment plant be considered 100% U&U³.

Water Distribution and Wastewater Collection Systems

Staff reviewed the service territory and believes all of the current mains are providing service for the existing customers only and considers this system built out. The service territory the system is designed to serve is built out and there is no potential for expansion of the service territory; therefore, in accordance with Commission practice, staff recommends the water

² Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase filed by Utilities, Inc., of Florida

³ Ibid

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Date: December 13, 2007

distribution and wastewater collection systems be considered 100% U&U⁴. (see Attachment A 2 of 2)

⁴ Ibid

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

Preliminary Recommendation: The appropriate average test year rate base for the utility is \$57,881 for water and \$41,224 for wastewater. (Deason)

Staff Analysis: Staff selected a test year ending December 31, 2006 for this rate case. Rate base components have been updated through December 31, 2006 using information obtained from staff's SARC audit and engineering reports. A summary of each component and the adjustments follows.

Utility Plant in Service (UPIS): The utility recorded \$458,370 for water UPIS and \$1,512,011 for wastewater UPIS for the test year ending December 31, 2006.

Pursuant to Audit Finding No. 1, the utility was unable to provide any original cost records to substantiate its 2006 plant balances. As stated in the case background, the utility has never had a rate case or had rate base established by this Commission since becoming jurisdictional. Therefore the staff engineer performed an original cost study to determine the appropriate amount of plant in service. The original cost study was completed due to a lack of utility records. The engineer's cost estimate was performed by the use of available maps, partial invoice records, and visible facilities noted during the engineering field investigation. Based on the original cost study, staff has made an adjustment to decrease plant in service by \$104,154 for water and \$997,535 for wastewater.

Staff has increased UPIS account Nos. 334, 360 and 364 by \$8,173, \$4,669 and \$2,351, respectively, to reclassify plant items recorded in operation expense accounts pursuant to Audit Findings Nos. 2 and 10. Staff has also reduced both the water and wastewater plant in service accounts by \$4,087 and \$3,510, respectively, to reflect an averaging adjustment. Therefore, the appropriate amount of test year plant in service is \$358,302 for water and \$517,986 for wastewater.

Land & Land Rights: The utility's records reflect balances of \$11,313 and \$18,166, respectively, in Acct Nos. 303 and 353 – Land and Land Rights as of December 31, 2006. The NARUC USOA, Balance Sheet Acct. Nos. 303 and 353 – Land and Land Rights, states that the cost of land should be recorded at its original cost when it was first dedicated to utility service. Pursuant to Audit Finding No.3, the utility estimates that approximately 0.5 acres and 0.803 acres are occupied by the water and wastewater plant sites. Staff calculated water and wastewater land balances of \$3,165 ($\$6,329 \times 0.5$) and \$5,082 ($\$6,329 \times 0.803$) respectively, which is based on the original cost per acre of \$6,329. As a result, staff decreased the water and wastewater rate base land balances by \$8,148 and \$13,084 as of December 31, 2006.

Non-used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the utility's water treatment plant should be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$0 for the test year ended December 31, 2006. Commission Rule 25-30.570, FAC, addresses the imputation of CIAC when a company has not recorded any amount on the utility's books and the company

does not submit competent substantial evidence as to the amount of CIAC. Staff has determined that CIAC should be imputed in the amount of \$175,610 for water and \$347,535 for wastewater.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$323,677 for water and \$1,273,499 for wastewater for the test year ending December 31, 2006. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$83,434 for water and \$943,615 for wastewater to reflect depreciation calculated per staff. Staff has also increased both the water and wastewater accumulated depreciation by \$3,943 and \$6,355, respectively, to reflect an averaging adjustment. These adjustment results in average accumulated depreciation of \$236,300 for water and \$323,529 for wastewater.

Accumulated Amortization of CIAC: The utility's did not record accumulated amortization of CIAC balances for water and wastewater. Staff calculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C. for the CIAC. Based on this calculation, staff increased accumulated amortization of CIAC by \$92,372 for water and \$173,768 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 \$15,952 for water and \$15,452 for wastewater (based on O&M of \$127,614 for water and \$123,615 for wastewater). Working capital has been increased by \$15,952 for water and \$15,452 for wastewater 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 average rate base is \$57,881 for water and \$41,224 for wastewater.

Rate base is shown on Schedule Nos. 1-A and 1-B, and staff's adjustments are shown on Schedule 1-C.

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

Preliminary Recommendation: The appropriate return on equity is 12.01% with a range of 11.01% - 13.01%. The appropriate overall rate of return is 6.29%. (Deason)

Staff Analysis: According to staff's audit, the utility recorded the following items in its capital structure: partnership equity of \$0; negative retained earnings of \$4,550,751; and, paid-in-capital of \$0. The utility's capital structure consists of long term debt in the amount of \$22,187,363.

The appropriate rate of return on equity is 12.01%. using the most recent Commission-approved leverage formula⁵. The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 12.01% with a range of 11.01% - 13.01%, and an overall rate of return of 6.29%.

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

⁵ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What are the appropriate amount of test year revenues in this case?

Preliminary Recommendation: The appropriate amount of test year revenues in this case are \$204,245 for the water system and \$87,888 for the wastewater system. (Lingo, Deason)

Staff Analysis: The utility reported test year revenues of \$142,085 for the water system and \$83,134 for the wastewater system. However, staff auditors discovered that the utility failed to bill its general service and irrigation customers (all related parties to the utility), thereby greatly understating revenues. In addition, staff auditors discovered irregular billing cycles.

Based on detailed billing information obtained from the utility, staff recalculated test year revenues. Staff recommends revenue imputations of \$62,160 for the water system and \$4,754 for the wastewater system. Staff's recommended revenues also reflect the correction of any irregular billing cycles that occurred during the test period. Imputation of revenues in this case is consistent with how unbilled customers and the associated revenues have been handled in prior cases.⁶ Based on the foregoing, staff recommends that the appropriate amount of test year revenues in this case are \$204,245 for the water system and \$87,888 for the wastewater system.

⁶ Order No. PSC-97-0931-FOF-WU, issued August 5, 1997 in Docket No. 961447-WU, In re: Application for staff-assisted rate case in Lee County by Spring Creek Village, Ltd.

Issue 6: What are the appropriate operating expense?

Preliminary Recommendation: The appropriate amount of operating expense for the utility is \$143,721 for water and \$135,675 for wastewater. (Deason)

Staff Analysis: The utility recorded operating expenses of \$348,302 for water and \$364,683 for wastewater during the test year ending December 31, 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, as summarized below:

Salaries and Wages – Employees – (601,701) – The utility recorded \$28,294 for Acct. No. 601 and \$32,678 for Acct. No. 701 during the test year ending December 31, 2007. Pursuant to Audit Finding No. 6, the utility owner has five employees that provide services for utility operations. In comparing the general ledger for direct salary expense from Century Realty Fund, LLP(CRF) to the payroll reports created by its payroll vendor, staff auditors sampled the months of April and August 2006 and determined that the general ledger direct salary amount is overstated by approximately 10.5 percent for the five pay periods sampled. The utility could not provide an explanation for the differences staff discovered. CRF included \$12,491 for water and wastewater direct salary expense. Staff has reduced these amounts by \$1,312 ($\$12,491 \times 10.5\%$) each, to remove the unexplained 10.5% excess direct salary expense. Staff auditors sampled the months of April to August 2006 and determined that the general ledger direct salary expense balances for water and wastewater O&M expense is misstated \$2,192. Staff found that the company posted the first eight payroll periods of 2006 to the wastewater salary expense rather than allocating 50 percent of the payroll to water salary expense. Staff has increased water salary expense and decreased wastewater salary expense by \$2,192, each, respectively to correct the error. The salary for the park manager included a housing allowance. The utility changed park managers and could not provide information as to whether the housing allowance was included for the new park manager. Staff has removed the housing allowance of \$1,314, each, from the water and wastewater allocated salary expense balance. The general ledger also included a \$52 invoiced amount as salary expense that was posted to the wrong account. Staff has removed the entire amount, after allocation of \$13, each, from the water and wastewater allocated salary expense balance. Pursuant to Audit Finding No. 11, the utility contracted with Southeast Utilities, Inc. to operate its water and wastewater plant. The contract ended on December 31, 2006 and the utility now performs this operation utilizing a new in house plant operator. Staff has increased both water and wastewater by \$5,080 each to include the pro forma salary for the new operator. Under the new rate structure proposed by staff, the utility will begin reading meters on a monthly basis instead on quarterly. Therefore, staff has increased the water meter reading billing expense by \$2,025. Staff recommends Salaries and Wages – Employees of \$34,952 for water and \$32,927 for wastewater.

Purchased Water/Wastewater Treatment – (610,710) – The utility recorded \$14,118 in Acct. No. 610 – Purchased Water for the 12 months ended December 31, 2006. Pursuant to Audit Finding No. 7, staff's review of the utility's operations indicates that the utility does not purchase water for use or resale nor does it have an interconnection with another utility system. Staff decreased this account by \$14,118 to remove the entire amount posted. Staff recommends purchased water expense for the test year of \$0.

Purchased Power – (615,715) – The utility recorded a wastewater balance of \$15,556 in Acct. No. 715 – Purchased Power for the 12 months ended December 31, 2006. Pursuant to Audit Finding No. 7, staff’s review of the utility’s operations with the plant operator disclosed that a section of the mobile home park community receives water and wastewater service from the City of Winter Haven. The plant operator stated that a section containing eighty customers was severed from the utility’s service lines and turned over to the city several years back. However, the company is still responsible to maintain and service the transmission and collection systems as well as a lift-station in the section taken away. Staff has reduced purchased power expense by \$503 to remove the electric bill associated with the lift-station. Staff recommends purchased power expense for the test year of \$15,053 for Acct. No. 715 – Purchased Power.

Chemicals – (618,718) – The utility recorded balances of \$8,410 and \$12,631 in Acct. Nos. 618 and 718 – Chemicals, respectively, for the 12 months ended December 31, 2006. Pursuant to Audit Finding No. 9, staff has made the following adjustments to this account.

Description	Amount	Acct. No. 618	Acct. No. 718
Remove previous years invoice	(\$491)	(\$226)	(\$265)
Remove previous years invoice	(\$632)	(\$411)	(\$221)
Include current period invoice	\$657	\$272	\$385
Remove reclassification error	(\$2,453)	(\$0)	(\$2,453)

Staff recommends Chemical Expense of \$8,045 for water and \$10,077 for wastewater for the test year.

Materials and Supplies – (620,720) – The utility recorded \$26,665 for Acct. No. 620 and \$20,620 for Acct. No. 720 for the 12 months ended December 31, 2006. Pursuant to Audit Finding No. 10, staff has made the following adjustments to this account.

Description	Amount	Acct. No. 620	Acct. No. 720
Reclassified to Acct. No. 334 – see issue 3	(\$2,511)	(\$2,511)	
Remove undetermined freight charges	(\$1,002)	(\$1,002)	
Reclassified to Acct. No. 636	(\$1,355)	(\$1,355)	
Reclassified supplies from Acct. 620 to Acct. 720	\$0	(\$368)	\$368
Remove non-utility supplies	(\$9,485)	(\$9,485)	
Reclassified supplies from Acct. 720 to Acct. 620	\$0	\$634	(\$634)
Reclassified to Acct. No. 364 – see issue 3	(\$2,351)		(\$2,351)
Reclassified to Acct. No. 360 – see issue 3	(\$4,669)		(\$4,669)
Remove non-utility related services	(\$826)	(\$413)	(\$413)

Staff recommends Materials and Supplies expense \$12,165 for water and \$12,921 for wastewater for the test year.

Contractual Services - Professional – (631,731) – The utility recorded \$157,338 for Acct. No. 631 and \$172,344 for Acct. No. 731. Pursuant to Audit Finding No. 11, staff has made the following adjustments to this account.

Description	Amount	Acct. No. 631	Acct. No. 731
Amortize wastewater permit renewal	(\$7,607)		(\$7,607)
Remove non-utility services	(\$412)	(\$412)	
Include 2006 services invoices	\$3,771	\$1,771	\$2,000
Remove non-utility and undocumented expenses	(\$298,950)	(\$149,475)	(\$149,475)

Additionally, staff auditors determined that the utility's contract with Southeast Utilities, Inc. was canceled as of December 31, 2006 and the utility now performs this operation utilizing its own employees. Therefore staff has removed contracted operator expenses of \$7,084 for water and \$12,401 for wastewater. Staff recommends Contractual Services – Professional of \$2,138 for water and \$4,861 for wastewater for the test year.

Contractual Services - Other – (636,736) – The utility recorded \$16,541 in Acct. No. 636 for the test year ending December 31, 2006. Pursuant to Audit Finding No. 12, staff has decreased account No. 636 by \$5,662 for labor to replace water meters that should have been capitalized to Acct. No. 334, see issue 3. Staff has decreased Acct. No. 636 by \$1,584 for heavy equipment rentals used for non-utility projects. Staff has increased Acct. No. 636 for repairs to a hydro-pneumatic tank at the water plant that was incorrectly classified to Acct. No. 620. Staff recommends Contractual Services – Other of \$10,650 for water for test year ending.

Rent Expense – (640,740) – The utility recorded \$4,295 in Acct. No. 740 – Rent Expense for the test year ending December 31, 2006. Pursuant to Audit Finding No. 13, staff has made an adjustment to decrease Acct. No. 740 by \$4,295 for non-utility rental of equipment.

Insurance Expense – (655,755) – The utility recorded \$12,193 for Acct. No. 655 and \$12,193 for Acct. No. 755. Pursuant to Audit Finding No. 14, staff has made the following adjustments to this account.

Description	Amount	Acct. No. 631	Acct. No. 731
Remove non-utility flood insurance	(\$534)	(\$267)	(\$267)
Remove unsupported insurance	(\$2,376)	(\$1,188)	(\$1,188)
Remove insurance for non-utility vehicles	(\$2,068)	(\$1,034)	(\$1,034)
Include Insurance for utility related trucks	\$218	\$109	\$109

Staff recommends Insurance expense of \$9,813 for water and \$9,813 for wastewater for the test year ending.

Miscellaneous Expense – (675,775) – The utility recorded \$36,864 for Acct. No. 675 and \$37,633 for Acct. No. 775 for the test year ending December 31, 2006. Pursuant to Audit Finding No. 15, staff has reduced the water and wastewater General & Administrative expense allocation by \$16,572, each, respectively, to remove all non-utility items discovered in staff's audit. Staff has reduced the water and wastewater telephone expense allocation by \$1,221, each,

respectively, to remove excess telephone expenses associated with the mobile home parks office and to remove non-utility telephone expenses for the security gate office and restaurant. Staff has reduced the water and wastewater security expense allocation by \$645 each, to remove all non-utility expenses associated with maintaining the mobile home parks security gate and other miscellaneous non-utility repairs for its residents. Staff recommends Miscellaneous Expense for the test year of \$18,426 for water and \$19,195 for wastewater for the test year.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be reduced \$204,234 for water and reduced \$203,103 for wastewater as shown on Schedule No. 3-C. Staff's recommended O&M expenses of \$127,614 for water and \$123,615 for wastewater as shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$8,835 in water and \$32,256 in wastewater for Depreciation Expense. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year net depreciation expense is \$5,568 for water and \$28,235 for wastewater; therefore, staff has decreased water by \$5,568 and wastewater by \$28,235. Staff recommends net depreciation expense of \$3,267 for water and \$4,021 for wastewater.

Taxes Other Than Income (TOTI) – The utility's records reflect water and wastewater balances of \$7,619 and \$5,709, respectively, for Acct. No. 408 – TOTI. Pursuant to Audit Finding No. 17, staff's audit of company provided documents indicate that included were amounts for water and wastewater property taxes of \$1,225 and \$1,968, respectively. Staff recalculated the utility's property tax allocations based on the property tax invoices for the land occupied by the utility facilities. Staff has reduced water and wastewater property taxes by \$250 and \$403. Staff has increased the water and wastewater balances by \$2,797 and \$214, respectively, for increases in regulatory assessment fees based on imputation of revenues discussed in Issue No. 5. Staff has increased the water and wastewater balances by \$2,674 and \$2,519, respectively, for increases in payroll taxes based on staff's recommended salary amounts. Staff recommends TOTI of \$12,840 for water and \$8,039 for wastewater.

Income Tax – The utility recorded income tax of \$0 for water. The utility is a limited partnership. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$143,721 for water and \$135,675 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Issue 7: What are the appropriate revenue requirements?

Preliminary Recommendation: The appropriate revenue requirements are \$144,682 for the water system and \$140,642 for the wastewater system. As discussed in Issue 5, staff recommends that the appropriate test year revenues are \$204,245 for the water system and \$87,888 for the wastewater system. This results in overearnings before netting for the water system of \$59,563 and underearnings of the wastewater system of \$52,754. Staff recommends that the water system overearnings be netted against the wastewater system underearnings, resulting in net utility overearnings of \$6,809. (Lingo)

Staff Analysis: As discussed in Issue 5, staff recommends the appropriate test year revenues are \$204,245 for the water system and \$87,888 for the wastewater system. Based on the revenue requirement calculations set forth below, the utility earned more than the recommended rate of return of 6.29% for its water system. The utility is overearning on its water system, and a revenue decrease is normally the appropriate action undertaken under these circumstances. According to staff's calculations, the appropriate revenue change is a decrease of \$59,563 (or -29.16%) for the water system and an annual increase of \$52,754 (or 60.02%) for the wastewater system. This would allow the utility the opportunity to recover its expenses and earn a 6.29% return on its investment. The current practice for calculating revenues is as follows.

		<u>Water</u>	<u>Wastewater</u>
	Adjusted Rate Base	\$57,881	\$41,224
x	Rate of Return	6.29%	6.29%
=	Return on Investment	\$3,641	\$2,593
+	Adjusted O&M Expenses	\$127,614	\$123,615
+	Depreciation Expenses (Net)	\$3,267	\$4,021
+	Amortization	\$0	\$0
+	Taxes Other Than Income	\$10,160	\$10,413
=	Revenue Requirements	\$144,682	\$140,642
-	Test Year Revenues	\$204,245	\$87,888
=	Revenue Shortfall (Excess)	(\$59,563)	\$52,754
=	Percent Increase (Decrease)	(29.16%)	60.02%

The calculation above results in a 29.16% annual decrease of \$59,563 for water and a 60.02% annual increase of \$52,754 for wastewater. However, staff does not recommend a 29.16% rate decrease for the water system. Instead, staff recommends that the wastewater system absorb the reduction in the water system's revenue requirement by netting the overearnings from the water system against the underearnings of the wastewater system.

CHC is located in the Southwest Florida Water Management District (SWFWMD) in the Southern Water Use Caution Area (SWUCA). Several of the utility's customers use an excessive amount of water. A reduction in water rates would promote more of this behavior. As will be discussed in greater detail in Issue 8, the utility's current rate structure is considered nonconservation-oriented because: 1) it bills consumption on a quarterly basis; and 2) there is an 8,000 gallon (8 kgal) allotment before usage charges are assessed.

The Commission is a signatory on both the Water Conservation Initiative (WCI) agreement and the Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs). The stated goal of both the WCI agreement and the WMDs is the elimination of nonconserving water rate structures. Reducing the water system's revenue requirement would not allow staff to construct a rate structure that sends stronger, more conservation-oriented pricing signals to the utility's water customers. A reduction of water rates, when a logical alternative exists, would not be consistent with either the WCI agreement or our MOU with the WMDs.

The Commission has found netting of overearnings inappropriate in cases where the water and wastewater customers were materially different.⁷ However, netting of overearnings is appropriate when the water and wastewater customer bases and service areas are similar.⁸ This is the case with CHC. The water and wastewater service areas are the same, and 99% of the utility's water customers are also wastewater customers, with irrigation customers representing the difference between the two customer bases. Therefore, staff has recalculated revenue requirements for rate setting purposes as follows:

		<u>Water</u>	<u>Wastewater</u>
	Adjusted Rate Base	\$57,881	\$41,224
x	Rate of Return	6.29%	6.29%
=	Return on Investment	\$3,641	\$2,593
+	Adjusted O&M Expenses	\$127,614	\$123,615
+	Depreciation Expenses (Net)	\$3,267	\$4,021
+	Amortization	\$0	\$0
+	Taxes Other Than Income	\$10,160	\$10,413
-	Reallocation of Revenue Requirement Reduction	\$52,754	(\$52,754)
=	Revenue Requirements	\$144,682	\$87,888
-	Test Year Revenues	\$204,245	\$87,888
=	Revenue Shortfall (Excess)	(\$6,809)	\$0
=	Percent Increase (Decrease)	(3.33%)	0%

⁷ Order No. PSC-96-0501-FOF-WS, issued April 11, 1996 in Docket No. 960234-WS, In re: Investigation of rates of Gulf Utility Company in Lee County for possible overearnings; Order No. PSC-95-0424-FOF-WS, issued March 29, 1995 in Docket No. 950170-WS, In re: Investigation of rates of Marion Utilities, Inc. in Marion County for possible overearnings.

⁸ 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.; Order No. PSC-97-1506-FOF-WS, issued November 25, 1997 in Docket No. 970645-WS, In re: Investigation of possible overearning by J. Swiderski Utilities, Inc. (Kings Cove) in Lake County; Order No. 97-1501-FOF-WS, issued November 25, 1997 in Docket No. 961364-WS, In re: Investigation of rates of Lindrick Service Corporation in Pasco County for possible overearning.

Issue 8: What is the appropriate disposition of the net overearnings?

Preliminary Recommendation: Staff recommends that the net overearnings in this case be applied to an aggressive meter change-out program. Staff recommends that the utility replace approximately 64 meters each year over the next 4 years. The meters to be replaced should have the greatest time in service. Furthermore, in order to monitor the utility's appropriate application of the overearnings to meter change-outs, staff recommends that the utility be ordered to file monthly reports with the Commission, indicating: 1) the reporting period; 2) the number and sizes of meters changed out and the corresponding addresses where the change-outs occurred; 3) the total spent on meter change-outs during each reporting period; and 4) the volume of water both pumped and sold to customers during the period. (Lingo)

Staff Analysis: As discussed in Issue 7, staff recommends that the net overearnings in this case is \$6,809. Staff recommends that a meter change-out program is the appropriate disposition of the overearnings. A discussion of the circumstances leading to staff's recommendation follows.

As mentioned in Issue 7, the Commission has entered into the WCI agreement and a MOU with the five WMDs. Through these agreements, our agencies recognize it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint, cooperative effort is necessary to implement an effective, state-wide water conservation policy.

As mentioned previously, CHC is located in the Southwest Florida Water Management District (SWFWMD or District). In January 2007, the SWFWMD issued Water Shortage Order No. SWF 07-02. In that Order, the District declared a Phase II Severe Water Shortage for all ground and surface waters within the District's 16 county area. In addition, the District's one day per week lawn watering limitation was extended. At its September 25, 2007 District Board meeting, the Board made several findings, including, but not limited to, the following. First, the U.S. Drought Monitor indicated that all 16 counties were experiencing drought or drought-like conditions. Polk County was one of the counties most affected, experiencing conditions characterized as Moderately to Severely Abnormal. Second, the Standard Precipitation Index indicated that all 16 counties were experiencing conditions characterized as Extremely Abnormal. Third, the Long Term Palmer Index indicated that all 16 counties were experiencing conditions characterized as Severely Abnormal. Based in large part on the aforementioned findings, the District Board extended Order No. SWF 07-02 through November 2007.

A specific condition of a Phase II water shortage declaration is that water utilities institute or accelerate system-level water conservation measures, including an immediate water audit (unless one has been conducted in the past two years) and appropriate remedial action. CHC has not yet performed this audit. However, based on information contained in its 2006 Annual Report, its unaccounted-for water is approximately 18% -- almost double the Commission's accepted unaccounted-for water rate of 10%. Staff believes that the age of the customers' meters may be one possibility for the high unaccounted-for water percentage. Based on information contained in the utility's Annual Reports, the customers' water meters became fully depreciated (indicating 17 years of use) in 2003. In several prior cases in which a utility

had excessive unaccounted-for water and fully depreciated meters, the Commission ordered that meter change-out programs be implemented.⁹

Based on the foregoing, staff believes it is appropriate to apply the net overearnings in this case to an aggressive meter change-out program. As discussed in Issue 7, staff's recommended amount of net overearnings in excess of wastewater underearnings is \$6,809. Based on an average estimated meter change-out cost of \$100 per meter, plus the associated depreciation expense and regulatory assessment fees, staff recommends that, at a minimum, the utility replace 64 meters each year over the next 4 years. The meters to be replaced should have the greatest time in service. Furthermore, in order to monitor the utility's appropriate application of the overearnings to meter change-outs, staff recommends that the utility be ordered to file monthly reports with the Commission, indicating: 1) the reporting period; 2) the number and sizes of meters changed out and the corresponding addresses where the change-outs occurred; 3) the total spent on meter change-outs during each reporting period; and 4) the volume of water both pumped and sold to customers during the period. This report should provide sufficient assurance that the meter change-out program will, in fact, be implemented as recommended.

⁹ Order No. PSC-96-1474-FOF-WS, issued December 4, 1996 in Docket No. 960523-WS, In re: Application for staff-assisted rate case in Citrus County by J & J Water and Sewer Corporation; Order No. PSC-99-0243-FOF-WU, issued February 9, 1999 in Docket No. 980726-WU, In re: Application for staff-assisted rate case by Dixie Groves Estates, Inc.; Order No. PSC-01-1162-PAA-WU, issued May 22, 2001 in Docket No. 001118-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company); Order No. PSC-01-2511-PAA-WS, issued December 24, 2001 in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

Issue 9: What are the appropriate rate structures for the utility's various customer classes?

Preliminary Recommendation: The appropriate rate structure for the water and wastewater systems' residential and non-residential class is a base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 40%. The residential wastewater monthly gallonage cap should be set at 6 kgal. The non-residential 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)

Staff Analysis: The utility's current rate structure for water and wastewater residential systems consists of a single combined charge for both water and wastewater service. This rate structure consists of a two-tier inclining block rate structure and an allotment of 8,000 (8 kgal) in the base charge. The usage blocks for consumption of: a) 8-10 kgals in the first block and b) usage in excess of 10 kgal in the second block are billed on a quarterly basis. The quarterly usage charges are \$1.31 in the first block and \$2.09 in the second block. The monthly base charge which includes the allotment is \$15.71 for both water and wastewater. According to the utility's current tariffs for both water and wastewater the tariff sheets indicated that non-residential rates are non-applicable.

This rate structure is considered non-conservation oriented for two reasons: 1) the allotment discourages conservation below 8 kgal; 2) billing on a quarterly basis for consumption does not give customers a timely price signal that would enable them to adjust their consumption accordingly. Therefore, in order to promote the goal of eliminating conservation-discouraging water and wastewater rate structures, the allotment of usage up to 8 kgal should be eliminated. Furthermore, staff recommends changing the utility's quarterly consumption charge to a monthly charge.

In order to appropriately allocate the combined charges between the respective water and wastewater systems, staff used detailed billing records provided by the utility, as well as information contained in the utility's 2006 Annual Report. Based on the number of water vs. wastewater customers, and the number of water kgals sold vs. kgals treated, staff separated the combined charges as follows:

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) allows the utility to recover its revenue requirement; 2) equitably distributes cost recovery among the utility's customers; and 3) implements, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

The utility is located in the Southwest Florida Water Management District (SWFWMD or District). According the District's Water Use Permit conditions, the utility is required to implement a conservation-oriented rate structure. Based on staff's analysis, the customer's average residential consumption during the test year was 4.7 kgal. This level of usage does not indicate a high level of discretionary usage. Therefore, staff believes that it is appropriate to

implement a BFC/uniform gallonage charge rate structure for this utility. The BFC recovery allocation was 53%. However, staff recommends that the BFC recovery percentage should be set at 40% to allow rates to be more conservation oriented.

The traditional BFC/uniform gallonage charge rate structure has been Commission's water rate structure of choice for nonresidential classes. This rate structure is also consistent with Rule 25-30.437(6) F.A.C. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, nonresidential customers would continue to pay their fair share for the cost of service.

Wastewater Rates: As mentioned earlier, the current rate structure for both the water and wastewater residential systems consists of a two-tier inclining block rate structure which includes an allotment up to 8,000 (8 kgal) in the base charge. The usage blocks for consumption of: a) 8-10 kgal in the first block and b) usage in excess of 10 kgal in the second block are billed on a quarterly basis. The quarterly usage charges are \$1.31 in the first block and \$2.09 in the second block. The monthly base charge which includes the allotment is \$15.71 for both water and wastewater.

The initial allocation for the wastewater BFC cost recovery percentage was 83%. Typically, staff recommends that the BFC cost recovery allocation be changed to at least 50% due to capital intensive nature of wastewater plants. However, in this case staff recommended an allocation of 50% to increase the gallonage charge rates to send a greater price signal. The residential wastewater gallonage cap should be set at 6 kgal per month.

Based on the foregoing, staff recommends that the appropriate rate structure for both the water and wastewater residential systems be changed to a BFC/uniform charge rate structure. The appropriate rate structure for the water system's non-residential classes is a base facility charge BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 40%. The current residential wastewater monthly gallonage cap should be set at 6 kgal. 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%

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

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule Nos. 4 and 4-A. The recommended rates should be designed to produce revenue of \$204,245 for water and \$87,888 for wastewater, excluding miscellaneous service charges. The utility currently has irrigation rates applicable to golf course irrigation. The tariff indicates that a fixed charge of \$7.86 (with no reference to meter size) is billed in advance on a monthly basis. The consumption charge of \$0.65 per kgal is billed quarterly in arrears, with no charge for the first 8 kgal of consumption. For the purpose of this staff report, staff recommends three changes to the irrigation tariff. First, the base facility charge should be charged on a per ERC basis. Second, the BFC should be consistent with staff's recommended BFC for monthly service. Third, the 8 kgal allotment should be removed. Based on test year ERCs and consumption, staff's recommended irrigation rates generate revenues of \$69,278. 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, Deason)

Staff Analysis: The utility's current rate structure consists of a monthly fixed charge of \$15.71 for combined water and wastewater service. In addition, the consumption charges, billed quarterly, reflect an 8 kgal allotment which is covered in the fixed charge. After 8 kgal of quarterly consumption, the customer is billed: 1) \$1.31 per kgal for consumption from 8.001 kgal up to 10 kgal; and 2) \$2.09 per kgal for consumption in excess of 10 kgal.

CHC VII, LTD: ALLOCATION OF COMBINED TARIFFED RATES BETWEEN WATER AND WASTEWATER SYSTEMS		
<u>Line No.</u>	<u>Description</u>	
1	Total monthly fixed revenues collected (excl. irrig revs)	\$163,447
2	Percentage of fixed revenues collected from water custs.	53%
3	Percentage of fixed revenues collected from wastewater custs.	47%
4	Combined fixed chg per month	\$15.71
5 = 2 x 4	Allocation of fixed chg to water system	\$8.33
6 = 3 x 4	Allocation of fixed chg to wastewater system	\$7.38
7	Total revenues (excl. irrig revs) from consumption charges	\$65,106
8	Percentage of consump chgs collected from water custs	83%
9	Percentage of consump chg collected from wastewater custs	17%
10	Combined quarterly charge 8.001 - 10 kgal	\$1.31
11	Combined quarterly charge in excess of 10 kgal	\$2.09
12 = 8 x 10	Allocated consump chgs to water system 8.001 - 10 kgal	\$1.09
13 = 8 x 11	Allocated consump chgs to water system in excess of 10 kgal	\$1.73

14 = 9 x 10	Allocated consump chgs to wastewater system 8.001 – 10 kgal	\$.22
15 = 9 x 11	Allocated consump chgs to wastewater system in excess o 10 kgal	\$.36

The recommended rates are designed to produce revenue of \$204,245 for water and \$87,888 for wastewater, excluding miscellaneous service charges. Staff calculated rates using the test-year number of bills and consumption.

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 should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event should the rates be effective for service rendered prior to the stamped approval date.

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

Issue11: 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?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4 and 4-A, 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. (Deason)

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 RAFs which is \$373 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 No. 4 and 4-A.

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

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

Issue 12: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

Preliminary 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 should 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. (Hudson)

Staff Analysis: This recommendation proposes an increase in water 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 should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$4,682. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, and.
- 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; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The 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 a 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'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.

Issue 13: Should the utility be required to submit a revised Regulatory Assessment Fee (RAFs) for 2006?

Preliminary Recommendation: Yes. The utility should be required to revise its 2006 RAF's by \$2,797 for water and \$214 for wastewater. (Deason)

Staff Analysis: The utility reported test year RAFs of \$6,394 for the water system and \$3,741 for the wastewater system based on reported test year revenues of \$142,085 for water and \$83,134 for wastewater. According to Issue 6, staff has imputed revenues of \$62,160 for water and \$4,754. Therefore, the utility will need to revise its 2006 RAF's by \$2,797 for water and \$214 for wastewater and submit additional payment to the PSC. Staff recommends RAFs of \$9,191 for water and \$3,955 for wastewater.

Name of Utility: CHC VII Ltd.
Docket No: 070415-WS

Attachment A 1 of 2
Historical Test Year (2006)

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

1)		Permitted Capacity of Plant Using (3 MADF)	176,000	gallons per day
2)		Average Daily Glow (3MADF)	40,056	gallons per day
3)		Growth	873	
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005		ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2\ (3a)]	0	Gallons per day
4)		Excessive Infiltration or Inflow (I&I)		Gallons per day
	a)	Total I & I	0	gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)		gallons per day
	d)	Excessive Amount		gallons per day

USED AND USEFUL FORMULA

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

$$(40,056 + 0 - 0) / 176,000 = (22.76\%) \text{ Used \& Useful}$$

The utility's service territory is built out; therefore, the facility is 100% U&U

Name of Utility: CHCVII, Ltd. Docket No: 070415-WS	Attachment B, Page 2 of 2
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COLLECTION and DISTRIBUTION SYSTEMS – USED AND USEFUL DATA

1)		Capacity of System (ERCs)	873	ERCs
2)		Test Year Connections Average Test Year	873	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs/yr
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

USED AND USEFUL FORMULA

[2+3]/(1) = 100% Used and Useful

CHC VII, Ltd. TEST YEAR ENDING 12/31/2006 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 070415-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$458,370	(\$100,068)	\$358,302
2. LAND & LAND RIGHTS	\$11,313	(\$8,148)	\$3,165
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	\$0	(\$175,610)	(\$175,610)
5. ACCUMULATED DEPRECIATION	(\$323,677)	\$87,377	(\$236,300)
6. AMORTIZATION OF CIAC	\$0	\$92,372	\$92,372
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$15,952</u>	<u>\$15,952</u>
8. WATER RATE BASE	<u>\$146,006</u>	<u>\$(88,125)</u>	<u>\$57,881</u>

CHC VII, Ltd. TEST YEAR ENDING 12/31/2006 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 070415-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,512,011	(\$994,025)	\$517,986
2. LAND & LAND RIGHTS	\$18,166	(\$13,084)	\$5,082
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	\$0	(\$347,535)	(\$347,535)
5. ACCUMULATED DEPRECIATION	(\$1,273,499)	\$949,970	(\$323,529)
6. AMORTIZATION OF CIAC	\$0	\$173,768	\$173,768
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$15,452</u>	<u>\$15,452</u>
8. WASTEWATER RATE BASE	<u>\$256,678</u>	<u>\$(215,454)</u>	<u>\$41,224</u>

CHC VII Ltd.
TEST YEAR ENDING 12/31/2006
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 070415-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect staff's plant per original cost study	(\$104,154)	(\$997,535)
2. To reclassify plant additions recorded as expenses	\$8,173	
3. To reclassify plant additions to Acct No. 360 from Acct No. 720		\$4,669
4. To reclassify plant addition to Acct No. 364 from Acct No. 720		\$2,351
5. To reflect averaging adjustment	(\$4,087)	(\$3,510)
Total	<u>\$(100,068)</u>	<u>\$(994,025)</u>
<u>LAND AND LAND RIGHTS</u>		
1. Water and wastewater rate base land balances.	<u>(\$8,148)</u>	<u>(\$13,084)</u>
<u>Non-Used and Useful</u>		
1. Non-used and useful components.	<u>\$0</u>	<u>\$0</u>
<u>CIAC</u>		
1. To impute CIAC	(\$175,610)	(\$347,535)
Total	<u>(\$175,610)</u>	<u>(\$347,535)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per rule	\$83,434	\$943,615
2. To reflect averaging adjustment	\$3,943	\$6,355
Total	<u>\$87,377</u>	<u>\$949,970</u>
<u>AMORTIZATION OF CIAC</u>		
1. To impute CIAC	\$94,681	\$178,112
2. To reflect an averaging adjustment	(\$2,309)	(\$4,344)
Total	<u>\$92,372</u>	<u>\$173,768</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$15,952</u>	<u>\$15,452</u>

CHC VII, Ltd.
TEST YEAR ENDING 12/31/2006
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070415-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. PARTNERSHIP EQUITY	\$0	\$0	\$0					
2. RETAINED EARNINGS	(\$4,550,751)	\$4,550,751	\$0					
3. PAID IN CAPITAL	\$0	\$0	\$0					
4. TREASURY Stock	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>					
5. TOTAL COMMON EQUITY	(\$4,550,751)	\$4,550,751	\$0	\$0	\$0	0.00%	12.01%	0.00%
6. LONG TERM DEBT-Note	\$22,187,363	\$0	\$22,187,363	(\$22,088,258)	\$99,105	100.00%	6.29%	6.29%
TOTAL LONG TERM DEBT	\$22,187,363	\$0	\$22,187,363	(\$22,088,258)	\$99,105	100.00%	6.29%	6.29%
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$17,636,612</u>	<u>\$4,550,751</u>	<u>\$22,187,363</u>	<u>(\$22,088,258)</u>	<u>\$99,105</u>	<u>100.00%</u>		<u>6.29%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>	
OVERALL RATE OF RETURN						<u>6.29%</u>	<u>6.29%</u>	

CHC VII, Ltd. TEST YEAR ENDING 12/31/2006 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 070415-WS			
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$142,085</u>	<u>\$62,160</u>	<u>\$204,245</u>	<u>\$(59,563)</u> -29.16%	<u>\$144,682</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$331,848	(\$204,234)	\$127,614	0	\$127,614
3. DEPRECIATION (NET)	\$8,835	(\$5,568)	\$3,267	0	\$3,267
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$7,619	\$5,221	\$12,840	(\$2,680)	\$10,160
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$348,302</u>	<u>(\$204,581)</u>	<u>\$143,721</u>	<u>(\$2,680)</u>	<u>\$141,041</u>
8. OPERATING INCOME/(LOSS)	<u>(\$206,217)</u>		<u>\$60,524</u>		<u>\$3,641</u>
9. WATER RATE BASE	<u>\$146,006</u>		<u>\$57,881</u>		<u>\$57,881</u>
10. RATE OF RETURN	<u>-141.24%</u>		<u>104.57%</u>		<u>6.29%</u>

CHC VII, Ltd. TEST YEAR ENDING 12/31/2006 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 070415-WS		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$83,134</u>	<u>\$4,754</u>	<u>\$87,888</u>	<u>\$52,754</u> 60.02%	<u>\$140,642</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$326,718	(\$203,103)	\$123,615	0	\$123,615
3. DEPRECIATION (NET)	\$32,256	(\$28,235)	\$4,021	0	\$4,021
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$5,709	\$2,330	\$8,039	\$2,374	\$10,413
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$364,683</u>	<u>(\$229,008)</u>	<u>\$135,675</u>	<u>\$2,374</u>	<u>\$138,049</u>
8. OPERATING INCOME/(LOSS)	<u>(\$281,549)</u>		<u>(\$47,787)</u>		<u>\$2,593</u>
9. WATER RATE BASE	<u>\$256,678</u>		<u>\$41,224</u>		<u>\$41,224</u>
10. RATE OF RETURN	<u>-109.69%</u>		<u>-115.92%</u>		<u>6.29%</u>

CHC VII, Ltd.	SCHEDULE NO. 3-C DOCKET NO. 070415-WS	
TEST YEAR ENDING 12/31/2006 ADJUSTMENTS TO OPERATING INCOME		
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect the appropriate test year revenue	\$62,160	\$4,754
Subtotal	<u>\$62,160</u>	<u>\$4,754</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601,701)		
a. To correct overstated salaries	(\$1,312)	(\$1,312)
b. To reclassify salary expenses to water	\$2,192	(\$2,192)
c. To remove park managers housing allowance	(\$1,314)	(\$1,314)
d. To remove an invoice unrelated to salaries	(\$13)	(\$13)
e. To include pro forma salary for new operator	\$5,080	\$5,080
f. To include meter reader billing expense	<u>\$2,025</u>	
Subtotal	<u>\$6,658</u>	<u>(\$249)</u>
2. Purchased water/wastewater treatment (610,710)		
To remove non-utility purchased water expense	<u>(\$14,118)</u>	
3. Purchased Power Expense (615,715)		
To remove non-utility purchased power expense		<u>(\$503)</u>
4. Chemical Expense(618,718)		
a. To remove prior year expenses	(\$226)	(\$265)
b. To remove prior year expenses	(\$411)	(\$211)
c. To include 2006 chemical expense invoice	\$272	\$385
d. To remove expense included twice		<u>(\$2,453)</u>
Subtotal	<u>(\$365)</u>	<u>(\$2,554)</u>
5. Materials and Supplies (620,720)		
a. To reclassify plant to Acct No. 334	(\$2,511)	
b. To remove unsupported expenses	(\$1,002)	
c. To reclassify tank repairs to Acct No. 636	(\$1,355)	
d. To reclassify wastewater expense	(\$368)	\$368
e. To remove non-utility supplies	(\$9,485)	
f. To reclassify water expense	\$634	(\$634)
g. To reclassify plant to Acct. No. 364		(\$2,351)
h. To reclassify plant to Acct. No. 360		(\$4,669)
i. To remove non-utility services	(\$413)	(\$413)
Subtotal	<u>(\$14,500)</u>	<u>(\$7,699)</u>
6. Contractual Services - Billing (630,730)		
7. Contractual Services - Professional (631,731)		
a. To amortize wastewater permit renewal		(\$7,607)
b. To remove non-utility and undocumented expenses	(\$412)	
c. To include 2006 services invoices	\$1,771	\$2,000
d. To remove non-utility and undocumented expenses	(\$149,475)	(\$149,475)
e. To remove contracted operator expense	(\$7,084)	(\$12,401)
Subtotal	<u>(\$155,200)</u>	<u>(\$167,483)</u>

CHC VII, Ltd.	SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/2006	DOCKET NO.	
ADJUSTMENTS TO OPERATING INCOME	070415-WS	
	PAGE 2 OF 2	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services - Other (636,736)		
a. To reclassify to Acct No. 334	(\$5,662)	
b. To remove non-utility service	(\$1,584)	
c. To reclassify tank repairs to Acct No. 636	<u>\$1,355</u>	
Subtotal	<u>(\$5,891)</u>	
9. Rent Expense(640,740)		
To remove contracted operator expense		(\$4,295)
10. Insurance Expense (655,755)		
a. To remove non-utility flood insurance	(\$267)	(\$267)
b. To remove unsupported insurance	(\$1,188)	(\$1,188)
c. To remove insurance for non-utility vehicles	(\$1,034)	(\$1,034)
d. To include insurance for utility related trucks	\$109	\$109
Subtotal	<u>(\$2,380)</u>	<u>(\$2,380)</u>
11. Miscellaneous Expense (675,775)		
a. To remove all non-utility G&A expenses	(\$16,572)	(\$16,572)
b. To reduce excess and non-utility telephone expenses allocation	(\$1,221)	(\$1,221)
c. To remove all non-utility security expenses	(\$645)	(\$645)
Subtotal	<u>(\$18,438)</u>	<u>(\$18,438)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$204,234)</u>	<u>(\$203,103)</u>
DEPRECIATION EXPENSE		
1. To reflect net depreciation calculated per 25-30.140, FAC	(\$5,568)	(\$28,235)
Total	<u>(\$5,568)</u>	<u>(\$28,235)</u>
TAXES OTHER THAN INCOME		
1. To reflect test year RAFs	\$2,797	\$214
2. To reflect test year property taxes	(\$250)	(\$403)
3. Payroll Tax	<u>\$2,674</u>	<u>\$2,519</u>
Total	<u>\$5,221</u>	<u>\$2,330</u>
INCOME TAX		
1. Income Tax	\$0	<u>\$0</u>

CHC VII, Ltd.

**TEST YEAR ENDING 12/31/2006
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-D
 DOCKET NO. 070415-WS**

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$28,294	\$6,658	\$34,952
(603) SALARIES AND WAGES - OFFICERS	\$0	\$0	\$0
(604) EMPLOYEE PENSION & BENEFITS	\$0	\$0	\$0
(610) PURCHASED WATER	\$14,118	(\$14,118)	\$0
(615) PURCHASED POWER	\$29,519	\$0	\$29,519
(616) FUEL FOR POWER PRODUCTION	\$0	\$0	\$0
(618) CHEMICALS	\$8,410	(\$365)	\$8,045
(620) MATERIALS AND SUPPLIES	\$26,665	(\$14,500)	\$12,165
(630) CONTRACTUAL SERVICES - BILLING	\$0	\$0	\$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	\$157,338	(\$155,200)	\$2,138
(635) CONTRACTUAL SERVICES - TESTING	\$702	\$0	\$702
(636) CONTRACTUAL SERVICES - OTHER	\$16,541	(\$5,891)	\$10,650
(640) RENTS	\$0	\$0	\$0
(650) TRANSPORTATION EXPENSE	\$1,205	\$0	\$1,205
(655) INSURANCE EXPENSE	\$12,193	(\$2,380)	\$9,813
(665) REGULATORY COMMISSION EXPENSE	\$0	\$0	\$0
(670) BAD DEBT EXPENSE	\$0	\$0	\$0
(675) MISCELLANEOUS EXPENSES	<u>\$36,864</u>	<u>(\$18,438)</u>	<u>\$18,426</u>
	<u>\$331,848</u>	<u>(\$204,234)</u>	<u>\$127,614</u>

CHC VII, Ltd.

TEST YEAR ENDING 12/31/2006

ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
 DOCKET NO. 070415-WS

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$32,678	\$249	\$32,927
(703) SALARIES AND WAGES - OFFICERS	\$0	\$0	\$0
(704) EMPLOYEE PENSION & BENEFITS	\$0	\$0	\$0
(710) PURCHASED SEWAGE TREATMENT	\$0	\$0	\$0
(711) SLUDGE REMOVAL EXPENSE	\$13,805	\$0	\$13,805
(715) PURCHASED POWER	\$15,556	(\$503)	\$15,053
(716) FUEL FOR POWER PRODUCTION	\$0	\$0	\$0
(718) CHEMICALS	\$12,631	(\$2,554)	\$10,077
(720) MATERIALS AND SUPPLIES	\$20,620	(\$7,699)	\$12,921
(730) CONTRACTUAL SERVICES - BILLING	\$0	\$0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	\$172,344	(\$167,483)	\$4,861
(735) CONTRACTUAL SERVICES - TESTING	\$265	\$0	\$265
(736) CONTRACTUAL SERVICES - OTHER	\$2,010	\$0	\$2,010
(740) RENTS	\$4,295	(\$4,295)	\$0
(750) TRANSPORTATION EXPENSE	\$2,688	\$0	\$2,688
(755) INSURANCE EXPENSE	\$12,193	(\$2,380)	\$9,813
(765) REGULATORY COMMISSION EXPENSE	\$0	\$0	\$0
(770) BAD DEBT EXPENSE	\$0	\$0	\$0
(775) MISCELLANEOUS EXPENSES	<u>\$37,633</u>	<u>(\$18,438)</u>	<u>\$19,195</u>
	<u>\$326,718</u>	<u>\$(203,103)</u>	<u>\$123,615</u>

CHC VII, Ltd.
 TEST YEAR ENDING 12/31/2006
 MONTHLY WATER RATES

SCHEDULE NO. 4
 DOCKET NO. 070415-WU

	UTILITY'S* EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>General and Residential Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$15.71*	\$4.95	\$.01
3/4"	\$23.57	\$7.43	\$.02
1"	\$39.28	\$12.38	\$.03
1-1/2"	\$78.55	\$24.75	\$.07
2"	\$125.68	\$39.60	\$.11
3"	\$251.36	\$79.20	\$.21
4"	\$392.75	\$123.75	\$.33
6"	\$785.50	\$247.50	\$.67
* Existing rates include 8,000 gallons in the Base Facility Charge for both water and wastewater.			
<u>General and Residential Gallonage Charge</u>			
Per 1,000 gallons over 8,000 up to 10,000	\$1.31		
Per 1,000 gallons over 10,000	\$2.09		
Gallonage Charge (all gallons)		\$1.49	\$0
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.71	\$9.42	
5,000 Gallons	\$15.71	\$12.05	
10,000 Gallons	\$18.33	\$19.85	

**CHC VII, Ltd.
 TEST YEAR ENDING 12/31/2006
 MONTHLY WASTEWATER RATES**

**SCHEDULE NO. 4-A
 DOCKET NO. 070415-WU**

	UTILITY'S* EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u> (all meter sizes)	\$15.71*	\$4.12	\$.01
<u>General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"		\$4.12	\$.01
3/4"		\$6.18	\$.02
1"		\$10.30	\$.03
1-1/2"		\$20.60	\$.06
2"		\$32.96	\$.09
3"		\$65.92	\$.18
4"		\$103.00	\$.29
6"		\$206.00	\$.57
* Existing rates include 8,000 gallons in the Base Facility Charge for both water and wastewater.			
<u>Residential Gallonage Charge</u>			
Per 1,000 gallons over 8,000 up to 10,000	\$1.31		
Per 1,000 gallons over 10,000	\$2.09		
Gallonage Charge (capped at 6,000 gallons)		\$1.77	\$.00
<u>General Gallonage Charge</u>			
Gallonage Charge (capped at 6,000 gallons)		\$2.12	\$.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$15.71	\$9.43	
5,000 Gallons	\$15.71	\$12.97	
10,000 Gallons	\$18.33	\$14.74	