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

DATE: May 19, 2008
TO: Ann Cole, Commission Clerk - PSC, Office of Commission Clerk
FROM: Shannon J. Hudson, Regulatory Analyst IV, Division of Economic Regulation *BS*
RE: Docket No. 070394 - WU - Application for staff-assisted rate case in Pasco County by Holiday Company, Inc.

Please incorporate the attached staff report in the above-referenced docket file. The original cover letter (Document No. 02868-08) to the staff report was filed on April 15, 2008. Inadvertently, the staff report was not filed.

/sh

DOCUMENT NUMBER-DATE

04135 MAY 19 08

FPSC-COMMISSION CLERK

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: April 11, 2008

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

FROM: Shannon J. Hudson, Regulatory Analyst IV
Mahnaz Massoudi, Engineer Specialist IV *MM*
Sonica Bruce, Regulatory Analyst III *SB*

RE: Docket No. 070394-WU – Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

- STAFF REPORT -

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

DOCUMENT NUMBER-DATE

04135 MAY 19 8

FPSC-COMMISSION CLERK

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Case Background

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed July 2, 2008, for the July 15, 2008 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Holiday Utility Company, Inc. (utility) is a Class C water utility serving 321 water customers in Pasco County. According to the utility's 2006 annual report, total gross revenue was \$110,491 and total operating expense was \$172,664.

The utility began operations in 1969. By Order No. 6780, issued July 17, 1975, in Docket No. 73489, the Commission granted the utility's water certificate 224-W. The utility's last staff assisted rate case was in Docket No. 041145-WU. The Commission approved \$288,519 of pro forma plant additions for the utility. The utility's rates were approved for two phases whereby phase II rates were implemented when staff verified the completion of all pro forma additions. The utility's current rates became effective June 1, 2006.

The utility currently has an open docket (Docket No. 070084-WU) for the amendment of its service territory.

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

Discussion of Issues

Issue 1: Is the quality of service provided by Holiday Utility Company considered satisfactory?

Preliminary Recommendation: The determination for the quality of water service provided by Holiday Utility will be deferred until after the customer meeting scheduled for May 14, 2008. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code (F.A.C.), 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.

Holiday Utility is a Class C Water utility which provides water service to approximately 321 active customers. The company has 109 service connections in the Westwood area subdivision in Pasco County and 212 service connections in the Anclote area located in both Pasco and Pinellas counties. Each one of these communities is served by an independent water system.

QUALITY OF UTILITY'S PRODUCT

Westwood Water Treatment Plant

The water treatment plant (WTP) at Westwood is regulated by the Department of Environmental Protection (DEP). The DEP inspected the Westwood WTP on August 9, 2007. The Westwood WTP has conformed with all testing and chemical analysis required by this agency and the test results have been satisfactory for this system. The quality of the water service at Westwood appears to meet or exceed the regulatory standards and is considered satisfactory.

Anclote Water Treatment Plant

The WTP at Anclote is also regulated by the DEP. Per staff's phone conversation with DEP's inspector on February 12, 2008, the DEP inspector stated that the Anclote water system has exceeded the maximum contaminant level for sodium since May 3, 2006. The DEP inspector stated that since the utility has violated Rule 62-550.310 (1) (a), F.A.C., the DEP is in process of issuing a Consent Order and assessing penalties for the utility's violation. In this Consent Order, the DEP has indicated that the utility should disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through the existing interconnection with the City of Tarpon Springs. The DEP inspector will mail a copy of the Consent Order to staff after it is signed. The quality of the water service at Anclote does not appear to meet the regulatory standards and is not considered satisfactory at this time.

Although, the quality of the water service at the Anclote water treatment plant is not satisfactory, the DEP inspector and staff believe that utility is cooperating and trying to improve the quality of the water service as much as possible. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product.

Westwood WTP

According to the DEP's letter dated August 27, 2007, the DEP inspector observed a few deficiencies for the utility's Westwood WTP during his site inspection. The deficiencies are as follows:

1. The second well was not properly capped.
2. All of the hydropneumatic tanks must be inspected for structural and coating integrity at least once every five years by a professional engineer licensed in Florida. The report should be completed and submitted to the Department no later than August of 2008, as required in Rule 62-555.350(2), Florida Administrative Code.

According to the utility's response letter dated September 26, 2007 to the DEP, the utility has corrected the above issues.

Anclote WTP

The DEP inspector observed a few deficiencies for the utility's Anclote WTP. The deficiencies are as follows:

1. The check valve at Well #3 was inoperable.

Date: April 11, 2008

2. The cracks on Well #4's concrete apron should be repaired.
3. A copy of the interconnect agreement between Anclote Utilities and the City of Tarpon Springs should be submitted to the DEP.
4. According to DEP's files, Anclote Village's treatment capacity is 0.3 Million Gallon per Day ("MGD"). Rule 62-699.310(4)(e), Florida Administrative Code ("F.A.C.") classifies the staffing requirement of treatment plants using disinfection only at 0.25 to 3.0 MGD shall be staffed by a Class C or higher operator: 5 visits/week and one weekend visit. Current Monthly Operating Reports indicate that the operator is visiting the plant three times per week.
5. All of the hydropneumatic tanks must be inspected for structural and coating integrity at least once every five years by a professional engineer licensed in Florida. The report should be completed and submitted to the Department no later than August of 2008, as required in Rule 62-555.350(2), Florida Administrative Code.

According to the utility's response letter dated September 26, 2007 to the DEP, the utility has corrected all of the above issues.

Although, the operational conditions at the water treatment plant are not 100% satisfactory, DEP inspector and staff believe that utility is cooperating and trying to improve the operational conditions as much as possible. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP.

Consumptive use in Pasco County is permitted by the Southwest Florida Water Management District (SWFWMD). The utility obtained its Water Use Permit No. 202319.04 from SWFWMD on October 26, 1998, which expires on September 11, 2013.

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

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer hearing is scheduled to be held on May 14, 2008. That meeting will give the customers of Holiday 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 be heard by the Commissioners at the July 15, 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: Does the utility have excessive unaccounted for water and, if so, what adjustments should be made?

Preliminary Recommendation: Yes. Westwood WTP had approximately 13.06% excessive unaccounted for water and Anclote WTP had approximately 8.76% excessive unaccounted for water during the test year period. Therefore, purchased electricity and chemicals should be reduced by 13.06% for Westwood WTP and 8.76% for Anclote WTP during the test year period. (Massoudi)

Staff Analysis: It is Commission practice to allow 10% of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc.

Westwood Water Treatment Plant:

The total treated water pumped from the wells was compared with the total water sold to the customers during the test year period. The total unaccounted for the water was determined to be 5.51 gpm. The reasonable unaccounted amount (10% of average daily flow) was determined to be 2.39 gpm. The excessive unaccounted for water was calculated to be 3.12 gpm which was 13.06%. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. It appears that a large portion of the unmetered water is an issue of the old meters and not having accurate metering. Staff recommends that, in accordance with Commission practice, 13.06% be considered excessive and that purchased electricity and chemicals be reduced by 13.06% during the test year period.

Data representing the total treated water pumped from the wells and the total water sold to the customers was not available after the test year period; therefore, staff was not able to calculate the actual excessive unaccounted for water after June 2007 and in the year 2008. The utility has already replaced most of the water meters in the last few years to reduce the water loss. Because of these meters replacement, staff believes excessive unaccounted water to be zero in year 2008.

Anclote Water Treatment Plant:

The total treated water pumped from the wells was compared with the total water sold to the customers during the test year period. The total unaccounted for the water was determined to be 6.96 gpm. The reasonable unaccounted amount (10% of average daily flow) was determined to be 3.71 gpm. The excessive unaccounted for water was calculated to be 3.25 gpm which was 8.76%. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. It appears that a large portion of the unmetered water is an issue of the old meters and not having accurate metering. Staff recommends that, in accordance with Commission practice, 8.76% is considered excessive and that purchased electricity and chemicals are reduced by 8.76% during the test year period.

Data representing the total treated water pumped from the wells and the total water sold to the customers was not available after the test year period; therefore, staff unable to calculate the actual excessive unaccounted for water after June 2007 and in the year 2008. The utility has already replaced most of the water meters in the last few years which has significantly reduced the amount of water loss.

Issue 3: What portions of Holiday Utility Company are used and useful?

Preliminary Recommendation: The both water treatment plants and water distribution systems should be considered 100% used and useful. (Massoudi)

Staff Analysis:

Westwood Water Treatment Plant

The water treatment plant is a closed system with one 6" well (No. 1) equipped with a 15 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 240 gallons per minute (gpm). The raw water is treated with liquid chlorine which is injected prior to entry into the 14,000 gallon hydropneumatic tank. The Westwood Water system also has an existing interconnection with the Pasco County water system via a 2" meter as a backup water supply and can be utilized during emergencies. The fire hydrants are connected to the potable water 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 240 gpm and no usable storage, the firm reliable capacity of water plant is 240 gpm.

During the 12-month test year review period, the peak month of water usage occurred during April 2007. The single maximum day (SMD) in the test year period was 35.42 gpm. Since the water plant is a closed system operation having one hydro-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 23.91 gpm. The utility provides fire protection via fire hydrants throughout the distribution system. The Pasco County fire code requires a minimum of 500 gpm which is considered in the calculations. A regression analysis was performed which resulted in an expected growth of 2 ERCs for the next year. The 2 ERCs results in a projection of 6 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., Florida Statutes. The excessive unaccounted for water was calculated to be 3.12 gpm which was 13.06%. Using these inputs in the formula method (Attachment A, Page 1 of 4), the water treatment plant is calculated to be 100% used and useful.

Westwood Water Distribution System

The water distribution system has the potential of serving 123 customers (estimated to be 127 ERCs). The average number of customers served during the test year was 114 customers (estimated to be 118 ERCs). A regression analysis of growth over the past five years indicates that next year's growth would be 2 ERC per year. Applying the 2 ERCs to the statutory growth period, the future growth is calculated to be 10 ERCs. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, Page 2 of 4).

Anclote Water Treatment Plant

This water system is a closed system with four existing wells designated as Well Nos. 2, 3, 4, and 5. Well No. 5 is considered as a standby well and is currently not in use. Well No. 2 has a diameter of 6 inches equipped with a 2 horsepower (hp) submersible pump with a capacity of 60 gpm. Well No. 3 has a diameter of 6 inches equipped with a 3 horsepower (hp) submersible pump with a capacity of 70 gpm. Well No. 4 has a diameter of 4 inches equipped with a 3 horsepower (hp) submersible pump with a capacity of 75 gpm. On July 2006, the utility converted its free chlorine disinfection system to a liquid chloramine disinfection system. The raw water from the three operating wells is treated with liquid chloramine which is injected prior to entry into the 5,000 gallon hydropneumatic tank. The fire hydrants are connected to the potable water system.

During the 12-month test year review period, the peak month of water usage occurred during December 2006. Consistent with the Commission's past practice, the single maximum day flow during the test year, as reflected in the utility's DEP monthly operating reports (MORs), would normally be used to quantify demand unless it appears that an anomaly was caused by some extraordinary event, such as a main break or a fire, during the period. If such an anomaly is believed to have occurred during the test period, the average of the five highest days within a 30-day period during the test year should be used. The single maximum day occurred on December 2006, with a usage of 127,000 gpd. Because the average daily flow was only 53,408 gpd and the next nearest day usage was only 52,000 gpd, we believe that the 127,000 gallons of usage of water is an anomaly. Therefore, we find it appropriate to use the average of the five highest days within a 30-day period in the test period which equates to 72,200 gpd or 50.14 gpm. Since the water plant is a closed system operation having one hydro-tank (no storage tank), the actual peak hours of the maximum days should be considered. Therefore, the actual peak hours $\{2 \times (\text{Maximum day} - \text{excessive unaccounted water})\}$ was used in the used and useful formula. The average daily flow was 37.09 gpm. The utility provides fire protection via fire hydrants throughout the distribution system. The Pasco County fire code requires a minimum of 500 gpm which is considered in the calculations. A regression analysis was performed which resulted in a growth of 2 ERCs for the next year. The 2 ERCs result in a projection of 4.03 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., Florida Statutes. The excessive unaccounted for water was calculated to be 3.25 gpm which was 8.76%. Using these inputs in the formula method (Attachment A, Page 3 of 4), the water treatment plant should be considered 100% used and useful.

Anclote Water Distribution System

The water distribution system has the potential of serving 222 customers (estimated to be 259 ERCs). The average number of customers served during the test year was 212 customers (estimated to be 249 ERCs). A regression analysis of growth over the past five years indicates that next years growth would be 2 ERC per year. When we apply the 2 ERCs to the statutory growth period, the future growth is calculated to be 10 ERCs. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, Page 4 of 4).

USED AND USEFUL FOR PRO FORMA ITEMS

Anclote Water Treatment Plant

As previously discussed, per staff's phone conversation with DEP's inspector on February 12, 2008, the DEP inspector stated that the Anclote water system has exceeded the maximum contaminant level for sodium since May 3, 2006. The DEP's inspector stated that since the utility has violated Rule 62-550.310 (1) (a), Florida Administrative Code (F.A.C.), the DEP is in process of issuing a Consent Order. In this Consent Order, the DEP is issuing an order indicating that the utility should disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through the existing interconnection with the City of Tarpon Springs. Based on this Consent order, the utility intends to disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through the existing interconnection with the City of Tarpon Springs.

Issue 4: What is the appropriate average test year rate base for the utility?

Preliminary Recommendation: The appropriate average test year rate base for Holiday is \$496,711 for water. (Hudson)

Staff Analysis: The utility's rate base was last established by Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In Re: Application for a staff assisted rate case in Pasco County by Holiday Utility Company.

Staff has selected a test year ended June 30, 2007 for this rate case. Rate base components established, in Order No. PSC-05-0621-PAA-WU, have been updated through June 30, 2007 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 utility recorded \$864,452 of UPIS for the test year ended June 30, 2007. Staff has made the following adjustments to UPIS.

1.	To reflect plant addition to Acct. No. 304	\$187
2.	To remove fully depreciated plant in Acct No. 309	(\$7,230)
3.	To reflect the appropriate plant balance for Acct. No. 307	\$716
4.	To reflect the appropriate plant balance for Acct. No. 309	\$5,392
5.	To retire 75% of replacement plant for Acct. No. 309	(\$1,106)
6.	To reflect balance for Acct. No. 311 per previous order	(\$9,728)
7.	To retire 75% of replacement plant for Acct. No. 311	(\$5,614)
8.	To reflect balance for Acct. No. 320 per previous order	\$2,314
9.	To retire 75% of replacement plant for Acct. No. 320	(\$663)
10.	To reflect the appropriate balance for Acct. No. 330	\$7,761
11.	To reflect the appropriate plant balance for Acct. No. 331	\$14,862
12.	To retire 75% of replacement plant for Acct. No. 331	(\$2,312)
13.	To reflect the appropriate plant balance for Acct No. 334	(\$518)
14.	To reflect invoices not recorded on the company's books for Acct. No. 334	\$20,578
15.	To retire 75% of replacement plant for Acct. No. 334	(\$2,462)
16.	To reflect an averaging adjustment	(\$7,792)
	Total	\$14,385

Staff's net adjustment to UPIS is an increase of \$14,385 for water. Staff's recommended UPIS balance is \$878,837.

Non-used and Useful Plant: As discussed in Issue No. 3 of this staff report, the utility's water treatment plant and water distribution system should be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$203,774 for the test year ended June 30, 2007. Pursuant to Audit Finding No. 4, the utility did not record the

CIAC approved in the previous rate case. Therefore, staff made an adjustment of \$682 to increase this account. Staff has calculated CIAC to be \$204,456.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$282,335 for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$33,746 to reflect depreciation calculated per staff. Staff has decreased this account by \$11,271 to reflect an averaging adjustment. These adjustments results in average accumulated depreciation of \$237,318.

Accumulated Amortization of CIAC: The utility recorded \$33,063 for amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$2,377 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$3,851 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$31,589.

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 \$28,059 (based on O&M of \$224,470). Working capital has been increased by \$28,059 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$496,711. Rate base is shown on Schedule No. 1-A and staff's adjustments are shown on Schedule 1-B.

Docket No. 070394-WU

Date: April 11, 2008

Issue 5: What is the appropriate rate of return on equity and overall rate of return for this utility?

Preliminary Recommendation: The appropriate return on equity is 11.19% with a range of 10.19% - 12.19%. The appropriate overall rate of return is 9.24%. (Hudson)

Staff Analysis: The utility recorded the following items in its capital structure for the test year: common stock of \$140,500 retained earnings of negative \$44,363, paid-in-capital of \$196,897; and long term debt of \$317,946.

Using the leverage formula approved by Order No. PSC-07-0472-PAA-WS issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 11.19%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.19% with a range of 10.19% - 12.19%, and an overall rate of return of 9.24%. The return on equity and overall rate of return are shown on Schedule No. 2.

Issue 6: What are the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate test year revenue for this utility is \$126,433 for water. (Hudson)

Staff Analysis: Per Audit Finding No. 5, the utility recorded total revenues of \$129,854 for the 12 month period ended June 30, 2007. During the audit, the staff auditor discovered that the utility overstated its revenues for December 2006 by \$3,421 to adjust a prior year adjustment to balance its cash subsidiary account. Staff has decreased test year revenues by \$3,421. Based on the above, staff recommends test year revenue of \$126,433 for water. Test year revenue is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

Issue 7: What are the appropriate operating expenses?

Preliminary Recommendation: The appropriate amount of operating expenses for the utility is \$264,408 for water. (Hudson)

Staff Analysis: The utility recorded operating expenses of \$192,942 during the test year ending June 30, 2007. The test year O & M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses, as summarized below:

Purchased Water – 610 – The utility recorded \$378 to this account during the test year. As discussed in Issue 1, DEP is requiring the utility to disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through its existing interconnection with the City of Tarpon Springs (City). Based on the utility's test year consumption and the City's per 1,000 gallon rate of \$6.61, staff has determined purchased water cost to be \$145,597. Therefore, staff has increased this account by \$145,219 (\$145,597-\$378). Also, as discussed in Issue 2, staff's engineer has calculated an 8.76% excessive unaccounted for water for the Anclote system. Thus, staff has decreased this account by \$12,754. Staff recommends purchase water for the test year of \$132,843.

Purchased Power – 615 – The utility recorded \$8,625 to this account during the test year. As a result of the utility purchasing water from the City, staff has decreased purchase power by \$5,517 to remove the expense related to the Anclote system. The amount recorded in this account included \$1,582 for the Westwood system. Staff engineer has calculated a 13.06% EUW for the Westwood system. Therefore, staff has decreased this account by \$207 (\$1,582 x 13.06%) to reflect an EUW adjustment for the Westwood system. Staff has also decreased this account by \$1,526 to remove a nonutility expense per Audit Finding No. 6. Staff recommends purchased power for the test year of \$1,375.

Chemicals – 618 – The utility recorded \$2,460 to this account during the test year. As discussed previously, staff has decreased this account by \$2,149 to remove chemical expense related to the Anclote system. The amount recorded in this account included \$347 for the Westwood system. Staff has decreased this account by \$45 (\$347 x 13.06%) to reflect an EUW adjustment for the Westwood system. Staff recommends chemicals for the test year of \$266.

Material and Supplies – 620 – The utility recorded \$532 to this account during the test year. Per Audit Finding No. 6, the utility understated its material and supplies expense. Therefore, staff has increased this account by \$37. Staff recommends material and supplies for the test year of \$569.

Contractual Services – Professional – (631) – The utility recorded \$73,885 to this account during the test year. Per Audit Finding No. 6, staff has decreased this account by \$23,695 to remove expenses related to engineering services, nonutility and capitalized meters. Staff has increased this account by \$2,400 (\$12,000/5) to amortize the cost of the Anclote well retirements. Staff has increased this account by \$1,220 to reflect an amortization from the previous rate case that

has not expired. Staff recommends contractual services – professional for the test year of \$53,810.

Contractual Services – Testing – (635) – The utility recorded \$2,225 to this account during the test year. Staff has increased this account by \$8 to reflect the appropriate testing for the Westwood system per staff engineer. Staff recommends contractual services - testing for the test year of \$2,233.

Rents – (640) – The utility recorded \$2,625 to this account during the test year. Since the utility is retiring the wells of the Anclote system that is situated on rented land, the utility will no longer need to rent the land. Therefore, staff has decreased this account by \$2,625. Staff recommends rents for the test year of \$0.

Insurance – (655) – The utility recorded \$2,155 to this account during the test year. Per Audit Finding No. 6, staff has increased this account by \$35 to annualized insurance expense. Staff recommends insurance for the test year of \$2,190.

Regulatory Commission Expense – (665) – The utility recorded \$493 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. The utility is required by Rule 25-22-0407(9)(b), Florida Administrative Code, to mail notices of the customer meeting to its customers. Staff has estimated noticing expense for water of \$263 postage expense, \$225 printing expense, and \$32 for envelopes. The above results in a total rate case expense for noticing of \$520. The utility's rate case expenses for its consultant are \$5,262. The utility's total rate case expense is \$6,782. Staff has increased this account by \$1,696 ($\$6,782/4$) to reflect the amortization of the rate case expense. Staff recommends regulatory commission expense for the test year of \$2,189.

Bad Debt Expense – (670) – The utility recorded \$0 to this account during the test year. Per Audit Finding No. 6, it's the utility's policy to write off accounts over 90 days as uncollectible. Based on its current policy, staff has increased this account by \$847. Staff recommends bad debt for the test year of \$847.

Miscellaneous Expense – (675) – The utility recorded \$19,973 in this account for the test year. Per Audit Disclosure No. 6, the utility included interest on loans and customer deposits. Staff has decreased this account by \$24,989 to remove the interest. The utility credited this account for a loan application fee. Staff has increased this account by \$14,137 to remove the credit. Staff has decreased this account by \$1,934 to reflect the appropriate balance per the audit. Staff has increased this account by \$1,094 to reflect amortization included in the last rate case that has not expired. Also, staff has decreased this account by \$5,492 to remove amortization of legal fees for a territory docket currently before the Commission. Staff recommends miscellaneous expense for the test year of \$2,786.

Operation and Maintenance Expense (O & M Summary) – Based on the above adjustments, O&M should be increased by \$85,756. Staff's recommended O&M expenses of \$224,470. O&M expenses are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$41,109 for water depreciation expense during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation expense is \$33,146 for water; therefore, staff has decreased this account by \$15,605 (\$48,751-\$33,146) for water. Amortization of CIAC has a negative impact on depreciation expense. The utility recorded amortization of CIAC of \$7,642. Staff calculated amortization of CIAC based on composite rates. The utility's test year amortization of CIAC should be \$7,749. Staff has increased amortization of CIAC by \$107 (\$7,749-\$7,642). Staff recommends net depreciation expense of \$25,397 (\$33,146-\$7,749).

Taxes Other Than Income (TOTI) – The utility recorded taxes other than income of \$18,883 for water. As discussed in Issue 6, staff has decreased test year revenue by \$3,421. Based on staff's recommended test year revenues, the utility's RAFs should be \$5,689. Staff has made adjustments to decrease RAFs by \$1,683 (\$7,372 - \$5,689). Staff has increased this account by \$918 to reflect payroll taxes on staff's recommended salary. Pursuant to Audit Finding No. 7, staff has decreased this account by \$3,600 to remove an accrual entry by the utility. Staff has also increased this account by \$23 to include expense for an occupational license. Staff's net adjustment to this account is a decrease of \$4,342.

Income Tax – The utility recorded income tax of \$0 for water. The utility is an 1120 C corporation; however, the utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards are in excess of staff's recommended return on equity, and will continue to be so over the next couple of years. Therefore, staff has not made an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$264,408. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule 3-B.

Issue 8: What are the appropriate revenue requirement?

Preliminary Recommendation: The appropriate revenue requirement is \$318,968 for water. (Hudson)

Staff Analysis: The utility should be allowed an annual increase of \$192,535 (152.28%) for water. This will allow the utility the opportunity to recover its expenses and earn a 9.24% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$496,711
Rate of Return	x .0924
Return on Rate Base	<u>\$ 45,896</u>
Adjusted O & M expense	224,470
Depreciation expense (Net)	25,397
Amortization	\$0
Taxes Other Than Income	23,205
Income Taxes	<u>\$0</u>
Revenue Requirement	\$318,948
Less Test Year Revenues	<u>126,433</u>
Annual Increase	<u>\$192,535</u>
Percent Increase/(Decrease)	<u>152.28%</u>

Revenue requirement is shown on Schedule No. 3-A.

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

Preliminary Recommendation: The appropriate rate structure for the water system's residential and non-residential class is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery for the water system should be set at 25%. (Bruce)

Staff Analysis: The utility currently has a base facility charge (BFC)/uniform gallonage charge rate structure for its water system. The BFC is \$11.00 and the gallonage charge is \$3.17 for each 1,000 gallons (kgals) used.

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

Holiday Utility Company, Inc. is located in the Southwest Florida Water Management District (SWFWMD or District) in the Northern Tampa Bay water use caution area. The Commission's preferred rate structure had traditionally been the BFC/uniform gallonage charge rate structure. Over the past several years, the Districts have requested whenever possible that an inclining block rate structure be implemented. However, according to the utility's Water Use Permit (WUP) No. 202319.04, Special Condition No. 11, the District has deleted the requirement that the utility implement a conservation oriented rate structure.

Based on staff's analysis of the utility's billing data, the customer base is seasonal. The average monthly consumption is 4.8 kgal, which would suggest that implementing an inclining-block rate structure is appropriate. However, due to seasonality coupled with the fact that the District has deleted the requirement to implement a conservation oriented rate structure, staff believes that an inclining-block rate is not appropriate at this time. Therefore, staff recommends that a BFC/uniform gallonage charge rate structure be implemented.

Staff's initial analysis of the BFC revenue recovery allocation indicates that the utility would recover 26.37% from the BFC and the remaining 73.6% from the gallonage charge. However, staff recommends that the BFC allocation be set at 25% which is slightly lower than the initial allocation. Setting the BFC allocation at 25% versus the initial 26.37% allows the BFC to be slightly lower. As mentioned earlier, the Commission has a MOU with the WMDs. A guideline of the WMDs, which has been adopted as a practice of the Commission, is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates.

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

Preliminary Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 5,080 kgals. Purchased power expense should be reduced by \$271, chemical expense should be reduced by \$52, purchased water should be reduced by \$26,157, and regulatory assessment fees (RAFs) should be reduced by \$1,248. The final post-repression revenues from monthly service should be \$291,219.

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. 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. (Bruce)

Staff Analysis: Staff's analysis showed that average residential monthly consumption per customer was approximately 4.8 kgal indicating that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 5,080 kgals. Purchased power expense should be reduced by \$271, chemical expense should be reduced by \$52, purchased water should be reduced by \$26,157, and regulatory assessment fees (RAFs) should be reduced by \$1,248. The final post-repression revenues from monthly service should be \$291,219.

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Issue 11: What are the appropriate rates for this utility?

Preliminary Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. The recommended water rates produce revenues of \$291,219. 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. (Bruce)

Staff Analysis: The appropriate pre-repression revenue requirement is \$318,968 for the water system. As discussed in Issue 9, staff recommends that the appropriate rate structure for the water systems' residential and non-residential class is a continuation of a traditional base facility base charge (BFC)/gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 25%. As discussed in Issue 10, staff recommends that repression adjustments be made to the water system. Applying the rate design and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedules No. 4-A. These rates are designed to recover a post-repression revenue requirement for the water system of \$291,219.

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

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, 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. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$1,776 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 should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

Issue 13: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$132,618. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission 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.

**WATER TREATMENT PLANT – USED AND USEFUL DATA
 WESTWOOD WTP**

1)		Capacity of Plant	240.00	gallons per min
2)		Single Maximum Day (SMD) in the Test Year	35.42	gallons per min
	2a)	Max. day @ peak	70.84	gallons per min
3)		Average Daily Flow	23.91	gallons per min
4)		Fire Flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)		Growth	6	gallons per min
	a)	Average Test Year Customers in ERCs: Historical Test Year: July. 2006- June. 2007	118	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	2	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)x [2a\5a]	6	gallons per min
6)		Excessive Unaccounted for Water (EUW)	3.12	gallons per min
	a)	Percentage of Excessive amount	13.06%	
	b)	Total Unaccounted for Water	5.51	gallons per min
	c)	Reasonable Amount (10% of average Daily Flow)	2.39	gallons per min
	d)	Excessive Amount	3.12	gallons per min

USED AND USEFUL FORMULA

$$\frac{[2 \times (\text{Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}}{[2 \times (35.42 - 3.12) + 500 + 6] / 240} = 100\% \quad \text{Used \& Useful}$$

**WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA
 WESTWOOD WTP**

1)		Capacity of System (ERCs)	127	ERCs
2)		Test Year Connections Average Test Year	118	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	2	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	10	ERCs
USED AND USEFUL FORMULA				
$[2+3]/(1) = 100\%$ Used and Useful				

**WATER TREATMENT PLANT – USED AND USEFUL DATA
 ANCLOTE WTP**

1)		Capacity of Plant	130.00	gallons per min
2)		Maximum Day From Maximum Month	50.14	gallons per min
	2a)	Max. day @ peak	100.28	gallons per min
3)		Average Daily Flow	37.09	gallons per min
4)		Fire Flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)		Growth	4.03	gallons per min
	a)	Average Test Year Customers in ERCs: Historical Test Year: July, 2006 - June, 2007	249	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	2	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)x [2a\5a]	4.03	gallons per min
6)		Excessive Unaccounted for Water (EUW)	3.25	gallons per min
	a)	Percentage of Excessive amount	8.76%	
	b)	Total Unaccounted for Water	6.96	gallons per min
	c)	Reasonable Amount (10% of average Daily Flow)	3.71	gallons per min
	d)	Excessive Amount	3.25	gallons per min

USED AND USEFUL FORMULA

$$[2 \times (\text{Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (50.14 - 3.25) + 500 + 6.17] / 130 = 100\% \quad \text{Used \& Useful}$$

**WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA
 ANCLOTE WTP**

1)		Capacity of System (ERCs)	259	ERCs
2)		Test Year Connections Average Test Year	249	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	2	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	10	ERCs
<p>USED AND USEFUL FORMULA</p> <p>$[2+3]/(1) = 100\%$ Used and Useful</p>				

HOLIDAY UTILITY COMPANY TEST YEAR ENDING 06/30/2007 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 070394-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$864,452	\$14,385	\$878,837
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(203,774)	(682)	(204,456)
5. ACCUMULATED DEPRECIATION	(282,335)	45,017	(237,318)
6. AMORTIZATION OF CIAC	33,063	(1,474)	31,589
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>28,059</u>	<u>28,059</u>
8. WATER RATE BASE	<u>\$411,406</u>	<u>\$85,305</u>	<u>\$496,711</u>

**HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B
DOCKET NO. 070394-WU**

WATER

UTILITY PLANT IN SERVICE

1.	To reflect plant addition to Acct. No. 304	\$187
2.	To remove fully depreciated plant in Acct No. 309	(7,230)
3.	To reflect the appropriate plant balance for Acct. No. 307	716
4.	To reflect the appropriate plant balance for Acct. No. 309	5,392
5.	To retire 75% of replacement plant for Acct. No. 309	(1,106)
6.	To reflect balance for Acct. No. 311 per previous order	(9,728)
7.	To retire 75% of replacement plant for Acct. No. 311	(5,614)
8.	To reflect balance for Acct. No. 320 per previous order	2,314
9.	To retire 75% of replacement plant for Acct. No. 320	(663)
10.	To reflect the appropriate balance for Acct. No. 330	7,761
11.	To reflect the appropriate plant balance for Acct. No. 331	14,862
12.	To retire 75% of replacement plant for Acct. No. 331	(2,312)
13.	To reflect the appropriate plant balance for Acct No. 334	(518)
14.	To reflect invoices not recorded on the company's books for Acct. No. 334	20,578
15.	To retire 75% of replacement plant for Acct. No. 334	(2,462)
16.	To reflect an averaging adjustment	(7,792)
	Total	<u>\$14,385</u>

CIAC

	To reflect the appropriate CIAC balance	<u>(\$682)</u>
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ACCUMULATED DEPRECIATION

1.	To reflect test year depreciation calculated per 25-30.140 FAC.	\$33,746
2.	To reflect an averaging adjustment	11,271
	Total	<u>\$45,017</u>

AMORTIZATION OF CIAC

1.	To reflect accumulated amortization per 25-30.140 FAC.	\$2,377
2.	To reflect an averaging adjustment	(3,851)
	Total	<u>(\$1,474)</u>

WORKING CAPITAL ALLOWANCE

	To reflect 1/8 of test year O & M expenses.	<u>\$28,059</u>
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HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070394-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$140,500	\$0	\$140,500					
2. RETAINED EARNINGS	(44,363)	0	(44,363)					
3. PAID IN CAPITAL	196,897	0	196,897					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	<u>\$293,034</u>	\$0	<u>293,034</u>	(\$56,618)	<u>\$236,416</u>	47.60%	11.19%	5.33%
6. LONG TERM DEBT								
NOTES PAYABLE	\$317,946	\$0	\$317,946	(\$61,432)	\$256,514	51.64%	7.50%	3.87%
		0	0	0	0	0.00%		0.00%
TOTAL LONG TERM DEBT	<u>\$317,946</u>	<u>\$0</u>	<u>\$317,946</u>	<u>(\$61,432)</u>	<u>\$256,514</u>	<u>51.64%</u>		
7. CUSTOMER DEPOSITS	<u>\$3,781</u>	<u>\$0</u>	<u>\$3,781</u>	<u>\$0</u>	<u>\$3,781</u>	<u>0.76%</u>	6.00%	<u>0.05%</u>
8. TOTAL	<u>\$614,761</u>	<u>\$0</u>	<u>\$614,761</u>	<u>-\$118,050</u>	<u>\$496,711</u>	<u>100.00%</u>		<u>9.24%</u>
			RANGE OF REASONABLENESS			<u>LOW</u>	<u>HIGH</u>	
			RETURN ON EQUITY			<u>10.19%</u>	<u>12.19%</u>	
			OVERALL RATE OF RETURN			<u>8.77%</u>	<u>9.72%</u>	

HOLIDAY UTILITY COMPANY TEST YEAR ENDING 06/30/2007 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070394-WU		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$129,854</u>	<u>(\$3,421)</u>	<u>\$126,433</u>	<u>\$192,535</u> 152.28%	<u>\$318,968</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$138,714	\$85,756	\$224,470	\$0	\$224,470
3. DEPRECIATION (NET)	41,109	(15,712)	25,397	0	25,397
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	18,883	(4,342)	14,541	8,664	23,205
6. INCOME TAXES	<u>(5,765)</u>	<u>5,765</u>	<u>0</u>	<u>0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$192,941</u>	<u>\$71,446</u>	<u>\$264,408</u>	<u>\$8,664</u>	<u>\$273,072</u>
8. OPERATING INCOME/(LOSS)	<u>(\$63,087)</u>		<u>(\$137,975)</u>		<u>\$45,896</u>
9. WATER RATE BASE	<u>\$411,406</u>		<u>\$496,711</u>		<u>\$496,711</u>
10. RATE OF RETURN	<u>-15.33%</u>		<u>-27.78%</u>		<u>9.24%</u>

HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 070394-WU
PAGE 1 OF 2

	<u>WATER</u>
OPERATING REVENUES	
1. To adjust utility revenues to audited test year amount.	(\$3,421)
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Water (610)	
a. To reflect purchase water expense	\$145,219
b. To reflect purchase water 8.76% EUW Anclore	<u>(12,754)</u>
	<u>\$132,465</u>
2. Purchase Power (615)	
a. To remove purchase power for Anclore system	(\$5,517)
b. To remove purchase power expense for 13.06% EUW Westwood	(207)
c. To remove nonutility expense (AF 6)	<u>(1,526)</u>
	<u>(\$7,250)</u>
3. Chemicals (618)	
a. To remove chemical expense associated with Anclore	(\$2,149)
b. To remove chemical expense of 13.06% EUW for Westwood	(45)
	<u>(\$2,194)</u>
4. Materials and Supplies (620)	
a. To reflect the appropriate material supplies expense (AF 6)	<u>\$37</u>
5. Contractual Services - Professional (631)	
a. To remove engineering services, non utility and capitalized meters	(\$23,695)
b. To amortize well expenses over 5 years (\$12,000/5)	2,400
c. To include previous amortization	<u>1,220</u>
	<u>(\$20,075)</u>
6. Contractual Services - Testing (635)	
a. To reflect the appropriate testing for the Westwood system	<u>\$8</u>
7. Rents (640)	
a. To remove rent on land	<u>(\$2,625)</u>
8. Insurance Expenses (655)	
a. To annualize insurance expense (AF 6)	<u>\$35</u>
9. Regulatory Commission Expense (665)	
a. To amortize rate case expense over 4 years	<u>\$1,696</u>
10. Bad Debt Expense (670)	
a. To reflect the appropriate bad debt expense (AF 6)	<u>\$847</u>
11. Miscellaneous Expense (675)	
a. To remove interest on loan and customer deposits (AF 6)	(\$24,989)
b. To correct credit account for loan application fee (AF 6)	14,134
c. To reflect appropriate balance per audit	(1,934)
d. To include previous amortization	1,094
e. To remove amortization of legal cost for territory docket	<u>(5,492)</u>
Total	<u>(\$17,187)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$85,756</u>

**HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B
DOCKET NO. 070394-WU
PAGE 2 OF 2**

	<u>WATER</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$15,605)
2. Test year amortization of CIAC.	(107)
Total	<u>(\$15,712)</u>
TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees on test year revenue. (AF 7)	(\$1,683)
2. To adjust payroll tax for recommended salaries.	918
3. To reflect the appropriate test year property taxes (AF 7)	(3,600)
4. To include occupational license fee (AF 7)	23
Total	<u>(\$4,342)</u>

HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 070394-WU

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$12,000	\$0	\$12,000
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	\$0	0
(610) PURCHASED WATER	378	132,465	132,843
(615) PURCHASED POWER	8,625	(7,250)	1,375
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,460	(2,194)	266
(620) MATERIAL AND SUPPLIES	532	37	569
(630) CONTRACTUAL SERVICES - BILLING	\$0	0	\$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	73,885	(20,075)	53,810
(635) CONTRACTUAL SERVICES - TESTING	2,225	8	2,233
(636) CONTRACTUAL SERVICES - OTHER	13,363	0	13,363
(640) RENTS	2,625	(2,625)	\$0
(650) TRANSPORTATION EXPENSE	\$0	0	\$0
(655) INSURANCE EXPENSE	2,155	35	2,190
(665) REGULATORY COMMISSION EXPENSE	493	1,696	2,189
(670) BAD DEBT EXPENSE	\$0	847	847
(675) MISCELLANEOUS EXPENSES	<u>19,973</u>	<u>(17,187)</u>	<u>2,786</u>
	<u>\$138,714</u>	<u>\$85,756</u>	<u>\$224,470</u>

HOLIDAY UTILITY COMPANY		SCHEDULE NO. 4	
TEST YEAR ENDING 06/30/2007		DOCKET NO. 070394-WU	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF PRELIMINARY RATES	MONTHLY RATE REDUCTION
Residential and General Service			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$10.70	\$16.91	\$0.09
3/4"	\$16.05	\$25.37	\$0.14
1"	\$26.75	\$42.28	\$0.24
1-1/2"	\$53.50	\$84.55	\$0.47
2"	\$85.60	\$135.28	\$0.75
3"	\$171.20	\$270.56	\$1.51
4"	\$267.50	\$422.75	\$2.35
6"	\$535.00	\$845.50	\$4.71
 <u>Residential and General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$3.08	\$10.54	\$0.06
 <u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$19.94	\$48.53	
5,000 Gallons	\$26.10	\$69.61	
10,000 Gallons	\$41.50	\$122.31	