

State of Florida



Public Service Commission

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

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

DATE: July 2, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Bulecza-Banks, Lingo, Bruce) *BS*
Office of the General Counsel (Bennett) *100* *H/S* *on* *10*
AB

RE: Docket No. 070417-WS – Application for staff-assisted rate case in Polk County by Anglers Cove West, Ltd.

AGENDA: 07/15/08 – Regular Agenda – Proposed Agency Action Except for Issues 12, 13 and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: 12/15/08 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070417.RCM.DOC

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Case Background:

Anglers Cove West, Ltd. (ACW or Utility) is a Class C water and wastewater utility currently providing service to approximately 342 mobile home sites in the Anglers Cove and Anglers Cove West Mobile Home Parks. Both communities are built out. Water and wastewater lines between the two parks are interconnected. Water is purchased from the City of Lakeland.

ACW 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 \$63,043, operating expenses of \$266,058, and a net operating loss of \$203,015.

ACW was granted Certificate Nos. 610-W and 526-S in 1999.¹ On July 16, 2007, ACW filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on August 28, 2007. The official date of filing was established as September 14, 2007.

Staff has audited ACW'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 (F.S.).

¹ See Order No. PSC-99-1228-PAA-WS, issued June 21, 1999, in Docket No. 981342-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Anglers Cove West, Ltd.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: Yes. The quality of service provided by ACW is satisfactory. (Fletcher)

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 department officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components.

Quality of Utility's Product

Staff reviewed the Utility's and the Department of Environmental Protection's (DEP) records. According to the DEP, the Utility's wastewater finished product complies with regulatory standards. In Polk County, the Polk County Health Department (PCHD), located in Bartow, Florida, regulates the potable water program. According to the PCHD inspector, the finished water product complies with regulatory standards. ACW purchases water from the City of Lakeland and resells it to its customers. Staff believes the quality of the finished products for the water and wastewater systems are satisfactory.

Operating Condition of the Wastewater Treatment Facilities

The DEP issued a warning letter on September 27, 2007, for the wastewater treatment plant. The letter indicated that the Utility appeared to be in violation of Florida Statutes and Rules for the following:

- Failure to submit monthly Discharge Monitoring Reports
- Unlicensed operator documenting utility's records
- Submitting incomplete 2006 Residual Summaries
- Taking improper residual samples

According to DEP, the Utility has now corrected all deficiencies at the wastewater treatment plant. Therefore, it appears that the condition of the wastewater treatment facilities is satisfactory.

Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and found that there were no complaints recorded during the test year. Further, staff reviewed DEP's records and found no customer complaints on file.

On January 31, 2008, staff conducted a customer meeting in Lakeland, Florida, at the Commission Chambers, Lakeland City Hall. There were approximately 111 customers that attended the meeting and 10 customers spoke. During the customer meeting, residents expressed numerous concerns, the majority of which dealt with the level of the rate increase, an open flush valve, regular billing, service disruptions, and improper installation of meters.

Staff's detailed response to customers concerns is listed below:

- a) Rate Increase – During the customer meeting, staff explained in great detail the ratemaking process. The majority of the customers appeared to have been satisfied with staff's comments.
- b) Open Flush Valve – Several customers were concerned that the Utility was wasting water. One of ACW's flush valves, located at the southeast end of the water main and at the edge of the lake, was open and potable water was continuously flowing into the lake. According to the Utility's operator, from time to time residents or visitors to the community apparently open the valve and do not close it off completely, causing water to drain into the pond. Maintenance personnel have installed a lock box on the valve so that only authorized personnel can access the valve.
- c) Regular Billing - Several customers stated they did not receive monthly bills from the Utility. Pursuant to Rule 25-30.335 (1), F.A.C., the utility shall render bills to customers at regular intervals, and each bill shall indicate the billing period covered, the applicable rate schedule, the beginning and ending meter reading, the amount of the bill, the delinquent date or the date after which the bill becomes past due, and any authorized late payment charge. Some customers claim that they are not billed separately because the flat rate water and wastewater charges are included in their monthly rent. The method of billing appears to vary depending on the version of the lot rental agreement signed by the customer.

- d) Service Disruptions – Customers expressed concerns about the frequency of water outages and that when line breaks occur or repairs are needed, the Utility shuts off the water to its entire customer base. In response, the Utility stated that the water system has approximately twenty-two isolation valves which are used to isolate certain sections of the community in water break repairs.
- e) Improper Installation of Water Meters - According to several customers, several of the new water meters were installed backward. According to the Utility, approximately ten meters were inadvertently installed backwards, but all have been corrected.

Based on the above, staff believes ACW is making a concerted effort to address its customers concerns. Therefore, it appears the Utility is attempting to satisfy its customers.

Summary

Based on staff's review of the DEP evaluations of the Utility's wastewater treatment plant and staff's on-site engineering investigation, it appears that the quality of the finished products for the water and wastewater systems are satisfactory. DEP has indicated the condition of the wastewater treatment facility is now in compliance with DEP rules and statutes; therefore, the condition of the wastewater treatment facilities is satisfactory. Further, staff believes the Utility is making a concerted effort to address its customers' concerns. Therefore, staff recommends that the overall quality of service provided by ACW be considered satisfactory.

RATE BASE

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

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

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

(Fletcher)

Staff Analysis: Staff performed a U&U analysis of ACW's water distribution system, wastewater treatment plant, and wastewater collection system. ACW purchases potable water from the City of Lakeland and resells it to the residents of Angler's Cove West; therefore, there is no water treatment plant. Staff's analyses and recommendations are discussed below.

Water Distribution System

The water distribution system is designed to serve the 378 lots in the ACW service territory. There has been no significant growth in the Utility's service area in the past 5 years and no apparent potential for new development. Therefore, staff recommends that the service area is built out and the water distribution system should be considered 100 percent U&U.

Wastewater Treatment Plant

Pursuant to Rule 25-30.432, F.A.C., the used and useful percentage of the wastewater treatment plant was calculated by taking the flows from the plant based on the permitted capacity of the 3-Month Average Daily Flow (3MADF), plus a growth allowance pursuant to Rule 25-30.431, F.A.C., minus excess inflow and infiltration (I&I), and dividing the sum by the permitted capacity of the plant (3MADF). The Utility's test year 3MADF was 55,667 gallons per day (gpd). The growth allowance is 0 gpd because the system is built out and there does not appear to be excessive I&I. The wastewater treatment plant's permitted Annual Average Daily Flow (AADF) capacity is 70,000 gpd. Therefore, the wastewater treatment plant is 79.52 percent U&U as shown on Attachment A. However, because the Utility's service territory is built out and there is no potential for expansion, staff recommends the wastewater treatment plant be considered 100 percent U&U.²

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

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Wastewater Collection System

The wastewater collection system is designed to serve the 378 lots in the ACW service territory. There has been no significant growth in the Utility's service area in the past 5 years and no apparent potential for new development. Therefore, staff recommends that the service area is built out and the wastewater distribution system should be considered 100 percent U&U.³

³ Ibid

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

Recommendation: The appropriate average rate base for ACW is \$86,201 for water and \$169,269 for wastewater. (Bulecza-Banks, Fletcher)

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): As stated in the case background, ACW has never had a rate case or had rate base established by this Commission since becoming jurisdictional. According to Audit Finding No. 1, the Utility was unable to provide any original cost records to substantiate its 2006 plant balances. Therefore, the staff engineer performed an original cost study to determine the appropriate amount of plant in service. The engineer's cost estimate was performed by the use of available maps, partial invoice records, and visible facilities noted during the engineering field investigation. Based on the original cost study, staff has made an adjustment to decrease plant in service by \$57,866 for water and \$258,497 for wastewater.

According to Audit Finding No. 2, ACW installed 340 water meters from September 2006 through January 2007. Staff has included the meters in the calculation of rates in this proceeding. Therefore, staff is recommending that water plant be increased by \$56,915 to reflect the installation of these meters.

Finally, staff decreased water UPIS by \$28,458 for an averaging adjustment. Staff recommends a UPIS balance of \$158,466 for water and \$334,587 for wastewater.

Land: The Utility's water system is solely a distribution system and therefore has no land balance in its water land account. The Utility's records, however, reflect a balance of \$86,226 in its wastewater land account. According to Audit Finding No. 3, ACW purchased land for its operations at a cost of \$9,072 per acre. As 3.60 acres of the land purchased is used for wastewater operations, staff recommends a land balance of \$32,659 ($\$9,072 \times 3.60$). As such, staff recommends that the wastewater land balance be reduced by \$53,567 ($\$86,226 - \$32,659$).

CIAC: ACW has not included any CIAC in rate base. The property of the Utility has been developed as rental property and has never been costed off as a land sales operation. Therefore, the imputation of CIAC is inappropriate. As a result, no adjustment has been made to CIAC, which is consistent with the Commission's decision in Oak Springs, LLC's 2004 original certificate case.⁴

⁴ See Order No. PSC-04-1120-PAA-WU, issued November 9, 2004, in Docket No. 040515-WU, In re: Application for certificate to operate water utility in Orange and Lake Counties by Oak Springs, LLC.

U&U: As discussed in Issue No. 2, the Utility's water treatment plant should be considered 100 percent U&U. Therefore, a U&U adjustment is unnecessary.

Accumulated Depreciation: ACW's records indicate accumulated depreciation balances of \$80,675 for water and \$503,696 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C., and increased water accumulated depreciation by \$3,929 and decreased wastewater accumulated depreciation by \$298,826. Further, staff decreased accumulated depreciation by \$2,168 for water and \$6,138 for wastewater to reflect averaging adjustments. These adjustments result in accumulated depreciation balances of \$82,436 for water and \$204,870 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of a 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 \$10,171 for water (based on O&M of \$81,372) and \$6,893 for wastewater (based on O&M of \$55,142). 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 \$86,201 for water and \$169,269 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?

Recommendation: The appropriate return on equity is 11.78 percent with a range of 10.78 percent to 12.78 percent. The appropriate overall rate of return is 7.05 percent. (Bulecza-Banks, Fletcher)

Staff Analysis: ACW's records indicate paid in capital of \$2,405,530 and long term debt of \$6,370,350. The Utility's capital structure has been reconciled with staff's recommended rate base. Using the Commission's 2007 leverage formula⁵, the appropriate return on equity is 11.78 percent.

Staff recommends a return on equity of 11.78 percent with a range of 10.78 percent to 12.78 percent and an overall return of 7.05 percent as shown on Schedule No. 2.

⁵ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

NET OPERATING INCOME

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

Recommendation: The appropriate amount of test year revenues in this case are \$32,708 for the water system and \$32,708 for the wastewater system. (Lingo)

Staff Analysis: The utility reported test year revenues of \$31,521 for the water system and \$31,521 for the wastewater system. However, staff's auditors discovered that the utility failed to bill its general service and irrigation customers (all related parties to the utility), thereby understating revenues.

Based on the actual number of customers on the utility's system during the test year, staff recalculated test year revenues. Staff recommends imputation of \$1,187 in revenues for the water system and \$1,187 for the wastewater system. Imputation of revenues in this case is consistent with how unbilled customers and the associated revenues have been handled in prior cases.⁶ Based on the foregoing, staff recommends that the appropriate amount of test year revenues in this case are \$32,708 for the water system and \$32,708 for the wastewater system.

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

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

OPERATING EXPENSE

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

Recommendation: The appropriate amount of pre-repression operating expense for the Utility is \$87,968 for water and \$77,389 for wastewater. (Bulecza-Banks, Fletcher)

Staff Analysis: The Utility's books reflected operating expenses of \$148,824 for water and \$117,234 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 \$12,454 for water and \$14,744 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 6, the Utility's salary accounts are overstated. Additionally, the auditors found improper allocations between utility and non-utility operations. Staff reduced expenses of \$2,120 to water and \$2,558 to wastewater for the overstated expense and the misallocations.

Also, test year wastewater expense did not include a full-year salary for the plant operator, as the wastewater operator was not hired until September 2006. Staff increased wastewater expense by \$4,877 to reflect the full-year allocated portion for the plant operator. Overall, staff recommends that water expense be reduced by \$2,120, and wastewater expense increased by \$2,319 (\$4,877-\$2,558).

Purchased Water – (610) - The Utility recorded \$50,026 in this account for the test year. Pursuant to Audit Finding No. 7, ACW inappropriately included 13 months of expenses, instead of 12, and included expenses related to street lighting in this account. In accordance with this audit finding, staff decreased this amount by \$4,790 resulting in purchased water expense of \$45,236.

Sludge Hauling Expense – (711) - The Utility recorded \$7,090 in this account for the test year. Pursuant to Audit Finding No. 8, the utility did not include \$1,800 of legitimate sludge hauling expense, but did include \$200 in this account that should have been classified to Contract Services – Professional. As a result, staff increased this account by \$1,600. Staff recommends total sludge hauling expense of \$8,690.

Chemicals – (718) - The Utility recorded \$799 in this account for wastewater during the test year. Pursuant to Audit Finding No. 9, ACW did not include \$2,302 of its chemical expenditures. In accordance with this audit finding, staff increased this account by \$2,302. Therefore, staff recommends \$3,101 for wastewater.

Materials and Supplies – (620/720) - The Utility recorded \$5,527 for water and \$8,234 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 10, ACW incorrectly classified expenses and included expenses related to 2005, which is outside the test year. ACW also included non-utility related expenses. In accordance with this audit finding, staff decreased water by \$5,002 and wastewater by \$5,545. Therefore, staff recommends \$525 for water and \$2,689 for wastewater.

Contractual Services-Professional – (631/731) - The Utility recorded \$31,664 for water and \$36,503 in these accounts for the test year. Pursuant to Audit Finding No. 11, these accounts are overstated. In accordance with this audit finding, staff reduced water expense by \$31,017 to remove expenses that were either misclassified or for which support was not provided. Staff reduced wastewater expense by \$9,115 to reflect expenses no longer being performed by outside parties, and \$26,688 to remove misclassified expenses and unsupported expenses. Therefore, staff recommends Contractual Services-Professional of \$647 for water and \$700 for wastewater.

Contractual Services-Testing - (735) – ACW recorded \$250 for wastewater. Pursuant to Audit Finding No. 11, staff increased wastewater \$633 for DEP required testing. This amount was removed from Contractual Services-Professional as part of the \$9,115 included in Account 731. To properly include DEP required testing, staff has added the expense to Contractual Services – Testing. Staff recommends \$883 for wastewater.

Contractual Services-Other – (636/736) - The Utility recorded \$20,417 for water and \$2,479 for wastewater. Pursuant to Audit Finding No. 12, staff reduced water by \$6,675 for reclassified or unsupported expenses, and increased wastewater \$1,680 for expenses which had not been recorded. Therefore, staff recommends \$13,742 for water and \$4,159 for wastewater.

Insurance Expense – (655/755) - The Utility recorded \$4,239 for water and wastewater in these accounts for the test year. Pursuant to Audit Finding No. 13, staff reduced water and wastewater expense by \$551 for expenses found to be misclassified or non-utility in nature. Therefore, staff recommends \$3,688 for water and wastewater.

Regulatory Commission Expense - (665/765) - The Utility recorded no expense in these accounts for the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility paid a \$1,000 rate case filing fee for water and wastewater. Staff increased these accounts by \$250 each (\$1,000/4).

The Utility's attorney submitted actual expenses and estimated expenses to complete the case of \$8,991. After staff corrected a minor error, the total requested recovery for legal expenses is \$8,940. Included in the actual legal fees were expenses totaling \$715 for reviewing prior PSC Orders, the 2006 Annual Report, researching and drafting and finalizing the application for the SARC, and responding to the PSC acceptance of the SARC application. Staff does not believe these expenses should be recovered as the need to file a case can easily be determined by a cursory review of the annual report, and the SARC application was designed so that any regulated utility could easily fill in the required information. These expenses were

disallowed in a prior case.⁷ Therefore, staff recommends that legal expenses of \$8,225 (\$8,940-\$715) be recovered, which results in an increase of \$1,028 each for water and wastewater.

Additionally, 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 \$267 postage expense, \$65 printing expense, and \$32 for envelopes. The above results in a total rate case expense for noticing of \$364. Staff increased these accounts by \$46 ($\$364/4/2$) to reflect rate case expense for noticing. Therefore, staff recommends that water and wastewater expense be increased \$1,324 ($\$250 + \$1,028 + \46) for rate case expense.

Miscellaneous Expenses- (675/775) - The Utility recorded \$16,370 for water and wastewater in these accounts for the test year. Pursuant to Audit Finding No. 14, staff reduced these accounts by \$10,565 to remove non-utility expenses. Therefore, staff recommends \$5,805 for water and wastewater.

Operation and Maintenance Expense (O&M) Summary - The total O&M adjustments are decreases of \$59,396 for water and \$42,606 for wastewater. Staff recommends O&M expense of \$81,372 for water and \$55,142 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 \$1,418 for water and \$13,838 for wastewater. These amounts include \$12,419 for wastewater property taxes and \$1,418 for water and \$1,419 for wastewater regulatory assessment fees (RAFs). Pursuant to Audit Finding No. 16, staff reduced wastewater property tax expense by \$2,230. Staff increased water and wastewater RAF expense by \$53 to include the appropriate RAFs on staff's annualized revenue adjustment. Staff also increased payroll tax expense by \$791 for water and \$932 for wastewater to reflect the higher salary expense discussed earlier.

Depreciation Expense - ACW included depreciation for its water operations of \$6,638 and included \$5,648 for its wastewater operations. Staff has calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Based on staff's calculation, the appropriate amount of test year depreciation expense is \$4,334 for water and \$9,654 for wastewater. To arrive at the proper level of depreciation expense, staff has reduced water depreciation by \$2,304 and has increased wastewater depreciation expense by \$4,006.

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 \$87,968 for water and \$77,389 for wastewater. Operating expenses are shown on Schedule Nos. 3-A through 3-E.

⁷ See Order No. PSC-03-0740-PAA-WS, issued June 23, 2003, in Docket No. 021067-SU, In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.

REVENUE REQUIREMENT

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

Recommendation: The appropriate pre-repression revenue requirement is \$96,935 for water and \$91,990 for wastewater. (Bulecza-Banks, Fletcher)

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 \$64,227 (196.36 percent) for water and an annual increase of \$59,282 (181.25 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 7.05 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$86,201	\$169,269
Rate of Return	x .0705	x .0705
Return on Rate Base	\$6,077	\$11,933
Adjusted O & M expense	\$81,372	\$55,142
Depreciation Expense (Net)	\$ 4,334	\$9,654
Amortization	\$0	\$0
Taxes Other Than Income	\$5,152	\$15,261
Income Taxes	\$0	\$0
Revenue Requirement	<u>\$96,935</u>	<u>\$91,990</u>
Adjusted Test Year Revenues	<u>\$32,708</u>	<u>\$32,708</u>
Annual Revenue Increase	<u>\$64,227</u>	<u>\$59,282</u>
Percent Increase/(Decrease)	<u>196.36%</u>	<u>181.25%</u>

Based on the foregoing, staff recommends the appropriate annual revenue increase is \$64,227 (196.36 percent) for water and an annual increase of \$59,282 (181.25 percent) for wastewater. Revenue requirements are shown on Schedule Nos. 3-A and 3-B.

RATES AND CHARGES

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 370 ERCs and 10,078.2 thousand gallons (10,078.2 kgals) for the water system, and 356 ERCs and 7,452.4 kgals for the wastewater system. (Lingo, Fletcher)

Staff Analysis: The utility’s current rate structure is a flat (unmetered) rate structure. Therefore, there is no historical data regarding customers’ ERCs or consumption. As will be discussed in a subsequent issue, staff recommends that the rate structure be changed to the Base Facility Charge (BFC)/uniform gallonage charge rate structure. This change from an unmetered to a metered rate structure requires staff to calculate ERCs and consumption (billing determinants) for rate setting purposes.

During the course of their fieldwork, staff auditors determined that the utility had installed 340 5/8” x 3/4” meters in order to meter its residential customers. In addition, the auditors determined that the utility continues to provide unmetered water and wastewater service to one irrigation system and two clubhouses, and the staff engineer has identified four other connections that are unmetered. In order to calculate recommended residential ERCs on a prospective basis, staff relied on information contained in the staff audit report, as well as information obtained from the staff engineer. 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
187	Anglers Cove (AC) – RS	5/8” x 3/4”	187.0	187.0
153	Anglers Cove West (ACW) – RS	5/8” x 3/4”	153.0	153.0
1	AC clubhouse – GS (1)	2”	8.0	8.0
1	AC clubhouse pool – GS (1)	3/4”	1.5	
1	AC clubhouse irrigation – GS (1)	3/4”	1.5	
1	ACW clubhouse – GS (1)	2”	8.0	8.0
1	ACW clubhouse pool – GS (1)	3/4”	1.5	
1	ACW irrigation – GS (1)	3/4”	1.5	
1	Entrance irrigation – GS (1)	2”	8.0	
347			370.0	356.0
(1) The utility provides unmetered service to these customers. Staff based its meter size estimation for these customers on a review of the service area.				
Sources: Staff audit report, p. 12; staff engineer’s field work analysis of general service customers.				

The utility completed meter installations for its residential customers by the end of the December 31, 2006 test year. In January 2007, the utility continued to charge \$15.71 per month for water and wastewater service, but began charging an additional water charge of \$1.05 per kgal in excess of 5 kgal used per month. The gallonage charge portion of these rates has not been approved by this Commission. The charging of unauthorized rates will be discussed in greater detail in Issue 12.

Ordinarily, staff would use test year consumption as the basis for calculating kgals for rate setting. However, the change in rate structure and rates has led to a 34 percent reduction in the number of kgals purchased by the utility in 2007 when compared to 2006. This reduction in purchased water is a known and measurable change that should be recognized in the rate setting process. Therefore, staff recommends that the basis for calculating kgals sold to customers be based on the number of kgals the utility purchased for its customers in 2007, rather than in 2006.

Staff used purchased water data from the utility's 2007 Annual Report in order to determine the recommended consumption for rate setting purposes. The calculations used to derive the number of kgals sold to the RS and GS classes are shown below.

TABLE 8-2

CALCULATION OF KGALS FOR RATESETTING PURPOSES		
Line No.	Description	Results
1	Anglers' water systems kgals purchased in 2007	11,198.0
2 = 1 x 10%	Less 10% unaccounted-for water	1,119.8
3 = 1 - 2	Equals water sold for rate setting	10,078.2
4	Times percent of RS water ERCs v. total water ERCs (1)	91.9%
5 = 3 x 4	Equals RS water kgals sold	9,261.0
6	Times estimated RS kgals billed at or below 6 kgal cap	90%
7	Times percent capped RS kgals returned to wastewater system	80%
8 = 5 x 6 x 7	Equals RS wastewater kgals for rate setting	6,668.0
9 = 3 - 5	GS water sold	817.2
10	Times percent GS kgals returned to wastewater system	96%
11 = 9 x 10	Equals GS wastewater kgals for rate setting	784.5
12 = 8 + 11	Total wastewater kgals for rate setting	7,452.4
(1) Assumption: 1 RS ERC will consume water at the same rate as 1 GS ERC. Sources: Anglers Cove West, 2007 Annual Report.		

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

Recommendation: The appropriate rate structure for the water and wastewater systems' residential and non-residential class is a BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 40 percent. The residential wastewater monthly gallonage cap should be set at 6,000 gallons (6 kgals). The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should remain at 50 percent. (Bruce)

Staff Analysis: The Commission approved rates for ACW consists of a single combined flat rate of \$15.71 per month for water and wastewater service. These rates were in effect prior to the Commission receiving jurisdiction in Polk County in 1996, and were grandfathered in Docket No. 981342-WS.⁸ During 2006, the utility installed water meters. In January 2007, all of the meters were in place and the utility began charging their customers rates not authorized by the Commission. Those rates consisted of the same combined flat rate structure of \$15.71 per month for water and wastewater service but with an additional charge of \$1.05 per kgal in excess of 5 kgal per month for water.

The flat rate structure previously approved by the Commission is not considered a conservation-oriented rate structure because it does not send appropriate price signals to customers who consume large amounts of water. Therefore, in order to promote the goal of eliminating water rate structures that discourage conservation, staff recommends that the current flat rate structure be discontinued.

Water Rates: Over the past few years, the Water Management Districts have requested whenever possible that an inclining block rate structure be implemented. This type of rate structure sends increasingly strong price signals as customers consume larger quantities of water. In this case, however, because of the Utility's flat rate structure, the detailed billing data needed to implement an inclining block rate structure is not available. Therefore, staff recommends that a BFC/uniform gallonage rate structure be approved for the residential rate class. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential classes. This is consistent with Rule 25-30.436(6) F.A.C. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, non-residential customers would continue to pay their fair share for the cost of service.

⁸ See Order No. PSC-99-1228-PAA-WS, issued on June 21, 1999 in Docket No.981342-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Anglers Cove West, Ltd.

Staff recommends that the BFC allocation for the water system be set at 40 percent. This percentage is consistent with Water Management District recommendations and with prior Commission decisions. Staff does not believe that a lower BFC allocation is necessary in this because of the already low average consumption level of 2.2 kgal per month per customer.

Wastewater Rates: Staff recommends that a BFC/uniform gallonage rate structure be approved for the utility's wastewater customers with a 6 kgal gallonage cap for the residential rate class. This rate structure and gallonage cap is consistent with prior Commission decisions.

The initial allocation for the wastewater BFC cost recovery percentage was 50 percent. Typically, staff recommends that the BFC cost recovery allocation for wastewater be at least 50 percent due to capital intensive nature of wastewater plant. Therefore, staff recommends that the BFC cost recovery percentage remain unchanged at 50 percent.

Based on the foregoing, staff recommends that the appropriate rate structure for both the water and wastewater residential systems be changed to a BFC/uniform charge rate structure. The appropriate rate structure for the water system's non-residential classes is a base facility charge BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 40 percent. The current residential wastewater monthly gallonage cap should be set at 6 kgal. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should remain at 50 percent.

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 appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. 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: As previously discussed in Issue 8, staff recommends that the appropriate number of gallons used for rate-setting purposes are based on 2007 data rather than the 2006 test year data. The number of gallons sold during 2007 reflects a reduction of 34 percent from the prior year. Staff believes that this reduction in usage is attributable to customer's reaction of moving from unmetered to metered rates in 2007. Therefore, the number of gallons used to calculate rates already include the effect of repression and to make further adjustments unnecessary. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. 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?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A, and the appropriate wastewater monthly rates are shown on Schedule No. 4-B. The recommended water rates produce revenues of \$96,935, and the recommended wastewater rates produce revenues of \$91,990, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Bulecza-Banks)

Staff Analysis: The recommended rates are designed to produce revenue of \$96,935 for water and \$91,990 for wastewater, excluding miscellaneous service charges. Typically, staff would use test year consumption as the basis for calculating kgals for rate setting. However, as discussed in Issue 8, staff relied on information contained in the staff audit report to calculate recommended residential ERCs, as well as information obtained from the staff engineer. Also, staff used purchased water data from the utility's 2007 Annual Report in order to determine the recommended consumption for rate setting purposes.

As discussed in Issue 9, staff recommends that the appropriate rate structure for the water and wastewater systems' residential and non-residential class is a traditional BFC/gallage charge rate structure. The BFC cost recovery percentage for the water system should be set at 40 percent. The residential wastewater monthly gallage cap should be set at 6 kgal. The non-residential gallage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should remain at 50 percent.

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

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

Issue 12: Should ACW be ordered to show cause, in writing, within 21 days, why it should not be fined for charging rates and charges that are not contained in its tariff, in apparent violation of Sections 367.081(1) and 367.091(4), F.S.?

Recommendation: No, a show cause proceeding should not be initiated. The Utility should, however, be put on notice that, pursuant to Sections 367.081(1) and 367.091(4), F.S., it must charge only those rates and charges approved by the Commission in its tariff. Further, ACW must refund, with interest, all unauthorized charges within 60 days of the consummating order. Refunds shall be made in accordance with Rule 25-30.360, F.A.C. (Bennett, Bulecza-Banks, Fletcher)

Staff Analysis: ACW is a mobile home park that provides water and wastewater to its residents. The Utility includes in its mobile home prospectus, the amount it charges for water and wastewater service. That amount was \$15.71 prior to this SARC request. The \$15.71 flat rate charge is the Commission authorized tariff rate for ACW.

During the customer meeting held January 31, 2008, one customer testified that her 2001 prospectus included an additional charge of \$1.05 per each 1,000 gallons used in excess of 5,000 gallons per month. The customer also testified that for May 2007 she paid \$2.40 for excess water charges. The customer provided a bill and a proof of payment for the May 2007 excess water charges. The additional charge for excess water usage is not in ACW's tariff and therefore is an unauthorized rate.

A utility may not charge water or wastewater rates until the Commission has approved those rates, Sections 367.081(1) and 367.091(4), F.S. Therefore, the \$2.40 in revenues collected from this customer for May was unauthorized. Because this charge for excess water was included in the customer's prospectus, there may be other customers whose prospectus includes a charge for excess water usage. Pursuant to staff's audit and review of the system, most customers use less than the 5,000 gallons per month and would not have paid for excess water usage, and therefore the Utility has collected very minimal unauthorized revenues.

Section 367.161, F.S., authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, F.S. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code (F.A.C.), Relating To Tax Savings Refund for 1988 and 1989 for GTE Florida, Inc., the Commission, having found that a company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "in our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Staff does not believe a show cause proceeding is appropriate within these factual circumstances. The amount of the unauthorized revenue is small. The excess gallonage charge

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is the utility's effort to encourage conservation. The new rates proposed by staff have a conservation component to them. Based on the foregoing, staff does not believe that the apparent violations of Sections 367.081(1) and 367.091(4), F.S., rise to the level that would warrant the initiation of a show cause proceeding in these circumstances. The Utility should, however, be put on notice that, pursuant to Sections 367.081(1) and 367.091(4), F.S., it must only charge those rates and charges approved by the Commission in its tariff. Further, staff recommends that ACW should refund, with interest, all unauthorized charges within 60 days of the consummating order. Refunds should be made in accordance with Rule 25-30.360, F.A.C.

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

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

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility 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 \$74,918. 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 Office of Commission Clerk 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

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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 14: 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, F.S.?

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. (Bulecza-Banks, Fletcher)

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 should reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is \$347 annually for both water and wastewater. Using the Utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

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

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff and that the refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Bennett)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff and that the refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

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Name of Utility: Anglers Cove West, Ltd.
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Attachment A
Historical Test Year (2006)

WASTEWATER TREATMENT PLANT USED AND USEFUL ANALYSIS

1	Permitted Capacity (3 MADF)	70,000 gpd
2	Average Daily Flow (3MADF)	55,667 gpd
3	Growth	0 gpd
4	Excessive Infiltration or Inflow (I&I)	0 gpd
5	Used and Useful ⁹	100%

⁹ $(3MADF+Growth-I\&I)/AADF Capacity = (55,667 + 0 - 0) / 70,000 = 79.52$ percent. The Utility's service territory is built out; therefore, the wastewater treatment plant is 100 percent U&U in accordance with Rule 25-30.432, F.A.C.

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 070417-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$187,874	(\$29,409)	\$158,466
2. LAND & LAND RIGHTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(80,675)	(1,761)	(82,436)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,171</u>	<u>10,171</u>
8. WATER RATE BASE	<u>\$107,199</u>	<u>(\$20,998)</u>	<u>\$86,201</u>

**ANGLERS COVE WEST LTD
TEST YEAR ENDING 12/31/06
SCHEDULE OF WASTEWATER RATE BASE**

**SCHEDULE NO. 1-B
DOCKET NO. 070417-WS**

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$593,084	(\$258,497)	\$334,587
2. LAND & LAND RIGHTS	86,226	(53,567)	32,659
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(503,696)	298,826	(204,870)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>6,893</u>	<u>6,893</u>
8. WASTEWATER RATE BASE	<u>\$175,614</u>	<u>(\$6,345)</u>	<u>\$169,269</u>

ANGLERS COVE WEST LTD		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070417-WS	
ADJUSTMENTS TO RATE BASE			
<u>UTILITY PLANT IN SERVICE</u>	<u>WATER</u>	<u>WASTEWATER</u>	
1. UPS value determined by Staff Engineer (AF1)	(\$57,866)	(\$258,497)	
2. Adjustment to UPS (AF2)	56,915	0	
3. Averaging Adjustment	<u>(28,458)</u>	<u>0</u>	
Total	<u>(\$29,409)</u>	<u>(\$258,497)</u>	
<u>LAND</u>			
Adjustment to reflect utility operations (AF3)	<u>\$0</u>	<u>(\$53,567)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. UPS value determined by Staff and AF2	(\$3,929)	\$292,688	
2. Averaging Adjustment	<u>2,168</u>	<u>6,138</u>	
Total	<u>(\$1,761)</u>	<u>\$298,826</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$10,171</u>	<u>\$6,893</u>	

ANGLERS COVE WEST LTD							SCHEDULE NO. 2	
TEST YEAR ENDING 12/31/06							DOCKET NO. 070417-WS	
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	2,405,530	0	2,405,530					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$2,405,530	\$0	2,405,530	(2,335,504)	70,026	27.41%	11.78%	3.23%
6. LONG TERM DEBT	6,370,350	0	6,370,350	(6,184,906)	185,444	72.59%	5.26%	3.82%
7. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	6,370,350	0	6,370,350	(6,184,906)	185,444	72.59%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$8,775,880</u>	<u>\$0</u>	<u>\$8,775,880</u>	<u>(8,520,410)</u>	<u>\$255,470</u>	<u>100.00%</u>		<u>7.05%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.78%</u>	<u>12.78%</u>	
OVERALL RATE OF RETURN						<u>6.77%</u>	<u>7.32%</u>	

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070417-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$31,521</u>	<u>\$1,187</u>	<u>\$32,708</u>	<u>\$64,227</u> 196.36%	<u>\$96,935</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	140,768	(\$59,396)	\$81,372	\$0	\$81,372
3. DEPRECIATION (NET)	6,638	(2,304)	4,334	0	4,334
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,418	844	2,262	2,890	5,152
6. INCOME TAXES	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$148,824</u>	<u>(\$60,856)</u>	<u>\$87,968</u>	<u>\$2,890</u>	<u>\$90,858</u>
8. OPERATING INCOME/(LOSS)	<u>(\$117,303)</u>		<u>(\$55,260)</u>		<u>\$6,077</u>
9. WATER RATE BASE	<u>\$107,199</u>		<u>\$86,201</u>		<u>\$86,201</u>
10. RATE OF RETURN	<u>-109.43%</u>		<u>-64.11%</u>		<u>7.05%</u>

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 070417-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$31,521</u>	<u>\$1,187</u>	<u>\$32,708</u>	<u>\$59,282</u> 181.25%	<u>\$91,990</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$97,748	(\$42,606)	\$55,142	\$0	\$55,142
3. DEPRECIATION (NET)	5,648	4,006	9,654	0	9,654
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	13,838	(1,244)	12,594	2,668	15,261
6. INCOME TAXES	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$117,234</u>	<u>(\$39,845)</u>	<u>\$77,389</u> 0	<u>\$2,668</u>	<u>\$80,057</u>
8. OPERATING INCOME/(LOSS)	<u>(\$85,713)</u>		<u>(\$44,681)</u>		<u>\$11,933</u>
9. WASTEWATER RATE BASE	<u>\$175,614</u>		<u>\$169,269</u>		<u>\$169,269</u>
10. RATE OF RETURN	<u>-48.81%</u>		<u>-26.40%</u>		<u>7.05%</u>

ANGLERS COVE WEST LTD	SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/06	DOCKET NO. 070417-WS	
ADJUSTMENTS TO OPERATING INCOME		
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To adjust utility revenues to audited test year amount.	<u>\$1,187</u>	<u>\$1,187</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Reallocation of expense (AF6)	(\$2,120)	(\$2,558)
2. Adjustment to Acct. 701-Salaries and Wages-Employees	0	4,877
3. Adjustment to Purchased Water (AF7)	(4,790)	0
4. Adjustment to Sludge Hauling Expense (AF8)	0	1,600
5. Adjustment to Chemical Expense (AF 9)	0	2,302
6. Adjustment to Material & Supplies Expense (AF 10)	(5,002)	(5,545)
7. Adjustment to Account 731-Contrac. Servs-Prof. (AF11)	0	(9,115)
8. Adjustment to Contractual Services-Professional (AF11)	(31,017)	(26,688)
9. Adjustment to Contraction Services-Testing (AF11)	0	633
10. Adjustment to Contractual Services-Other (AF12)	(6,675)	1,680
11. Adjustment to Insurance Expense (AF13)	(551)	(551)
12. Adjustment to Acct. 765-Reg. Comm. Exps.	1,324	1,324
13. Adjustment to Miscellaneous Expense (AF14)	(10,565)	(10,565)
14. Repression Adjustment	<u>0</u>	<u>0</u>
Total	<u>(\$59,396)</u>	<u>(\$42,606)</u>
DEPRECIATION EXPENSE (NET)		
Staff Adjustment to Depreciation Expense	<u>(\$2,304)</u>	<u>\$4,006</u>
TAXES OTHER THAN INCOME		
1. Adjustment to Taxes Other than Income (AF16)	\$0	(\$2,230)
2. Adjustment for RAFs	53	53
3. Adjustment for Payroll Taxes	<u>791</u>	<u>932</u>
Total	<u>\$844</u>	<u>(\$1,244)</u>

ANGLERS COVE WEST LTD		SCHEDULE NO. 3-D	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070417-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
<u>PER 2006 ANNUAL REPORT</u>			
(601) SALARIES AND WAGES - EMPLOYEES	\$12,454	(\$2,120)	\$10,334
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	50,026	(4,790)	45,236
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	5,527	(5,002)	525
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	31,664	(31,017)	647
(635) CONTRACTUAL SERVICES - TESTING	0	0	\$0
(636) CONTRACTUAL SERVICES - OTHER	20,417	(6,675)	13,742
(640) RENTS	0	0	\$0
(650) TRANSPORTATION EXPENSE	71	0	71
(655) INSURANCE EXPENSE	4,239	(551)	3,688
(665) REGULATORY COMMISSION EXPENSE	0	1,324	1,324
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>16,370</u>	<u>(10,565)</u>	<u>5,805</u>
Total	<u>\$140,768</u>	<u>(\$59,396)</u>	<u>\$81,372</u>

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE	SCHEDULE NO. 3-E DOCKET NO. 070417-WS		
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
<u>PER 2006 ANNUAL REPORT</u>			
(701) SALARIES AND WAGES - EMPLOYEES	\$14,744	\$2,319	\$17,063
(703) SALARIES AND WAGES - OFFICERS	0	0	\$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	\$0
(710) PURCHASED SEWAGE TREATMENT	0	0	\$0
(711) SLUDGE REMOVAL EXPENSE	7,090	1,600	\$8,690
(715) PURCHASED POWER	6,169	0	\$6,169
(716) FUEL FOR POWER PRODUCTION	0	0	\$0
(718) CHEMICALS	799	2,302	\$3,101
(720) MATERIALS AND SUPPLIES	8,234	(5,545)	\$2,689
(730) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	36,503	(35,803)	\$700
(735) CONTRACTUAL SERVICES - TESTING	250	633	\$250
(736) CONTRACTUAL SERVICES - OTHER	2,479	1,680	\$4,159
(740) RENTS	0	0	\$0
(750) TRANSPORTATION EXPENSE	871	0	\$871
(755) INSURANCE EXPENSE	4,239	(551)	\$3,688
(765) REGULATORY COMMISSION EXPENSES	0	1,324	\$1,324
(770) BAD DEBT EXPENSE	0	0	\$0
(775) MISCELLANEOUS EXPENSES	<u>16,370</u>	<u>(10,565)</u>	<u>\$5,805</u>
Total	<u>\$97,748</u>	<u>(\$42,606)</u>	<u>55,142</u>

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 MONTHLY WATER RATES			SCHEDULE NO. 4-A DOCKET NO. 070417-WS	
	UTILITY'S EXISTING RATES	UTILITY'S ALLOCATED RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
Residential and General Service				
<u>Base Facility Charge by Meter Size:</u>				
<u>Flat Rate (Existing rates exclude gallonage charges.)</u>	\$15.71*	\$7.91**		
5/8"	-		\$8.73	\$0.12
3/4"	-		\$13.10	\$0.19
1"	-		\$21.83	\$0.31
1-1/2"	-		\$43.65	\$0.62
2"	-		\$69.84	\$1.00
3"	-		\$139.68	\$2.00
4"	-		\$218.25	\$3.12
6"	-		\$436.50	\$6.24
Residential Service				
<u>Gallonage Charge per 1,000 Gallons</u>	-		\$5.77	\$0.08
General Service				
<u>Gallonage Charge per 1,000 Gallons</u>	-		\$5.77	\$0.08
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$15.71	\$7.91	\$26.04	
5,000 Gallons	\$15.71	\$7.91	\$37.58	
10,000 Gallons	\$15.71	\$7.91	\$66.43	
* Theses rates represent charges for COMBINED water and wastewater service.				
** Staff allocated the current tariffed rates between water and wastewater based on 2006 billing data.				

ANGLERS COVE WEST LTD TEST YEAR ENDING 12/31/06 MONTHLY WASTEWATER RATES			SCHEDULE NO. 4-B DOCKET NO. 070417-WS	
	UTILITY'S EXISTING RATES	ALLOCATED EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
-				
<u>Residential Service</u>				
Flat Rate:	15.71*	7.80**		
Base Facility Charge All Meter Sizes			\$10.77	\$0.16
<u>Gallorage Charge</u>				
Per 1,000 Gallons (6,000 gallon cap)			\$4.94	\$0.07
* Existing rates do not contain a gallonage charge				
<u>General Service</u>				
Base Facility Charge by Meter Size:	15.71*			
5/8"			\$10.77	\$0.16
3/4"			\$16.16	\$0.24
1"			\$26.93	\$0.41
1-1/2"			\$53.85	\$0.81
2"			\$86.16	\$1.30
3"			\$172.32	\$2.60
4"			\$269.25	\$4.06
6"			\$538.50	\$8.11
* Existing rates do not contain a gallonage charge				
Gallonage Charge per 1,000 gallons			\$5.92	\$0.09
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons		\$7.80	\$25.59	
5,000 Gallons		\$7.80	\$35.47	
6,000 Gallons (cap under recommended rates)		\$7.80	\$40.41	
* Theses rates represent charges for COMBINED water and wastewater service.				
** Staff allocated the current tariffed rates between water and wastewater based on 2006 billing data.				