

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Pasco County by LWV Utility.

DOCKET NO. 070177-WU
ORDER NO. PSC-07-1009-PAA-WU
ISSUED: December 20, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates in the event of a protest, the reduction of rates pursuant to section 367.0816, F. S., and our decision not to initiate a show cause proceeding, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

LWV Utilities, Inc. (LWV) is a Class C water utility in Pasco County, serving approximately 437 customers. LWV is located in the Southwest Florida Water Management District (SWFWMD). Wastewater service is provided by septic tanks. The utility's 2006 annual report reflects operating revenues of \$73,266 and an operating loss of (\$11,478).

Certificate No. 152-W was granted to Lakewood Villas, Inc. in 1972¹ and subsequently transferred to LWV in 1977.² The utility was part of the James A. Cochran Revocable Trust

¹ Certificate No. 152-W was granted by Order No. 5807, issued July 26, 1973, in Docket No. C-72587-W, In Re: Application of Lakewood Villas, Inc., for a certificate to operate an existing water system in Pasco County.

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with James Cochran as the trustee. Mr. Cochran died on August 10, 2002. Mr. James C. Weeks succeeded Mr. Cochran as trustee. During the probate of Mr. Cochran's estate, the trust was dissolved and the stock in LWV was divided between Mr. Weeks and Mr. Ricky Miller.

On February 27, 2004, Mr. Weeks filed an application for transfer of majority organizational control of LWV Utilities, Inc. We granted the transfer from the James A. Cochran Revocable Trust to James C. Weeks and Ricky A. Miller, and we established rate base for the utility.³

On March 19, 2007, LWV applied for a staff-assisted rate case (SARC). By letter dated July 27, 2007, the utility extended the fifteen-month statutory deadline for consideration of its requested increase by 30 days to allow the utility additional time to provide information required to fully evaluate the 2006 test year. The test year proposed for final rates is the twelve-month period ended December 31, 2006.

Our decision on LWV's application is explained in detail below. We have jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, we will 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 we shall consider 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, along with input from the DEP and health department officials and consideration of customer comments or complaints. We address these three components below.

Quality of Utility's Product

LWV's water treatment system is under the jurisdiction of the DEP in the Tampa district office. Review of the utility's and DEP's records indicates that the utility's finished water product complies with DEP's regulatory standards. Therefore, we find that the water quality is satisfactory.

² Certificate issued pursuant to Order No. 8104, issued November 16, 1977, in Docket No. 770764-W, In Re: Joint Application for the transfer of Certificate No. 152-W from Lakewood Villas, Inc., to LWV Utilities, Inc., in Pasco County, Florida, pursuant to Section 367.071, Florida Statutes.

³ Transfer of majority organization control was granted by Order No. PSC-05-0424-PAA-WU, in Docket No. 040173-WU, In Re: Application for transfer of majority organizational control of LWV Utilities, Inc. holder of Certificate No. 152-W in Pasco County from James A. Cochran Revocable Trust to James C. Weeks and Ricky A. Miller.

Operating Condition of the Water Facilities

On August 23, 2007, DEP conducted a Compliance Evaluation Inspection at the LWV facility to determine compliance with water requirements. The DEP inspector concluded that, while overall the condition of the facility was not in compliance, the plant's deficiencies do not pose a health hazard and are not critical. The facilities were not in compliance with DEP's requirements for the following reasons:

- a) repair cracks around well pad at Well # 2;
- b) check valve at Well #1 was inoperable;
- c) hydro pneumatic tank needs to be inspected;
- d) a water distribution system map was not available;
- e) a written emergency preparedness/response plan was not available;

LWV has indicated that the first two items listed above have been addressed and corrected. LWV is making a concerted effort to address all of the necessary corrections required by DEP to comply with all regulatory standards.

Based on the DEP's inspection and our staff's field inspection, we find that the operating condition of the water treatment facility is not in compliance with DEP's regulatory standards. We find that the operating condition of the water treatment facilities is not satisfactory, but the lack of compliance with regulatory standards is not critical.

The Utility's Attempt to Address Customer Satisfaction

Review of our complaint records shows no complaints recorded during the utility's test year. Review of the DEP's records also shows no customer complaints on file.

On October 3, 2007, our staff conducted a customer meeting in New Port Richey, Florida. Earlier that day, our staff met with one of the residents and discussed his concerns about the Consumer Confidence Report, stuck valves, and "Boil Water Notices." Nine customers attended the evening meeting and five customers spoke at the meeting. The residents expressed concerns regarding inconsistent meter readings, failure to receive boil water notices, line breaks, provision of sewer service by Pasco County, and black specks in a customer's toilet bowl. The customers stated that the previous utility owner did not read the meters on a consistent basis and did not perform boil water noticing in the event of a major line break or water outage. The customers stated that the new owner, however, is reading the meters consistently and is informing them of possible water outages. Four of the nine customers that attended the meeting stated they were very satisfied with the water product and customer service. Regarding Pasco County providing sewer service in the future, it was suggested that customers contact the Pasco County authorities for further information. An investigation of black specks in the customer's toilet revealed that the specks were due to chlorinated water reacting with the aging and deteriorating black seals in the water tank. Since the customer meeting, we have

received three customer letters indicating that they are in support of the rate increase for the utility.

Based on the above, we find that the utility is making a concerted effort to address and satisfy its customers' concerns.

Conclusion

Our review of the water treatment plant and the distribution system leads us to conclude that the utility's water product complies with regulatory standards. While we consider the condition of the plant to be deficient, we do not consider the deficiencies to be critical, and the majority of the customers are satisfied with the utility. Therefore, we find that the overall quality of service provided by LWV Utilities, Inc. is satisfactory.

CONSOLIDATION

The previous owner of the utility, Mr. Cochran, owned a separate company called Advisor, which was incorporated in 1975. The separate company did not provide water service, but in 1985, several homeowners approached Mr. Cochran to ask that Advisor supply them with potable water. The homeowners requested water service from Advisor because area wells had either collapsed or dried up. From 1985 to 1998, these customers were connected to and provided water service by LWV's water system, but Mr. Cochran billed the customers through his Advisor company, which he believed to be exempt from our regulation. The Advisor customers were charged higher rates than LWV's customers. Currently, LWV is serving 87 customers previously served by Advisor.

It was determined during the audit for this rate case that the customers of Advisor were in fact customers of LWV because they are located in LWV's certificated territory. Therefore, it was inappropriate for the customers to be treated as a separate water utility and charged higher rates. Since the Advisor customers are customers of LWV, they should be charged our approved rates for LWV. For these reasons, we find that Advisor Enterprises' utility operations should be consolidated with LWV Utilities, all customers shall be charged our approved rates, and, as described in more detail below, the Advisor customers shall receive a refund.

USED AND USEFUL

Water Treatment Plant

The utility has two wells with a total capacity of 344 gallons per minute (gpm). Consistent with our past practice⁴ and in accordance with the American Waterworks Association Manual of Water Supply Practices, if a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's firm reliable

⁴ Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase by Utilities, Inc., of Florida.

capacity. By taking the largest well out of service, which is 186 gpm, the utility's firm reliable capacity is 158 gpm, the capacity of the smaller well. We determined peak demand by taking the single maximum day in the test year, less excessive unaccounted for water, divided by 1,440 minutes in a day, times 2, resulting in 760gpm ($(547,000 / 1,440) * 2$). Dividing 760 gpm by the firm reliable capacity (158 gpm) results in a used and useful calculation of 100%. Therefore, we find that the water treatment system shall be considered 100% used and useful.

Water Distribution Systems

LWV's customer base is primarily residential, except for approximately seven commercial customers. Our review of the utility's distribution system indicates that it is built out. In accordance with our practice, when the service territory the system is designed to serve is built out, and there is no potential for expansion of the service territory, the system is deemed 100% used and useful.⁵ Therefore, we find that the water distribution system shall be considered 100% used and useful.

RATE BASE

We selected a test year ending December 31, 2006, for this rate case. The utility's rate base was last audited in the transfer docket in Docket No. 040173-WU. Rate base components established in that docket have been updated through December 31, 2006, using information obtained from audit and engineering reports. A summary of each component and the adjustments follows.

Utility Plant in Service

The utility recorded \$111,586 for water Utility Plant in Service (UPIS) for the test year ending December 31, 2006.

According to Audit Finding No. 3, the utility did not record some plant additions in the years 2004 and 2006. We have increased Account No. 311 by \$3,509 to reflect a plant addition not recorded in 2004 and decreased this account by \$2,249 for retirement of the replaced plant. The utility did not record three plant additions in 2006. We have increased Account No. 311 by \$3,845 to reflect one plant addition. As original cost records were unavailable, we decreased this account by \$2,884 ($\$3,845 \times 75\%$) consistent with our practice to retire 75% of new costs. We have increased Account No. 311 by \$334 for the second unrecorded plant and Account No. 340 by \$493 for the third unrecorded plant.

LWV has requested pro forma plant additions for a flow meter and fence in the amounts of \$3,770 and \$3,936, respectively. The utility provides emergency backup water supply for Orangewood Utilities. The flow meter is needed to measure the backup water. We believe these requested pro forma plant items are reasonable, and we have increased UPIS by those amounts to reflect the pro forma plant additions. We have decreased this account by \$894 to reflect an

⁵ Id.

averaging adjustment. Our net adjustment to UPIS is an increase of \$9,860. The average UPIS balance is \$121,446.

Non-used and Useful Plant

As discussed above, we have determined that the utility's water treatment plant shall be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

Contributions in Aid of Construction

The utility recorded CIAC of \$17,850 for the test year ended December 31, 2006. Audit Disclosure No. 5 indicates that the utility did not record CIAC in the amount of \$1,300 during the test year. We have increased this account to reflect the collected CIAC. We have decreased this account by \$650 to reflect an averaging adjustment. Average CIAC is \$18,500.

Accumulated Depreciation

The utility recorded a balance for accumulated depreciation of \$82,708 for the test year. We calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, we have decreased this account by \$1,119 to reflect our depreciation calculations. We increased this account by \$367 to reflect pro forma accumulated depreciation. We also decreased this account by \$649 to reflect an averaging adjustment. These adjustments result in an average accumulated depreciation of \$81,307.

Accumulated Amortization of CIAC

The utility's records indicate accumulated amortization of CIAC balances of \$10,401. We recalculated the amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C. Based on this recalculation, we increased accumulated amortization of CIAC by \$1,303. We also decreased this account by \$361 to reflect an averaging adjustment. These adjustments result in an average accumulated amortization of CIAC of \$11,343.

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., we used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, we calculated a working capital allowance of \$10,193 (based on O&M of \$81,540). We increased working capital by \$10,193 to reflect one-eighth of approved O&M expenses.

Conclusion

Based on the forgoing, we find that the appropriate test year average rate base is \$44,175. Rate base is shown on Schedule No. 1, and our adjustments are shown on Schedule 1-A.

RATE OF RETURN

According to the audit conducted in this docket, the utility recorded the following items in its capital structure: common stock of \$500; negative retained earnings of \$121,143; and paid-in-capital of \$11,890. The utility's capital structure consists of long-term debt in the amount of \$119,185 and customer deposits of \$8,250.

The utility's long-term debt was a loan from the previous owner who is now deceased. There is no debt instrument or interest cost associated with this loan. When no cost is assigned to long-term debt and no debt instrument is available, it is appropriate to characterize the debt as other common equity given the related party status of the debt.⁶ We have made an adjustment to reclassify the long-term debt of \$119,185 to other common equity.

The appropriate rate of return on equity is 9.06%. using the most recent Commission-approved leverage formula.⁷ We have reconciled the utility's capital structure with the approved rate base. This produces a return on equity of 9.06% with a range of 8.06% - 10.06%, and an overall rate of return of 8.86%. The return on equity and overall rate of return are shown on Schedule No. 2.

TEST YEAR REVENUE

As discussed above, the former owner's Advisor company was treated as a separate utility from LWV. We have determined, however, that the former customers of Advisor should be treated as customers of LWV. During the test year, the utility recorded \$73,716 of revenues that did not include any revenues from customers of Advisor. In its recorded revenues, the utility included customer deposits of \$2,880 and removed deposit refunds of \$410. The customer deposits should not have been recorded as revenues. Therefore, we have decreased revenues by \$2,470 (\$410 - \$2,880) which is the net adjustment of removing the customer deposits and including the refunds.

We calculated annualized revenue for the test period using the current rates times the number of bills and consumption provided in the billing analysis. While customers of Advisor were charged higher rates, we calculated test year revenues by applying LWV's approved rates to these customers. As a result, test year revenue was increased by \$20,292 to reflect annualized revenue from the customers of Advisor based on the existing rates. We will address a refund of the difference in rates to Advisor's customers below.

⁶ See Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, In re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation.

⁷ 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.

The utility recorded miscellaneous service revenues of \$450. Based on the audit, the utility's test year miscellaneous service revenues were \$765. We have made an adjustment to increase miscellaneous service revenues by \$315 (\$765 - \$450).

Our net adjustment to revenues is an increase of \$18,137 (\$20,292-\$2,470+\$315). We find that LWV's test year revenues is \$91,853. Test year revenue is shown on Schedule No. 3. The related adjustments are shown on Schedule No. 3-A.

ALLOCATION OF COMMON COSTS

The owner of LWV also owns and manages three other companies. The companies are Advisor Enterprises, Inc. (Advisor), Barbara Ann Acres, and Silver Oak Hills. Barbara Ann Acres and Silver Oak Hills are water utilities that are supplied water by the City of New Port Richey and are exempt from our regulations under Section 367.022(8), Florida Statutes. Advisor was set up by the previous owner to serve 87 customers located in LWV's certificated territory, but it also is in the business of renting commercial office space.

Since the utility owner has four business entities, we have determined that 25% of the common expenses should be allocated to his commercial rental business. Commission practice is to allocate administrative and general expenses based on the number of customers.⁸ For the utility operations, we calculated an allocation of common expense for the remaining 75% based on the average number of customers. There are no customers associated with the commercial rental. In order to allocate the remaining costs for the water utilities, we have calculated a customer equivalent for Advisor's 25% common cost allocation. We determined the customer equivalent to be 173 customers. With information from the audit, we determined that each system should be allocated its common operating costs based on the average number of customers representing the system:

<u>Name of System</u>	<u>Average No. Customers</u>	<u>Percentage of Allocation</u>
LWV and Advisor	437	63.0%
Barbara Ann Acres	29	4.2%
Silver Oak Hills	54	7.8%
Advisor Commercial Properties	<u>173*</u>	<u>25.0%</u>
	<u>693</u>	<u>100.0%</u>

*customer equivalent

We find that reasonable and prudent common costs shall be allocated to LWV based on the allocated portion of 63%. This equitably reflects the distribution of costs among related parties.

⁸ See Order Nos. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County; and PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works).

OPERATING EXPENSE

The utility recorded operating expense of \$85,194 during the test year ending December 31, 2006. Advisor pays the overhead expenses such as payroll, utilities, transportation and office expenses. The amounts are then allocated by the accountant. As discussed above, we have allocated common costs related to all companies based on the number of customers. We have reviewed the test year O&M expenses, and examined invoices, canceled checks, and other supporting documentation. Based upon this review we have made several adjustments to the utility's operating expenses, as summarized below:

Salaries and Wages – Employees – (601)

The utility recorded \$0 in this account during the test year. The utility owner had an employee that read meters and performed repairs for all related utility companies. His salary of \$21,798 was paid by Advisor. For the test year, the utility's accountant had not allocated any salary for this employee to LWV. His employment ceased at the end of 2006. The utility manager has been performing the duties of the former employee, but the utility manager plans to hire someone to fill the position in the near future. We have increased this account by \$13,733 ($\$21,798 \times 63\%$) to reflect the utility's allocated salary. We find, therefore, that the salaries and wages – employee account shall be \$13,733.

Salaries and Wages – Officers – (603)

The utility recorded \$50,000 in this account during the test year. The utility manager's salary is \$50,000 for all of his companies. The utility manager's allocated salary for LWV is \$31,500 ($\$50,000 \times 63\%$). We have made an adjustment to decrease this account by \$18,500 ($\$50,000 - \$31,500$). We find, therefore, that the salaries and wages – officers account shall be \$31,500.

Employee Pensions and Benefits – (604)

The utility did not record an amount in this account during the test year. The utility recorded \$10,410 on the books of Advisor. The amount recorded represents medical insurance cost of \$6,834 and \$3,576 for the manager and former employee, respectively. We have increased this account by \$6,558 ($\$10,410 \times 63\%$) to reflect LWV's allocation of common cost for the utility's medical insurance. We find, therefore, that the contractual services – professional expense account shall be \$6,558.

Purchased Water – (610)

The utility recorded \$2,355 in this account during the test year. We decreased this account by \$171 to reflect the net result of including a 2006 expense of \$186 and removing a 2005 expense of \$357. We find that purchased water expense for the test year shall be \$2,184.

Purchased Power – (615)

The utility recorded \$4,634 in this account during the test year. We increased this account by \$65 to reflect the net result of removing a 2005 expense of \$315 and including a 2006 expense of \$380. We find that purchased power expense for the test year shall be \$4,699.

Chemicals – (618)

The utility recorded \$1,202 in this account during the test year. We decreased this account by \$65 to remove a 2005 expense. We find that chemical expense for the test year shall be \$1,137.

Materials and Supplies – (620)

The utility recorded \$2,273 in this account during the test year. We decreased this account by \$14 to remove a 2005 expense. We also decreased this account by \$334 for plant reclassified to Account No. 311. We find, therefore, that materials and supplies expense for the test year shall be \$1,925.

Contractual Services - Billing – (630)

The utility recorded \$0 in this account during the test year. During the test year, the utility had an employee that read the meters and performed repairs to the utility system. His employment ceased at the end of 2006. From January through May 2007, the utility manager read the meters. The utility contracted services for meter reading which began in June of 2007. The contract price is \$.25 a meter. We increased this account by \$1,311 (437 x \$.25 x 12) to reflect these activities. We find, therefore, that the contractual services – billing account shall be \$1,311.

Contractual Services - Professional – (631)

The utility recorded \$1,114 in this account during the test year. We decreased this account by \$107 to reclassify a computer expense to Account No. 636. We find, therefore, that the contractual services – professional account shall be \$1,007.

Contractual Services - Testing – (635)

The utility recorded \$4,500 in this account during the test year. We decreased this account by \$520 to remove an expense related to an unregulated utility. We also made an adjustment to decrease this account by \$1,955 to reclassify operator expense to Account No. 636.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by DEP. The tests and the frequency at which tests must be repeated for this utility are:

<u>Test</u>	<u>Frequency</u>	<u>Cost</u>	<u>Annual Amount</u>
Consumer Confidence Report	Annual	\$ 125	\$ 125
Disinfection By-Products	Annual	\$ 275	\$ 275
Nitrate/Nitrite	Annual	\$ 50	\$ 50
Lead/Copper	36 months	\$ 250	\$ 83
Primary Inorganics	36 months	\$ 550	\$ 183
Volatile Organics	36 months	\$ 200	\$ 67
Pesticides/PCB	36 months	<u>\$1,400</u>	<u>\$ 467</u>
	Total	<u>\$2,850</u>	<u>\$1,250</u>

During the test year, the utility did not amortize the DEP required testing. We have decreased this account by \$775 to reflect amortization of DEP's required testing frequency. With the adjustments mentioned above, we find that the contractual services – testing account shall be \$1,250.

Contractual Services - Other – (636)

The utility recorded \$4,848 in this account during the test year. We have made the following adjustments to this account:

1. Remove expense related to unregulated utility	(\$284)
2. Reclassify plant addition to Acct No. 311	(\$3,845)
3. Include operator expense paid by Advisor	\$210
4. Reclassify operator expense from Acct No. 635	\$1,955
5. Reclassify computer expense from Acct No. 631	\$107
6. Reflect annual increase in operator expense (\$255-\$210)*12	\$540
7. Reflect the utility's appropriate allocation of operator expense	(\$592)
8. Reflect the utility's appropriate allocation of computer expense	\$869
9. Increase for 5 year amortization of tank maintenance as required by DEP (\$1,500/5)	<u>\$300</u>
Total Net Adjustment	<u>(\$740)</u>

Our net adjustment to this account is a decrease of \$740. We find, therefore, that the contractual services – other expense account shall be \$4,108.

Rents – (640)

The utility recorded \$7,704 in this account during the test year. The utility's office is located in a building owned by the utility's manager. The building consists of six suites. The utility is located in one suite along with three related party businesses. The remaining five suites are commercial property rented out by Advisor. Since the one office suite is shared by the utility manager's other businesses, the office rent expense should be allocated among all businesses. The utility's allocated office rent should be \$4,854 ($\$7,704 \times 63\%$). We decreased this account by \$2,850 ($\$7,704 - \$4,854$) to reflect the utility's allocated office rent. We also increased this account by \$886 ($\$1,407 \times 63\%$) to reflect the utility's allocated office utilities. We find, therefore, that rent expense for the test year shall be \$5,740.

Transportation Expense – (650)

The utility recorded \$0 in this account during the test year. We increased this account by \$1,181 ($\$1,875 \times 63\%$) to reflect the utility's allocated portion of transportation expense. We find that transportation expense for the test year shall be \$1,181.

Regulatory Commission Expense – (665)

The utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. The utility was required by Rule 25-22.0407(9)(b), Florida Administrative Code, to mail notices of the customer meeting in this case to its customers. For these notices, we have estimated \$358 postage expense, \$306 printing expense, and \$44 for envelopes. The total rate case expense for noticing is \$708. We increased this account by \$177 ($\$708/4$) to reflect rate case expense for noticing. The utility paid a \$1,000 rate case filing fee. We increased this account by \$250 ($\$1,000/4$) to reflect rate case expense for filing fees. The utility's consultant is charging \$1,200 to assist with the rate case. We believe this amount is reasonable. Therefore, we increased this account by \$300 ($\$1,200/4$) to reflect rate case expense for consulting services. We find that regulatory commission expense for the test year shall be \$727.

Miscellaneous Expense – (675)

The utility recorded \$263 in this account for the test year. We increased this account by \$1,968 ($\$3,123 \times 63\%$) to reflect the utility's allocated telephone expense. We also increased this account by \$781 ($\$1,240 \times 63\%$) to reflect the utility's allocated postage and supplies expense. To reflect our decision below that the utility should change its billing from bi-monthly to monthly, we increased this account by \$1,468 to reflect the change in the billing cycle. We find that miscellaneous expense for the test year shall be \$4,217.

Conclusion

Based on the above adjustments, we shall increase O&M expense by \$2,647. We find that the appropriate O&M expenses for the utility are \$81,540 as shown on Schedule 3.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded \$2,345 in this account during the test year. We calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. We calculated test year depreciation expense to be \$4,550, and therefore we have increased this account by \$1,759 (\$4,550 - \$2,791). Also, amortization of CIAC has a negative impact on depreciation expense. The utility recorded \$446 for amortization of CIAC. We have calculated amortization of CIAC based on composite rates. The calculated test year amortization of CIAC is \$693; therefore, we have increased this account by \$247 (\$693 - \$446). We find that net depreciation expense is \$3,857.

Taxes Other Than Income

The utility recorded taxes other than income of \$3,956 in this account during the test year. The utility recorded \$2,937 for RAFs for the test year. As discussed above, we have increased test year revenue by \$18,137. Based on our approved test year revenues, the 2006 RAFs should have been \$4,133. We have made an adjustment to increase RAFs by \$1,196 (\$4,133 - \$2,937). Although the utility recorded \$2,937, it actually paid \$3,317 for RAFs. The utility owes an additional \$816 (\$4,133 - \$3,317) in RAFs for 2006. As stated above, under Account Nos. 601 and 603, we have approved an allocation of the owner and maintenance employee salaries to LWV. Therefore, we have increased payroll taxes by \$3,460 to reflect the taxes on the salaries we have approved. The utility recorded \$869 for property taxes, but its test year property taxes are \$719. We decreased this account by \$150 (\$869 - \$719).

Income Tax

The utility recorded income tax of \$0 for water. The utility is a subchapter 1120 S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, we did not make an adjustment to this account.

Conclusion

The application of our adjustments to the audited test year operating expenses results in operating expenses of \$93,860. Operating expenses are shown on Schedule No. 3. The related adjustments are shown on Schedule 3-A.

REVENUE REQUIREMENT

The utility shall be allowed an annual increase of \$6,200 (6.75%). This will allow the utility the opportunity to recover its expenses and earn an 8.86% return on its investment. The calculations are as follows:

		<u>Water</u>
Adjusted Rate Base		\$44,175
Rate of Return	X	8.86%
Return on Rate Base		\$3,914
Adjusted O & M Expense		\$81,540
Depreciation expense (Net)		\$3,857
Taxes Other Than Income		\$8,741
Income Taxes		\$0
Revenue Requirement		\$98,052
Less Adjusted Test Year Revenues		\$91,853
Annual Increase		\$6,200
Percent Increase/(Decrease)		6.75%

The Revenue Requirement is shown on Schedule No. 3.

RATE STRUCTURE

The utility's current rate structure consists of a bi-monthly base facility charge (BFC)/gallorage charge rate structure, in which the BFC of \$23.95 includes 6,000 gallons (6 kgal) allotment in the BFC, and all gallons in excess of 6 kgal used are charged \$1.88 per kgal. This rate structure is not considered conservation-oriented because the 6 kgal allotment in the bi-monthly BFC discourages conservation below 6 kgal. Therefore, in order to promote the goal of eliminating water rate structures that discourage conservation, the allotment of 6 kgal should be eliminated from the BFC. Furthermore, we find it appropriate to change the utility's current bi-monthly BFC to an inclining block rate structure that will be billed on a monthly basis. By billing on a monthly basis, customers receive a more timely price signal, enabling them to adjust their consumption accordingly.

We 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 conservation rate structures consistent with our 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). For those utilities located within a SWFWMD water use caution area, the District places a gallon per day use target of 150 gallons per day per capita (gpcd). On July 5, 2005, the District issued LWV a Notice of Noncompliance advising the utility that it was exceeding its withdrawal quantities authorized under their Water Use Permit (WUP). Since the issuance of the letter, the withdrawals continued to exceed the permitted quantities. By letter dated December 15, 2006, the District issued a Consent Order to the utility regarding the exceeded withdrawal quantity, wherein they were required to bring the water withdrawals into compliance.

On August 2, 2007, the District issued a revision of the Water Use Permit, wherein the annual average withdrawal quantities increased from 55,000 gallons per day (gpd) to 115,000 gpd and which required the utility to implement a water conservation rate structure. Our analysis, coupled with the District's requirement to implement a conservation-oriented rate structure, leads us to the conclusion that it is appropriate to discontinue the 6 kgal allotment in the BFC. Also, we find that it is appropriate to approve a two-tier inclining block rate structure and usage block rate factors of 1.0 and 1.25. The fixed cost recovery shall be reduced to 40% from the initial accounting allocation of 62.26%. This shifts more cost recovery to the gallonage charge, providing a greater incentive for customers to conserve.

Based on the foregoing, we find that the utility's current water system rate structure, which includes a 6,000 (6 kgal) water allotment in the BFC, shall be changed to a two-tier inclining block rate structure. The pre-repression BFC cost recovery shall be set at 40%. The usage blocks shall be set for consumption at: a) 0-10 kgal; and b) usage in excess of 10 kgal, with appropriate usage block rate factors of 1.0 and 1.25, respectively. Therefore, we will change the utility's current bi-monthly BFC to a monthly BFC based on an inclining block rate structure.

REPRESSION

We do not believe that a repression adjustment is warranted in this case due to the small magnitude of the revenue increase. We do believe, however, that the utility should prepare monthly reports to monitor the effects resulting from changes in revenue to the water system. These reports shall reflect the number of bills rendered, the consumption billed, and the revenues billed. The reports shall be prepared by customer class and meter size. The reports shall be filed with our 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 shall file a revised monthly report for that month within 30 days of any revision.

RATES

The rates we approve for LWV are designed to produce revenue of \$97,287 for water, excluding miscellaneous service charges of \$765. We calculated those rates using the test-year number of bills and consumption.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall 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 our approved rates are shown on Schedule No. 4.

REFUND

As discussed above, the previous owner of the utility, Mr. Cochran, owned a separate company called Advisor, which was incorporated in 1975. This separate company did not provide water service, but in 1985, several homeowners approached Mr. Cochran to request that Advisor supply them potable water. The customers were connected to LWV's water system by Advisor, and Mr. Cochran billed them through Advisor, apparently because he believed it to be exempt from our regulatory jurisdiction. Mr. Cochran charged those customers water rates higher than those of LWV. Currently, LWV serves 87 customers who were previously billed by Advisor.

During this rate proceeding, the new owner of LWV, Mr. Weeks, was informed that Advisor customers are in LWV's certificated territory and are customers of the utility. Upon this discovery, Mr. Weeks agreed to reduce the rates of Advisor's customers to those currently approved for LWV. Mr. Weeks has been very cooperative in trying to fix the problem created by the previous owner. Mr. Weeks was also informed that LWV might be required to make refunds to the customers who were overcharged. The utility is concerned with the magnitude of the refund due to the number of years Advisor customers were charged different rates. The utility proposed that it refund only the amount overcollected during the test year to the Advisor customers.

It appears that Advisor's customers have been charged different rates since 1985, approximately 21 years. We believe that a refund of overcharges for the full 21-year period would be detrimental to the viability of the utility. The transfer of majority control to the current

owners was not approved until 2005, and thus the current owners have only been in control of the utility for two years. While we considered a refund for the time the new owners have controlled the utility, we believe this amount, too, which could be as high as \$29,654 for those years, would still create a significant financial hardship for the utility.

Due to circumstances beyond the owner's control, Advisor's customers were charged different rates. Mr. Weeks operated under the premise that the Advisor customers were unregulated. Once he discovered Advisor's customers were in the certificated territory of the utility, Mr. Weeks began charging the appropriate LWV rates and consulted with our staff in an effort to quickly resolve the issue. Under these circumstances, we believe the utility's proposal to refund the overcollection for the test year is appropriate.

We have approved a rate of return on equity for this utility of 9.06%, with a range of 8.06% to 10.06%, and an overall rate of return of 8.86%. The utility's earnings based on LWV's tariffed rates during the test year resulted in a negative return of 4.54%. We analyzed the amount of reduction necessary to achieve the top of the range for LWV's return on equity, basing the analysis on the actual revenues collected by the utility using the higher rates charged to the Advisor customers. This resulted in an overall earned rate of return of 29.02%, or \$8,249 in overearnings. Therefore, based on that calculation, the utility shall refund \$8,249 to the former customers of Advisor. This amount shall be refunded evenly through monthly credits on the Advisor customers' bills over the next twelve months.

The refund shall be made with interest, as required by Rule 25-30.360(4), F.A.C. The utility shall submit the proper refund reports, pursuant to Rule 25-30.360(7), F.A.C. The refund shall be completed within one year of the effective date of this Order. The utility shall treat any unclaimed refunds as contributions-in-aid-of-construction (CIAC), pursuant to Rule 25-30.360(8), F.A.C.

FOUR YEAR RATE REFUND

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 \$761 annually for water. 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.

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

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

TEMPORARY CHARGES

By this Order we are approving an increase in water rates for LWV. A timely protest of our Order might delay what appears to be 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, we find that the rates we have approved may be implemented as temporary rates. The rates collected by the utility pending resolution of a protest shall be subject to the refund provisions discussed below.

We authorize the utility to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$4,280. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect, 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 shall 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 Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The utility shall 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 shall 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund.

SHOW CAUSE

As explained above, during the course of this rate proceeding, it was discovered that Advisor's customers were within the certificated territory of LWV, but Advisor's customers were always considered a separate utility from LWV, and they were inappropriately charged different rates. Section 367.081(1), Florida Statutes, states that a utility may only charge the rates and charges that we have approved. Moreover, Section 367.091(4), Florida Statutes, states that a utility may only impose and collect those rates and charges approved by us for the particular class of service involved and that a change in any rate schedule may not be made without our approval. By charging rates and charges different than those approved by us, it appears that the utility is in apparent violation of Sections 367.081(1) and 367.091(4), Florida Statutes.

Section 367.161, Florida Statutes, authorizes us to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have

willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., we found that a company had not intended to violate the rule, but we nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "in our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

As discussed earlier, the previous owner set up Advisor and charged different rates as an unregulated utility. The current owner believed that Advisor was an unregulated utility, and was unaware that Advisor's customers should be charged the same rates as LWV's. When it discovered that Advisor's customers were in LWV's territory and should be charged LWV's rates, the utility agreed to reduce the rates. Therefore, we do not believe there was any willful intent on behalf of the utility to violate Sections 367.081 and 367.091, Florida Statutes.

Considering these circumstances, we do not believe that the apparent violations of Sections 367.081(1) and 367.091(4), Florida Statutes, rise to the level that would warrant the initiation of a show cause proceeding. Therefore, we decline to issue a show cause order to LWV. We do, however, put the utility on notice that, pursuant to Sections 367.081(1) and 367.091(4), Florida Statutes, it must only charge those rates and charges approved by the Commission in its tariff.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that LWV Utility's application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that LWV Utility is hereby authorized to charge the new rates and charges as set forth in Schedule No. 4 and as approved in the body of this Order. It is further

ORDERED that while no repression adjustment is warranted in this case the the utility shall prepare monthly reports to monitor the effects resulting from changes in revenue to the water system. These reports shall reflect the number of bills rendered, the consumption billed, and the revenues billed. The reports shall be prepared by customer class and meter size. The reports shall be filed with our 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 shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that LWV Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. It is further

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

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

ORDERED that 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. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the water rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions 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 shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$4,280. Alternatively, the utility could establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. It is further


ORDERED that LWV Utility shall maintain a record of the amount of revenues that are subject to refund. In addition, after any temporary rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall 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 reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the utility shall file tariff sheets, which are consistent with our vote. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 20th day of December, 2007.



ANN COLE
Commission Clerk

(S E A L)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the four-year statutory rate reduction, approval of temporary rates in the event of a protest and the decision not to institute show cause proceedings, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 10, 2008. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

LWV UTILITIES, INC. TEST YEAR ENDING 12/31/2006 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1 DOCKET NO. 070177-WU	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$111,586	\$9,860	\$121,446
2. LAND & LAND RIGHTS	\$1,000	\$0	\$1,000
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	(\$17,850)	(\$650)	(\$18,500)
5. ACCUMULATED DEPRECIATION	(\$82,708)	\$1,401	(\$81,307)
6. AMORTIZATION OF CIAC	\$10,401	\$942	\$11,343
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$10,193</u>	<u>\$10,193</u>
8. WATER RATE BASE	<u>\$22,429</u>	<u>\$21,746</u>	<u>\$44,175</u>

LWV UTILITIES, INC.
TEST YEAR ENDING 12/31/2006
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 070177-WU

WATER

UTILITY PLANT IN SERVICE

1. To record a 2004 plant addition in Acct. No. 311	\$3,509
2. To record the retirement of plant from Acct. No. 311	(\$2,249)
3. To record plant addition to Acct. No. 311	\$3,845
4. To record the retire of 75% of replacement cost of Plant in Acct. 311	(\$2,884)
5. To record plant addition to Acct. No. 311	\$334
6. To record plant addition to Acct. No. 340	\$493
7. To record pro forma plant - meter	\$3,770
8. To record pro forma plant - fence	\$3,936
9. To record an averaging adjustment	(\$894)
Total	<u>\$9,860</u>

LAND AND LAND RIGHTS

1. Include land rights unrecorded by utility.	<u>\$0</u>
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Non-Used and Useful

1. Non-used and useful components.	<u>\$0</u>
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CIAC

1. To reflect unrecorded connections.	(\$1,300)
2. To record an averaging adjustments	<u>\$650</u>
Total	<u>(\$650)</u>

ACCUMULATED DEPRECIATION

1. To reflect test year depreciation calculated per 25-30.140 FAC.	\$1,119
2. To record pro forma accumulated depreciation	(\$367)
3. To record an averaging adjustment	\$649
4. Total	<u>\$0</u>
Total	<u>\$1,401</u>

AMORTIZATION OF CIAC

1. To reflect accumulated amortization per 25-30.140 FAC.	\$1,303
2. To reflect an averaging adjustment	(\$361)
Total	<u>\$942</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$10,193</u>
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LWV UTILITIES, INC.
TEST YEAR ENDING 12/31/2006
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070177-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	(\$121,143)	\$0	(\$121,143)					
3. PAID IN CAPITAL	\$11,890	\$0	\$11,890					
4. OTHER COMMON EQUITY	\$0	\$119,185	\$119,185					
5. TOTAL COMMON EQUITY	(\$108,753)	\$119,185	\$10,432	\$25,493	\$35,925	81.32%	9.06%	7.37%
6. LONG TERM DEBT		\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
Loan From Stockholder	\$119,185	(\$119,185)	\$0	\$0	\$0	0.00%	0.00%	0.00%
	\$0	\$0	\$0	\$0	\$0	0.00%	9.00%	0.00%
TOTAL LONG TERM DEBT	\$119,185	(\$119,185)	\$0	\$0	\$0	0.00%		
7. CUSTOMER DEPOSITS	\$8,250	\$0	\$8,250	\$0	\$8,250	18.68%	8.00%	1.49%
8. TOTAL	\$18,682	\$0	\$18,682	\$25,493	\$44,175	100.00%		8.86%
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						8.06%	10.06%	
OVERALL RATE OF RETURN						8.05%	9.68%	

LWV UTILITIES, INC.
TEST YEAR ENDING 12/31/2006
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 070177-WU

	TEST YEAR PER UTILITY	COMM. ADJ. PER UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$73,716</u>	<u>\$18,137</u>	<u>\$91,853</u>	<u>\$6,200</u> 6.75%	<u>\$98,052</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	78,893	2,647	81,540	0	81,540
3. DEPRECIATION (NET)	2,345	1,512	3,857	0	3,857
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,956	4,506	8,462	279	8,741
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$85,194</u>	<u>\$8,666</u>	<u>\$93,860</u>	<u>\$279</u>	<u>\$94,139</u>
8. OPERATING INCOME/(LOSS)	<u>(\$11,478)</u>		<u>(\$2,007)</u>		<u>\$3,914</u>
9. WATER RATE BASE	<u>\$22,429</u>		<u>\$44,175</u>		<u>\$44,175</u>
10. RATE OF RETURN	<u>-51.17%</u>		<u>-4.54%</u>		<u>8.86%</u>

LWV UTILITIES, INC.
TEST YEAR ENDING 12/31/2006
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 070177-WU

OPERATING REVENUES	<u>WATER</u>
1. To reflect test year revenues	(\$2,470)
2. To reflect revenues from the Advisor customers	\$20,292
3. To reflect the appropriate miscellaneous service charges	\$315
	<u>\$18,137</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees (601)	
a.) Adjustment to increase office salaries.	<u>\$13,733</u>
2. Salaries and Wages - Officers (603)	
a.) To reflect the utility's allocated share of managers salary	<u>(\$18,500)</u>
3. Employee Pension & Benefits	
a.) To reflect the utility's allocated share of the managers health ins.	\$4,305
b.) To reflect the utility's allocated share of the employee health ins.	<u>\$2,253</u>
Total	<u>\$6,558</u>
4. Purchased Water	
a.) To include 2006 purchase water expense	\$186
b.) To remove 2005 purchase water expense	<u>(\$357)</u>
Total	<u>(\$171)</u>
5. Purchased Power (615)	
a.) To include 2006 purchase water expense	\$380
b.) To remove 2005 purchase water expense	<u>(\$315)</u>
Total	<u>\$65</u>
6. Chemicals (618)	
a.) To remove 2005 chemical expense	<u>(\$65)</u>
7. Materials and Supplies (620)	
a.) To remove a 2005 expense	(\$14)
b.) To reclassify plant addition to Acct. No. 311	<u>(\$334)</u>
Total	<u>(\$348)</u>
8. Contractual Services - Billing (630)	
a.) To reflect expense for meter reader	<u>\$1,311</u>
9. Contractual Services - Professional (631)	
a.) To reclassify computer expenses to Acct. No. 636	<u>(\$107)</u>
10. Contractual Services - Testing (635)	
a.) To remove testing expenses related to Barbara Ann and Silver Oak	(\$520)
b.) To reclassify operator expense to Acct. No. 636	(\$1,955)
c.) To reflect DEP required testing	<u>(\$775)</u>
Total	<u>(\$3,250)</u>

LWV UTILITIES, INC.
TEST YEAR ENDING 12/31/2006
ADJUSTMENTS TO OPERATING INCOME

DOCKET NO. 070177-WU
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11. Contractual Services - Other (636)	
a.) To remove expense related to unregulated utility	(\$284)
b.) To reclassify plant addition to Acct. No. 311	(\$3,845)
c.) To reflect operator expense paid by Advisor	\$210
d.) To reclassify operator expense from Acct. No. 635	\$1,955
e.) To reclassify computer expenses from Acct. No. 631	\$107
f.) To reflect the annual increase in operator expense (\$255-\$210)*12	\$540
g.) To reflect the utility's appropriate allocation of operator expense	(\$592)
h.) To allocate the utility's the appropriate computer expense	\$869
i.) To reflect 5 yr. amortization of tank maintenance (\$1,500/5)	\$300
Total	<u>(\$740)</u>
12. Rents (640)	
a.) To reflect the utility's allocation of office rent	(\$2,850)
b.) To reflect the utility's allocation of office utilities	\$886
Total	<u>(\$1,964)</u>
13. Transportation Expense (650)	
a.) To reflect the utility's allocation for transportation expense	<u>\$1,181</u>
14. Regulatory Commission Expense (665)	
a.) To reflect the 4 year amortization of rate case expense (\$2,908/4)	<u>\$727</u>
15. Miscellaneous Expense (675)	
a.) To reflect the utility's allocation of telephone expense	\$1,968
b.) To reflect the utility's allocation of postage and supplies expense	\$781
c.) To reflect additional cost for converting to monthly billing	<u>\$1,468</u>
Total	<u>\$4,217</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$2,647</u>
	 <u>WATER</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$1,759
2. Test year amortization of CIAC.	(\$247)
Total	<u>\$1,512</u>
 TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees on test year revenue.	\$1,196
2. To adjust payroll tax for recommended salaries.	\$3,460
3. To reflect appropriate property taxes	<u>(\$150)</u>
Total	<u>\$4,506</u>

LWV UTILITIES, INC.

TEST YEAR ENDING 12/31/2006

ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSESCHEDULE NO. 3-B
DOCKET NO. 070177-WU

	TOTAL PER UTILITY	COMMISSION PER ADJUST.	TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$13,733	\$13,733
(603) SALARIES AND WAGES - OFFICERS	\$50,000	(\$18,500)	\$31,500
(604) EMPLOYEE PENSION & BENEFITS	\$0	\$6,558	\$6,558
(610) PURCHASED WATER	\$2,355	(\$171)	\$2,184
(615) PURCHASED POWER	\$4,634	\$65	\$4,699
(616) FUEL FOR POWER PRODUCTION	\$0	\$0	\$0
(618) CHEMICALS	\$1,202	(\$65)	\$1,137
(620) MATERIALS AND SUPPLIES	\$2,273	(\$348)	\$1,925
(630) CONTRACTUAL SERVICES - BILLING	\$0	\$1,311	\$1,311
(631) CONTRACTUAL SERVICES - PROFESSIONAL	\$1,114	(\$107)	\$1,007
(635) CONTRACTUAL SERVICES - TESTING	\$4,500	(\$3,250)	\$1,250
(636) CONTRACTUAL SERVICES - OTHER	\$4,848	(\$740)	\$4,108
(640) RENTS	\$7,704	(\$1,964)	\$5,740
(650) TRANSPORTATION EXPENSE	\$0	\$1,181	\$1,181
(655) INSURANCE EXPENSE	\$0	\$0	\$0
(665) REGULATORY COMMISSION EXPENSE	\$0	\$727	\$727
(670) BAD DEBT EXPENSE	\$263	\$0	\$263
(675) MISCELLANEOUS EXPENSES	<u>\$0</u>	<u>\$4,217</u>	<u>\$4,217</u>
	<u>\$78,893</u>	<u>\$2,647</u>	<u>\$81,540</u>

LWV UTILITIES, INC. TEST YEAR ENDING 12/31/2006 MONTHLY WATER RATES			SCHEDULE NO. 4 DOCKET NO. 070177-WU	
	UTILITY'S* BI-MONTHLY EXISTING RATES	UTILITY'S** EXISTING RATE EQUIVALENT MONTHLY RATE	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
Residential and General Service				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4"	\$23.95	\$11.98	\$8.01	\$0.06
3/4"	\$0.00		\$12.02	\$0.09
1"	\$59.90	\$29.95	\$20.03	\$0.16
1-1/2"	\$119.83	\$59.92	\$40.05	\$0.31
2"	\$0.00		\$64.08	\$0.50
3"	\$0.00		\$128.16	\$1.00
4"	\$0.00		\$200.25	\$1.55
6"	\$0.00		\$400.50	\$3.11
* Existing Rates Include 6,000 Gal in BFC				
** Monthly equivalent existing rate would include 3,000 Gal in BFC				
<u>Residential Gallonage Charge</u>				
Over 6,000 Gallons	\$1.88			\$0.00
0 - 10,000			\$2.10	\$0.02
10,000+			\$2.63	
<u>General Service Gallonage Charge</u>				
Over 6,000 Gallons	\$1.88			
Per 1,000 Gallons			\$2.18	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$29.59	\$11.98	\$14.31	
5,000 Gallons	\$33.35	\$15.74	\$18.51	
10,000 Gallons	\$42.75	\$25.14	\$29.01	