STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

January 29, 2008

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

Re: Staff Assisted Rate Case for Hidden Cove, Ltd. in Polk County, Docket No. 070414-WS

Dear Mr. Friedman:

Enclosed are two copies of the Staff Report. 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:

Hidden Cove, Ltd.
500 South Florida Ave., Suite 700
Lakeland, FL 33801

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7017. In addition, you may contact Jay Revell at (850) 413-6425, with any questions.

Sincerely,

Bart Fletcher

Bart Fletcher
Public Utilities Supervisor

BF:jr
Enclosures

cc: Division of Economic Regulation (Bulecza-Banks, Revell, Massoudi, Lingo)
Office of Commission Clerk (Docket No. 070414-WS)
Office of General Counsel (Jaeger)

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: January 28, 2008

TO: Cheryl R. Bulecza-Banks, Chief of Rate Filings, Division of Economic Regulation

FROM: Jay Revell, Regulatory Analyst, Division of Economic Regulation
Mahnaz Massoudi, Engineer IV, Division of Economic Regulation
Jennie Lingo, Economic Analyst, Division of Economic Regulation

RE: Docket No. 070414-WS – Application for staff-assisted rate case in Polk County by Hidden Cove, 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.

Table of Contents

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 May 8, 2008, for the May 20, 2008, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service and other relevant comments received at the customer meeting.

Hidden Cove, Ltd. (Hidden Cove or utility) is a Class C water and wastewater utility currently providing service to approximately 122 mobile home sites in the Hidden Cove Mobile Home Park. The park is built out. Water is purchased from the City of Lakeland.

Hidden Cove is located in the Highlands Ridge Water Use Caution Area in the Southwest Florida Water Management District (SWFWMD). The utility's 2006 annual report shows combined operating revenues of $23,000, operating expenses of $96,444, and a net operating loss of $73,444.

The utility was granted Certificate Nos. 607-W and 523-S in 1999.[1] On July 16, 2007, the utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee. The official date of filing was established as October 1, 2007.

Staff has audited the utility's records for compliance with the Commission rules and orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operating expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a historical test year ending December 31, 2006, for this rate case.

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

[1] See Order No. PSC-99-1237-PAA-WS, issued June 22, 1999, in Docket No. 981399-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Hidden Cove, Ltd.

The following is a list of acronyms and commonly used technical terms which are used throughout the staff report:

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
OPC	Office of Public Counsel

GLOSSARY OF TECHNICAL TERMS

BFC	Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.
CIAC	Contributions in Aid of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
ERCs	Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
GPD	Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
GPM	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operation and Maintenance Expense
RAF	Regulatory Assessment Fees
SARC	Staff Assisted Rate Case

UPIS	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
Used and Useful	The amount of plant capacity that is used by current customers including an allowance for the margin reserve.
USOA	Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

Discussion of Issues

QUALITY OF SERVICE

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

Preliminary Recommendation: The determination of the quality of water and wastewater service provided by Anglers Cove will be deferred until after the customer meeting scheduled for February 14, 2008. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code, states that:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's preliminary analysis below addresses each of these three components based on the information available.

Hidden Cove utility is Class C water and wastewater utility which provides water and wastewater service to approximately 122 customers in Polk County.

Quality of Utility's Product

Water Treatment Plant (WTP)

The WTP at Hidden Cove is regulated by the Polk County Health Department (PCHD) and Southwest Florida Water Management District (SWFWMD). The DEP inspected the utility's WTP on March 17, 2006. The utility has conformed to all testing and chemical analyses required by this agency and the test results have been satisfactory. The quality of the water service appears to meet or exceed the regulatory standards and is considered satisfactory.

Wastewater Treatment Plant (WWTP)

The WWTP at Hidden Cove is regulated by the Department of Environmental Protection (DEP). According to the DEP's letter April 3, 2007, the DEP inspected the utility's WWTP on March 15, 2007. Based on this inspection, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

Operational Conditions at the Plant

WTP

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. According to the PCHD's Warning Notice dated July 18, 2006, the PCHD stated that the utility violated the PCHD's Rules and Florida Statutes for the following issues:

1. Failure to submit the 2005 Consumer Confidence Report (CCR) to the PCHD by July 1, 2006. Chapter 62-550.824, Florida Administrative Code (F.A.C.) and 40 CFR 141, subpart O Section 155 (c) requires that system mail a copy of the CCR to the PCHD by no later than the date that the system is required to distribute the report to its customers (July 1, 2006).

2. Failure to monitor for radium 226 + radium 228 following an alpha result of 7.8 in 2003. Chapter 62-550.519 (1)(c), (F.A.C.) requires community water systems to perform additional testing.

According to the PCHD's Short Form Consent Order dated October 19, 2006 to the utility, the PCHD stated that the corrective actions for the above violations required to bring the utility into compliance have been performed. However, the PCHD stated that the utility is assessed civil penalties in the amount of $695 for the above violations. According to the PCHD's receipt No. 50910, the PCHD confirmed that the utility has paid a total of $695 on October 30, 2006 for its civil penalties.

Maintenance at the plant-site appeared to have been given adequate attention. However, during the engineering field inspection, there was no local emergency phone number posted at the water plant so that someone can respond to an emergency in a timely manner. Although, the operational condition at the water treatment plant is satisfactory, it is recommended that a local emergency phone number, which can be easily seen, be posted at the water plant. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case.

All things considered, the operational conditions at the water plant should be considered satisfactory at this time.

WWTP

The operating condition of the wastewater plant is reflective of the product provided by the utility. The utility's operating permit was issued on October 27, 2005 and will expire on October 27, 2010. According to the DEP's letter dated April 3, 2007, the utility was out of compliance due to the operation and maintenance, sampling, recording and reporting issues. According to the utility's response letter dated May 10, 2007 to the DEP, the utility stated that all of DEP's concerns were corrected.

According to the DEP's letter dated September 27, 2007, the DEP inspected the utility on August 22, 2007. The inspector observed the following violations during the site inspection:

1. The DEP's inspector reviewed the Hidden Cove's logbook at the utility's WWTP. The utility's logbook indicated that an unlicensed person was documenting himself as operating the plants on the required days of operator attendance. Rule 62-699.310(1), F.A.C, provides that the permittee shall employ certified operators to fulfill the required on-site time at the facilities.

2. The Hidden Cove's logbook indicated that the operator did not attend to the utility's WWTP on Monday, May 28, 2007 (Memorial Holiday), and Wednesday, July 4, 2007, and failed to make up the time during that week. Rule 62-699.310, F.A.C, provides that the permittee shall ensure that a certified operator is scheduled to fulfill the required staffing at the facilities.

3. In 2006, residuals were not sampled and analyzed at the Hidden Cove WWTP.

Per staff's phone conservation with DEP's inspector on November 8, 2007, the DEP inspector said the utility has corrected all of the above issues. However, the DEP is in process of issuing a Short Consent Order and penalties for the above violations. The inspector will mail a copy of the Consent Order to staff after it is signed.

In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The wastewater plant equipment and percolation ponds appeared to have been receiving periodic maintenance and were functioning properly. The plant ground within the fenced in area was organized. However, there is no local emergency phone number at the plant or at the lift stations so that someone can respond to an emergency in a timely manner. It is recommended that a local emergency phone number, which can be easily seen, be posted at the wastewater plant or at the lift stations. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. Also, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by DEP.

All things considered, the operational conditions at the wastewater plant should be considered satisfactory at this time.

Utility's Attempt to Address Customer Satisfaction

An informal customer meeting is scheduled to be held on February 14, 2008. That meeting will give the customers of Hidden Cove utility an opportunity to go on record with specific concerns about 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. That recommendation is scheduled to go before the panel of Commissioners for approval on the April 8, 2008 Agenda Conference. The engineer will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

Issue 2: What portions of Hidden Cove utility are used and useful?

Preliminary Recommendation: Staff recommends the following used and useful percentages:

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

(Massoudi)

Staff Analysis:

Water Treatment Plant

The water treatment plant is a closed system with one 6" well that is drilled to a depth of 430 feet. The well is equipped with a 7.5 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 148 gallons per minute (gpm). The raw water is treated with liquid chlorine which is injected prior to entry into the 2,500 gallon hydro pneumatic tank. The treated water from the tank is then pumped into the water distribution system.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. Since this water plant has just one well, staff considered just that well. Therefore, considering one well with the volume capacity of 148 gpm and no usable storage, the firm reliable capacity of water plant is 148 gpm.

During the 12-month test year review period, the peak month of water usage occurred during November 2006. The single maximum day (SMD) in test year period was 38 gpm. Since the water plant is a closed system operation having one hydro pneumatic tank (no storage tank), the actual peak hours of the maximum days should be considered. Therefore, the actual peak hours {2 x (Maximum day - excessive unaccounted water)} was used in the used and useful formula. The average daily flow was 16 gpm. Since there is no fire hydrant within the distribution system, the fire flow is considered zero gpm in the calculations. The service area has been built-out since the late 1990's. However, a regression analysis was performed with an anticipated growth of zero ERCs for the next year which calculates a projection of zero gpd for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. No water consumption data was available to determine the excessive unaccounted for water (EUW). During staff's site visit, there did not appear to be an EUW problem occurring within the water distribution system. Therefore, the EUW was assumed to be zero. In accordance with the formula method and the calculation methodology used (Attachment A, Page 1 of 4), the used and useful is calculated to be 51.35%. However, the utility's service area has been built out since 1998's and the utility has only one well in its plant. It has been the Commission's practice to consider the WTP 100% used and useful if the service area is built out or if the WTP has only one well. See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003 and Order No. PSC-00-0807-PAA-WU, issued April 25, 2000. Therefore, consistent with prior Commission decisions, staff is

recommending that the utility's WTP be considered 100% used and useful (Attachment A, Page 1 of 4).

Water Distribution System

The water distribution system had the potential of serving 122 customers (estimated to be 122 ERCs) in 2006. The average number of customers served during the test year was 122 customers (estimated to be 122 ERCs). The service has been built-out since 1998. Therefore, the potential growth for this system is zero. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, page 2 of 4).

Wastewater Treatment Plant

The existing WWTP is permitted based on three-month average daily flow (TMADF) to operate at a capacity of 20,000 gallons per day (gpd), utilizing the extended aeration activated sludge process. The three-month average daily flow for the historical test year for the WWTP was measured and calculated to be 14,196 gpd. A regression analysis was performed with an anticipated growth of zero ERCs for the next year which calculates a projection of zero gpd for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. No water consumption data was available to determine the excessive Infiltration or Inflow (I&I). During staff's site visit, there did not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the excessive I&I was assumed to be zero. In accordance with the formula method and the calculation methodology used (Attachment A, Page 3 of 4), the used and useful is calculated to be 70.98%.

Pursuant to Rule 25-30.432, F.A.C, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will also consider other factors such as the allowance for growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased due to conservation or a reduction in the number of customers. It has been the Commission's practice to consider the WWTP 100% used and useful if the service area is built out pursuant to the above Rule. See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003 and Order No. PSC-07-0865-PAA-SU, issued October 29, 2007. Therefore, consistent with prior Commission decisions, staff is recommending that the utility's WWTP be considered 100% used and useful.

Wastewater Collection System

The utility's potential customer base is 122 ERCs. The average number of customers for the test year is 122 ERCs. Since the service area is built-out, the potential growth for this system is zero. In accordance with the formula method and the calculation methodology used (Attachment A, Page 4 of 4), the used and useful is calculated to be 100%.

RATE BASE

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

Preliminary Recommendation: The appropriate average rate base for this utility is $34,801 for water and $27,659 for wastewater. (Revell)

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

Utility Plant in Service (UPIS): The Commission has not previously established the level of water or wastewater rate base.

According 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 the utility's plant in service by $26,081 for water and $76,365 for wastewater.

In addition, staff is recommending that the utility's rate structure be changed from a flat rate structure to the use of a base facility charge/gallonage methodology. As such, the utility will be required to install water meters. Staff estimates that meters and installation will cost approximately $23,000. Staff has included the meters in the calculation of rates in this proceeding. Therefore, staff is recommending that water plant be increased by $23,000 to reflect the installation of these meters.

Staff recommends a UPIS balance of $57,205 for water and $111,698 for wastewater.

Land: The utility's water and wastewater systems have no balance in its land accounts. According to Audit Finding No. 2, the utility bought 20 acres for $1,750 an acre when the utility was placed into service. Staff calculated that .183 acres is used for water operations and .960 acre is used for wastewater operations. Staff recommends that the water land balance should be $320 ($1,750 x .183), and the wastewater balance should be $1,680 ($1,750 x .960).

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.

Accumulated Depreciation: The utility's records indicate accumulated depreciation balances of $39,410 for water and $159,954 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C., and decreased water accumulated depreciation by $13,885 and wastewater accumulated depreciation by $70,368. Further, staff decreased accumulated depreciation by $449 for water and $864 for wastewater to reflect averaging adjustments. These adjustments result in accumulated depreciation balances of $25,077 for water and $88,722 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 $2,353 for water (based on O&M of $18,823) and $3,003 for wastewater (based on O&M of $24,027). Working capital has been increased by these amounts to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is $34,801 for water and $27,659 for wastewater. A calculation of rate base is shown on Schedule Nos. 1-A, 1-B and 1-C.

COST OF CAPITAL

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

Preliminary Recommendation: The appropriate return on equity is 11.78% with a range of 10.78% to 12.78%. The appropriate overall rate of return is 6.73%. (Revell)

Staff Analysis: The utility's records indicate paid in capital of $617,474 and long term debt of $1,536,639. The utility's capital structure has been reconciled with staff's recommended rate base. Using the leverage formula approved by Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate return on equity is 11.78%.

Staff recommends a return on equity of 11.78% with a range of 10.78% to 12.78% and an overall return of 6.73%. The return on equity and overall rate of return are shown on Schedule 2.

NET OPERATING INCOME

Issue 5: What are the appropriate test year revenues?

Preliminary Recommendation: The appropriate test year revenues are $11,783 for water and $11,783 for wastewater. (Revell)

Staff Analysis: The utility recorded revenues of $11,500 for water and $11,500 for wastewater for the test year. Pursuant to additional information discussed in Audit Finding No. 4, the utility provides unmetered water and wastewater service for a commonly owned clubhouse, one irrigation system at the entrance to the mobile home community, and an irrigation system at the company's wastewater treatment plant. The auditors indicated that the utility has never recorded revenues for these three general service connections.

Staff imputed additional revenues for the unmetered clubhouses and the irrigation system of $283 for water and wastewater. Staff recommends test year revenues of $11,783 for water and $11,783 for wastewater.

Test year revenue is shown on Schedules 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Issue 6: What are the appropriate amount of pre-repression operating expenses?

Preliminary Recommendation: The appropriate amount of pre-repression operating expense for the utility is $20,138 for water and $25,563 for wastewater. (Revell)

Staff Analysis: The utility's books reflected operating expenses of $43,510 for water and $52,934 for wastewater for 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. A summary of adjustments to operating expenses is as follows:

Operation and Maintenance Expenses (O&M)

Salaries and Wages-Employees – (601/701) - The utility recorded $4,147 for water and $4,144 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 5, the utility's salary accounts are overstated. Additionally, the auditors found improper allocations between utility and non-utility operations. Staff reduced expenses of $243 to water and $243 to wastewater for the overstated expense and the misallocations.

Sludge Removal Expense – (711) - The utility recorded $4,325 in this account for the test year. Pursuant to Audit Finding No. 6, this account is overstated. In accordance with this audit finding, staff decreased this account by $200. Therefore, staff recommends $4,125 for this account.

Purchased Power – (615715) – The utility recorded $3,477 for water and $1,942 for wastewater in these accounts during the test year. Pursuant to Audit Finding No. 6, Account 715 is understated. In accordance with this audit finding, staff increased this amount by $200. Therefore, staff recommends $3,477 for water and $2,157 for wastewater.

Chemicals – (618/718) - The utility recorded $1,100 for water and $3,929 for wastewater in these accounts during the test year. Pursuant to Audit Finding No. 6, these accounts are overstated. In accordance with this audit finding, staff decreased water by $92 and wastewater by $118. Therefore, staff recommends $1,108 for water and $3,811 for wastewater.

Materials and Supplies – (620/720) - The utility recorded $700 for water and $2,081 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 7, water is understated and wastewater is overstated. In accordance with this audit finding, staff increased water by $359 and decreased wastewater by $769. Therefore, staff recommends $1,059 for water and $1,312 for wastewater.

Contractual Services-Professional – (631/731) - The utility recorded $19,118 for water and $20,946 in these accounts for the test year. Pursuant to Audit Finding No. 8, these accounts are overstated. In accordance with this audit finding, staff reduced water expense by $13,615 and wastewater expense by $12,796 for expenses that were either misclassified or for which support was not provided. Staff reduced water expense by $4,253 and wastewater expense by $7,400 to reflect expenses no longer being performed by outside parties. Staff recommends $1,250 for water and $750 for wastewater.

Contractual Services-Testing – (635/735) – The staff engineer reviewed the proper level of expense in these accounts and determined that the proper expense should be $1,493 for water and $1,591 for wastewater. Staff increased water expense by $479 and wastewater expense by $1,591. Staff recommends $1,493 for water and $1,591 for wastewater testing expense.

Contractual Services-Other – (636/736) - The utility recorded $2,830 for water and $2,017 for wastewater. Pursuant to Audit Finding No. 9, staff reduced water by $661 for reclassified or non-utility expenses, and increased wastewater $100 for reclassified expenses. Therefore, staff recommends $2,169 for water and $2,117 for wastewater.

Insurance Expense – (655/755) - The utility recorded $1,650 for water and wastewater in these accounts for the test year. Pursuant to Audit Finding No. 10, staff reduced water and wastewater expense by $134 for misclassified expenses and expenses found to be non-utility in nature. Therefore, staff recommends $1,516 for water and wastewater.

Regulatory Commission Expense - (665/765) - 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 paid a $1,000 rate case filing fee for water and $200 for wastewater. Staff increased water by $250, ($1,000/4), and wastewater by $50 ($200/4). The utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff estimated noticing expenses of $50 postage expense, $12 printing expense, and $6 for envelopes. The above results in a total rate case expense for noticing of $68. Staff increased Accounts 665 and 765 by $17 ($68/4) to reflect rate case expense for noticing. Therefore, staff recommends that water be increased by $267 and wastewater by $67 for postage and customer notices.

Miscellaneous Expenses- (675/7750 - The utility recorded $6,991 for water and $6,296 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 11, staff reduced water by $4,311 to remove a Polk County Health Department fine and non-utility expenses. Staff reduced wastewater by $3,616 for non-utility expenses. Therefore, staff recommends $2,680 for water and wastewater.

Operation and Maintenance Expense (O&M) Summary - The total O&M adjustments are decreases of $22,204 for water and $23,303 for wastewater. Staff recommends O&M expense of $18,823 for water and $24,027 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Taxes Other Than Income - The utility recorded taxes other than income of $985 for water and $2,972 for wastewater. These amounts include $468 for water property taxes and $2,455 for wastewater property taxes and $517 for water and $517 for wastewater regulatory assessment fees (RAFs). Pursuant to Audit Finding No. 13, staff reduced water property tax by $312 and wastewater property tax expense by $1,638. Staff reduced payroll taxes by $19 for both water and wastewater to reflect the salary adjustment discussed earlier, and increased water and wastewater expense by $13 include the appropriate RAFs on staff's annualized revenue adjustment.

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

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses result in staff's calculated pre-repression operating expenses of $20,138 for water and $25,563 for wastewater.

Operating expenses are shown on Schedules 3-A through 3-E.

REVENUE REQUIREMENT

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

Recommendation: The appropriate pre-repression revenue requirement is $22,984 for water and $28,162 for wastewater. (Revell)

Staff Analysis: Based on staff's calculated revenue requirement below, the utility earned below its recommended rate of return on its water and wastewater systems. According to staff's calculations, the appropriate annual revenue increase is $11,201 (95.06%) for water and an annual increase of $16,379 (139.00%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 6.73% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$34,801	$27,659
Rate of Return	x .0673	x .0673
Return on Rate Base	$2,342	$1,861
Adjusted O & M expense	$18,823	$24,027
Depreciation Expense (Net)	$ 642	$202
Amortization	$0	$0
Taxes Other Than Income	$1,177	$2,071
Income Taxes	$0	$0
Revenue Requirement	$22,984	$28,162
Adjusted Test Year Revenues	- 11,783	- 11,783
Annual Revenue Increase	$11,201	$16,379
Percent Increase/(Decrease)	95.06%	139.00%

Based on the foregoing, staff recommends the appropriate annual revenue increase is $11,201 (95.06%) for water and an annual increase of $16,379 (139.00%) for wastewater. Revenue requirements are shown on Schedule Nos. 3-A and 3-B.

Issue 8: What are the appropriate billing determinants for rate setting purposes for the respective water and wastewater systems?

Recommendation: The appropriate billing determinants for rate setting are 136 ERCs and 7,695.0 thousand gallons (7,695.0 kgals) for the water system and 127 ERCs and 3,016.6 kgals for the wastewater system. (Lingo)

Staff Analysis: The utility's current rate structure consists of a flat (unmetered) rate structure, in which the utility charges $15.71 per month for combined water and wastewater service. Therefore, there are no test year historical data regarding customers' ERCs or consumption (billing determinants). As will be discussed in a subsequent issue, staff recommends that: 1) the rate structure for the water system be changed to the BFC/uniform gallonage charge rate structure; and 2) the rate structure for the wastewater system be changed to the BFC/gallonage charge rate structure. The change from unmetered to metered rate structures requires staff to calculate ERCs and consumption for rate setting purposes for both the water and wastewater systems.

The ERC data associated with the unmetered customers is based on the staff engineer's review of the service area. Staff's calculation of ERCs for rate setting for both the residential service (RS) and general service (GS) classes of service is set forth in the table below:

TABLE 8-1

CALCULATION OF ERCs FOR RATESETTING PURPOSES

Customers	Subdivision and Customer Class	Meter Size	Water ERCs	Wastewater ERCs
122	Hidden Cove (HC) – RS	5/8" x 3/4"	122.0	122.0
1	HC clubhouse – GS	1 ½"	5.0	5.0
1	HC wastewater plant irrigation – GS	5/8"	1.0	
1	Entrance irrigation – GS	2"	8.0	
125			**136.0**	**127.0**

Sources: Staff engineer's field work analysis of service area.

Staff used data contained in the utility's 2006 Annual Report in order to determine the recommended consumption for rate setting purposes. Staff's recommended test year consumption for the RS and GS classes are shown on the following page.

TABLE 8-2

CALCULATION OF KGALS FOR RATESETTING PURPOSES

Line No.	Description	Results
1	Hidden Cove's water systems kgals purchased and treated	8,550.0.0
2 = 1 x 10%	Less 10% unaccounted-for water	855.0
3 = 1 – 2	**Equals water sold for rate setting**	**7,695.0**
4	Hidden Cove's water kgals purchased / treated	8,550.0
5	Times ratio of Hidden Cove's wastewater treated vs. water purchased	43.7%
6 = 4 x 5	Equals wastewater kgals treated	3,736.4
7	Times ratio of GS wastewater ERCs to total water ERCs **(1)**	3.7%
8 = 6 x 7	Equals GS wastewater kgals treated	137.4
9	Times percent GS wastewater treated that is billed	100%
10 = 8 x 9	**Equals GS wastewater kgals for rate setting**	**137.4**
11 = 6	Wastewater kgals treated	3,736.4
12 = 8	Less estimated GS wastewater kgals treated and billed	137.4
13 = 11 – 12	Equals RS wastewater kgals treated	3,599.0
14	Times estimated RS consolidated factor at 6 kgal cap	80.0%
15 = 13 x 14	**Equals RS wastewater kgals for rate setting**	**2,879.2**
16 = 10 + 15	**Total wastewater kgals for rate setting**	**3,016.6**

(1) Assumption: 1 GS ERC will return water to the wastewater system at the same rate as 1 RS ERC.

Sources: Hidden Cove, Ltd., 2006 Annual Report.

Issue 9: What are the appropriate rate structures for the utility's water and wastewater systems?

Preliminary Recommendation: The appropriate rate structure for the utility's water system is the base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery allocation should be set at 60%. The appropriate rate structure for the utility's wastewater system is the BFC/gallonage charge rate structure. The general service gallonage charge should be set at 1.2 times the corresponding residential gallonage charge. The wastewater system's BFC cost recovery allocation should be set at 70%. Charges for residential wastewater service should be capped at 6 kgal of consumption. (Lingo)

Staff Analysis: The utility's current rate structure is a flat, nonconsumption-based rate structure, in which the residential customers are charged $15.71 per month for combined water and wastewater service. The general service customers are related parties to the utility and are not charged for service.

On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD signed Order No. SWF 07-02 (Order). In that Order, a Phase II Severe Water Shortage was declared for all ground and surface waters within the District's 16 county area. Subsequently, the District's Governing Board twice determined that a modification to extend the expiration of the Order was necessary. The Second Modification to the Order was set to expire on November 30, 2007.

The Governing Board, during a public hearing held on November 26, 2007, again received testimony regarding the existence of an ongoing water shortage within the District. Specific data presented at the hearing included, but were not limited to, the following items: 1) rainfall data indicated that the deficits in several counties, including Polk County, were categorized as critically abnormal; 2) all counties within the District were experiencing drought or drought-like conditions; 3) the Standard Precipitation Index indicated that several counties, including Polk County, were experiencing moderately abnormal conditions; 4) both the U.S. Drought Monitor and the Long-Term Palmer Index indicated that several counties, including Polk County, were experiencing severely abnormal conditions; and 5) the National Oceanic and Atmospheric Administration's Climate Prediction Center predicted below-normal rainfall from December 2007 through May 2008. Based upon the testimony, data, District staff recommendations and public comments, the District's Governing Board further extended the Order declaring a severe water shortage through June 30, 2008.

A flat rate structure is considered the most non-conserving of rate structures. Based on the District's declared severe water shortage,[2] and consistent with the results of the statewide Water Conservation Initiative (WCI) and the Water Management Districts' (WMDs') desire to eliminate non-conserving water rate structures, staff does not believe it is appropriate to continue the utility's flat rate structure. Instead, staff recommends a change to usage-based rates.

[2] Southwest Florida Water Management District, Third Board Order Modifying Water Shortage Order No. SWF 07-02, ordered on November 26, 2007, In re: Declaration of Water Shortage.

Staff performed detailed analyses of the utility's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; 2) equitably distribute cost recovery among the utility's customers; and 3) remove non-conserving water rate structures.

Based on the foregoing and the results of staff's analyses, the appropriate rate structure for the utility's water system is the base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery allocation should be set at 60%. The appropriate rate structure for the utility's wastewater system is the BFC/gallonage charge rate structure. The general service gallonage charge should be set at 1.2 times the corresponding residential gallonage charge. The wastewater system's BFC cost recovery allocation should be set at 70%. Charges for residential wastewater service should be capped at 6 kgal of consumption.

Issue 10: Are repression adjustments appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, repression adjustments to both the water and wastewater systems are appropriate. Residential water consumption should be reduced by 39.1%, resulting in a consumption reduction of approximately 2,696.7 kgal. Total water consumption for rate setting is 4,998.3 kgals, which represents a 35% reduction in overall consumption. The corresponding residential wastewater consumption should be reduced by 31.3%, resulting in a consumption reduction of approximately 899.8 kgals. Total wastewater consumption for rate setting is 2,116.8 kgals, which represents a 29.8% reduction in overall consumption. The resulting water system reductions to revenue requirements are $1,219 in purchased power expense, $353 in chemicals and $71 in regulatory assessment fees (RAFs). The resulting wastewater system reductions to revenue requirements are $643 in purchased power expense, $1,137 in chemicals, $1,230 in sludge removal, and $135 in RAFs. The post-repression revenue requirements are $21,342 for the water system and $25,016 for the wastewater system.

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

Staff Analysis: Using our database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this utility based upon the recommended increases in revenue requirements for the 2006 test year, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.[3]

Based on staff's analysis, repression adjustments to both the water and wastewater systems are appropriate. Residential water consumption should be reduced by 39.1%, resulting in a consumption reduction of approximately 2,696.7 kgal. Total water consumption for rate setting is 4,998.3 kgals, which represents a 35% reduction in overall consumption. The corresponding residential wastewater consumption should be reduced by 31.3%, resulting in a consumption reduction of approximately 899.8 kgals. Total wastewater consumption for rate setting is 2,116.8 kgals, which represents a 29.8% reduction in overall consumption. The resulting water system reductions to revenue requirements are $1,219 in purchased power expense, $353 in chemicals and $71 in regulatory assessment fees (RAFs). The resulting wastewater system reductions to revenue requirements are $643 in purchased power expense,

[3] Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

$1,137 in chemicals, $1,230 in sludge removal, and $135 in RAFs. The post-repression revenue requirements are $21,342 for the water system and $25,016 for the wastewater system.

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

Issue 11: What are the appropriate monthly rates for each system?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of $21,342, and the recommended wastewater rates are designed to produce revenues of $25,016. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Revell)

Staff Analysis: Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of $21,342, and the recommended wastewater rates are designed to produce revenues of $25,016. The recommended rates are shown on Schedule No. 4-A and Schedule No. 4-B. Approximately 60% (or $12,805) of the water monthly service revenues is recovered through the base facility charges, while approximately 40% (or $8,537) represents revenue recovery through the consumption charges. Approximately 70% (or $17,511) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 30% (or $7,505) represents revenue recovery through the consumption charges.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), 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. (Revell)

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of $18,969. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

1) The letter of credit is irrevocable for the period it is in effect.

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

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

1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

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

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

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

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon

staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 13: 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 and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Revell)

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

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

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

HIDDEN COVE LTD. **SCHEDULE NO. 1-A**
TEST YEAR ENDING 12/31/06 **DOCKET NO. 070414-WS**
SCHEDULE OF WATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$60,286	($3,081)	$57,205
2.	LAND & LAND RIGHTS	0	320	320
4.	CIAC	0	0	0
5.	ACCUMULATED DEPRECIATION	(39,410)	14,333	(25,077)
6.	AMORTIZATION OF CIAC	0	0	0
7.	WORKING CAPITAL ALLOWANCE	0	2,353	2,353
8.	WATER RATE BASE	$20,876	$13,925	$34,801

HIDDEN COVE LTD. **SCHEDULE NO. 1-B**
TEST YEAR ENDING 12/31/06 **DOCKET NO. 070414-WS**
SCHEDULE OF WASTEWATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$188,063	($76,365)	$111,698
2.	LAND & LAND RIGHTS	0	1,680	1,680
4.	CIAC	0	0	0
5.	ACCUMULATED DEPRECIATION	(159,954)	71,232	(88,722)
6.	AMORTIZATION OF CIAC	0	0	0
7.	WORKING CAPITAL ALLOWANCE	0	3,003	3,003
8.	WASTEWATER RATE BASE	$28,109	($450)	$27,659

	HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 070414-WS
		WATER	**WASTEWATER**
	UTILITY PLANT IN SERVICE		
1.	UPS value determined by Staff Engineer (AF1)	($26,081)	($76,365)
2.	Cost and installation of meters	$23,000	$0
	Total:	($3,081)	($76,365)
	LAND		
	Land Value Determined by Staff Auditor (AF2)	$320	$1,680
	ACCUMULATED DEPRECIATION		
	UPS Value determined by staff	$13,885	$70,368
	Averaging Adjustment	$449	$864
	Total:	$14,333	$71,232
	WORKING CAPITAL ALLOWANCE		
	To reflect 1/8 of test year O & M expenses.	$2,353	$3,003

HIDDEN COVE LTD.
TEST YEAR ENDING 12/31/06
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070414-WS

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON STOCK	$0	$0	$0					
2.	RETAINED EARNINGS	0	0	0					
3.	PAID IN CAPITAL	617,474	0	617,474					
4.	TREASURY STOCK	0	0	0					
5.	TOTAL COMMON EQUITY	$617,474	$0	617,474	(599,570)	17,904	28.66%	11.78%	3.38%
6.	LONG TERM DEBT	1,536,639	0	1,536,639	(1,492,083)	44,556	71.34%	4.70%	3.35%
	TOTAL LONG TERM DEBT	1,536,639	0	1,536,639	(1,492,083)	44,556	71.34%		
8.	CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
9.	TOTAL	$2,154,113	$0	$2,154,113	-$2,091,653	$62,460	100.00%		6.73%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.78%	12.78%
OVERALL RATE OF RETURN	6.44%	7.02%

HIDDEN COVE LTD. **SCHEDULE NO. 3-A**
TEST YEAR ENDING 12/31/06 **DOCKET NO. 070414-WS**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$11,500	$283	$11,783	$11,201 95.06%	$22,984
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	41,027	(22,204)	18,823	0	18,823
3.	DEPRECIATION (NET)	1,498	(856)	642	0	642
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	985	(318)	673	504	1,177
7.	**TOTAL OPERATING EXPENSES**	$43,510	($23,372)	$20,138	$504	$20,642
8.	**OPERATING INCOME/(LOSS)**	($32,010)		($8,355)		$2,342
9.	**WATER RATE BASE**	$20,876		$34,801		$34,801
10.	**RATE OF RETURN**	-153.33%		-24.01%		6.73%

HIDDEN COVE LTD.
TEST YEAR ENDING 12/31/06
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 070414-WS

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$11,500	$283	$11,783	$16,379 139.00%	$28,162
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	47,330	(23,303)	24,027	0	24,027
3.	DEPRECIATION (NET)	2,632	(2,430)	202	0	202
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	2,972	(1,644)	1,334	737	2,071
7.	**TOTAL OPERATING EXPENSES**	$52,934	($27,371)	$25,563	$737	$26,300
8.	**OPERATING INCOME/(LOSS)**	(41,434)		(13,780)		$1,861
9.	**WASTEWATER RATE BASE**	$28,109		$27,659		$27,659
10.	**RATE OF RETURN**	-147.40%		-49.82%		6.73%

	HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 070414-WS	
		WATER	WASTEWATER
	OPERATING REVENUES		
1.	Staff calculation of additional revenues (AF4)	$283	$283
	OPERATION AND MAINTENANCE EXPENSES		
1.	Adjustment to Salary Expense (AF5)	(243)	(243)
2.	Adjs. to Sludge Hauling, Pur. Power and Chem. Exp. (AF6)	(92)	(103)
3.	Adjustment to Materials & Supplies Expense (AF7)	359	(769)
4.	Adjustment to Contractual Services-Professional (AF8)	(13,615)	(12,796)
5.	Adjustment to Contractual Services-Professional (AF8)	(4,253)	(7,400)
6.	Adjustment to Contractual Services-Testing (AF8)	479	1,591
7.	Adjustment to Contractual Services-Other (AF9)	(661)	100
8.	Adjustment to Insurance Expense (AF10)	(134)	(134)
9.	Adjustment to Acct. 765-Regulatory Comm. Expense	267	67
10.	Adjustment to Miscellaneous Expense (AF 11)	(4,311)	(3,616)
	Total:	(22,204)	(23,303)
	DEPRECIATION EXPENSE (Net)		
	To correct depreciation expense	($856)	($2,430)
	TAXES OTHER THAN INCOME		
1.	Adjustment to Payroll Taxes	($19)	($19)
2.	Adjustment for property taxes (AF 13)	(312)	(1,638)
3.	Adjustment for RAFs	13	13
	Total:	($318)	($1,644)

HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			SCHEDULE NO. 3-D DOCKET NO. 070414-WS
	TOTAL PER PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) Salaries And Wages - Employees	$4,147	($243)	$3,904
(603) Salaries And Wages - Officers	0		0
(604) Employee Pensions And Benefits	0		0
(610) Purchased Water	0		0
(615) Purchased Power	3,477		3,477
(616) Fuel For Power Production	0		0
(618) Chemicals	1,100	(92)	1,008
(620) Materials And Supplies	700	359	1,059
(630) Contractual Services - Billing	0		0
(631) Contractual Services - Professional	19,118	(17,868)	1,250
(635) Contractual Services - Testing	1,014	479	1,493
(636) Contractual Services - Other	2,830	(661)	2,169
(640) Rents	0		0
(650) Transportation Expense	0		0
(655) Insurance Expense	1,650	(134)	1,516
(665) Regulatory Commission Expense	0	267	267
(670) Bad Debt Expense	0		0
(675) Miscellaneous Expenses	$6,991	($4,311)	2,680
Total	$41,027	($22,204)	$18,823

HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			SCHEDULE NO. 3-E DOCKET NO. 070414-WS
	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) Salaries And Wages - Employees	$4,144	($243)	$3,901
(703) Salaries And Wages - Officers	0		0
(704) Employee Pensions And Benefits	0		0
(710) Purchased Sewage Treatment	0		0
(711) Sludge Removal Expense	4,325	(200)	4,125
(715) Purchased Power	1,942	215	2,157
(716) Fuel For Power Production	0		0
(718) Chemicals	3,929	(118)	3,811
(720) Materials And Supplies	2,081	(769)	1,312
(730) Contractual Services - Billing	0		0
(731) Contractual Services - Professional	20,946	(20,196)	750
(735) Contractual Services - Testing	0	1,591	1,591
(736) Contractual Services - Other	2,017	100	2,117
(740) Rents	0		0
(750) Transportation Expense	0		0
(755) Insurance Expense	1,650	(134)	1,516
(765) Regulatory Commission Expenses	0	67	67
(770) Bad Debt Expense	0		0
(775) Miscellaneous Expenses	6,296	(3,616)	2,680
Total	$47,330	($23,303)	$24,027

HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 MONTHLY WATER RATES			SCHEDULE NO. 4-A DOCKET NO. 070414-WS
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
Residential and General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$15.71	$7.85	$0.10
3/4"	-	$11.78	$0.14
1"	-	$19.63	$0.24
1-1/2"	-	$39.25	$0.48
2"	-	$62.80	$0.77
3"	-	$125.60	$1.53
4"	-	$196.25	$2.39
6"	-	$392.50	$4.79
Gallonage Charge			
All gallons – per 1,000 gallons	-	$1.71	$0.02
* This is a flat rate charge for water and wastewater combined; no gallonage charge			
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	-	$12.98	
5,000 Gallons	-	$16.40	
10,000 Gallons	-	$24.95	

HIDDEN COVE LTD. TEST YEAR ENDING 12/31/06 MONTHLY WASTEWATER RATES			SCHEDULE NO. 4-B DOCKET NO. 070414-WS
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
Residential Service			
Base Facility Charge All Meter Sizes	$15.71*	$11.49	$0.03
Gallonage Charge			
Per 1,000 Gallons (6,000 gallon cap)	-	$3.50	$0.01
General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	-	$11.49	$0.03
3/4"	-	$17.24	$0.04
1"	-	$28.73	$0.07
1-1/2"	-	$57.45	$0.14
2"	-	$91.92	$0.23
3"	-	$183.84	$0.46
4"	-	$287.25	$0.72
6"	-	$574.50	$1.43
Gallonage Charge per 1,000 gallons	-	$4.20	$0.01
* This is a flat rate charge for water and wastewater combined; no gallonage charge			
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
3,000 Gallons	-	$21.99	
5,000 Gallons	-	$28.99	
10,000 Gallons	-	$32.49	

Name of Utility: Angler's Cove West, Ltd. **Attachment A**
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Historical Test Year (2006)

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

1)		Permitted Capacity of Plant Using (3 MADF)	70,000	gallons per day
2)		Average Daily Glow (3MADF)	55,667	gallons per day
3)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	0	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 diameter pipe per mile)		gallons per day
	d)	Excessive Amount		gallons per day

USED AND USEFUL FORMULA

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

$$(55,667 + 0 - 0) / 70,000 = (79.52\%) \text{ Used \& Useful}$$

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

Name of Utility: Angler's Cove West, Ltd. **Attachment A**
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COLLECTION and DISTRIBUTION SYSTEMS – USED AND USEFUL DATA

1)		Capacity of System (ERCs)	340	ERCs
2)		Test Year Connections Average Test Year	340	ERCs
3)		Growth	0	
	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	00	ERCs

USED AND USEFUL FORMLA

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