

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: August 11, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Bulecza-Banks, Daniel, Lingo)
Office of the General Counsel (Jaeger)

RE: Docket No. 060540-WU – Application for increase in water rates in Pasco County
by Colonial Manor Utility Company.
County(ies): Pasco

AGENDA: 08/19/08 – Regular Agenda – Proposed Agency Action Except for Issues 18 and
19– Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Carter

CRITICAL DATES: 5-Month Effective Date Waived through 08/19/08

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060540.RCM.DOC

COMMISSION
CLERK

08 AUG 11 AM 11:13

RECEIVED-FPSC

DOCUMENT NUMBER-DATE

07036 AUG 11 08

FPSC-COMMISSION CLERK

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background	3
	QUALITY OF SERVICE.....	5
1	Quality of Service (Daniel).....	5
	RATE BASE.....	7
2	Utility Agreed Upon Audit Adjustments (Fletcher)	7
3	Test Year Plant-in-Service (Fletcher)	8
4	Pro Forma Plant Additions (Fletcher).....	9
5	Used and Useful (Daniel)	10
6	Acquisition Adjustment (Fletcher)	11
7	Working Capital Allowance (Fletcher)	13
8	Rate Base (Fletcher)	14
9	Rate of Return (Fletcher).....	15
	NET OPERATING INCOME	16
10	Test Year Revenues (Fletcher)	16
11	Test Year Operation and Maintenance Expenses (Fletcher)	17
12	Appropriate Pro Forma Operating Expenses (Fletcher)	18
13	Pre-Repression Operating Income (Fletcher)	19
	REVENUE REQUIREMENT	20
14	Pre-Repression Revenue Requirement (Fletcher)	20
	RATES AND CHARGES	21
15	Rate Structure (Lingo, Fletcher)	21
16	Repression (Lingo, Fletcher)	24
17	Rates (Lingo, Fletcher)	26
18	Four-Year Rate Reduction (Fletcher)	27
	OTHER	28
19	Proof of Adjustments (Fletcher)	28
20	Close Docket (Jaeger, Fletcher).....	29
	Attachment A.....	30
	Schedule No. 1-A.....	34
	Schedule No. 1-B.....	35
	Schedule No. 1-C.....	36
	Schedule No. 1-D.....	37
	Schedule No. 1-E.....	38
	Schedule No. 1-F	39
	Schedule No. 1-G.....	40
	Schedule No. 1-H.....	41
	Schedule No. 2-A.....	42
	Schedule No. 2-B.....	43
	Schedule No. 3-A.....	44
	Schedule No. 3-B.....	45
	Schedule No. 3-C.....	46
	Schedule No. 3-D.....	47
	Schedule No. 4.....	48

Case Background

Colonial Manor Utility Company (Colonial or Utility) is a class C water utility providing service to approximately 715 customers in Pasco County. Colonial is located in the Northern Tampa Bay Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). Wastewater service is provided by septic tanks. In its 2006 Annual Report, the Utility reported operating revenues of \$160,797 and a net operating loss of \$29,704.

The Commission granted Colonial's Certificate No. 153-W in 1973.¹ In 2001, the Holiday Mall was deleted from the Utility's service area because Colonial was unable to provide the required fire flow to the Mall.² By Order No. PSC-05-0422-PAA-WU, issued on April 20, 2005, the Commission approved the transfer of the Utility from Floralino Properties, Inc. to Colonial.³

On December 22, 2006, Colonial filed the Application for Rate Increase at issue in the instant docket. After review of the Minimum Filing Requirements (MFRs), staff determined that the MFRs contained a number of deficiencies that required revisions by the Utility. The deficiencies were corrected and the official filing date was established as July 2, 2007, pursuant to Section 367.083, Florida Statutes (F.S.).

The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The test year established for final rates is the projected twelve-month period ended December 31, 2007. Colonial requested final rates designed to generate annual water revenues of \$349,060. This represents a revenue increase of \$183,283 or 110.53 percent. By Order No. PSC-07-0200-PCO-WU, issued March 5, 2007, the Commission suspended Colonial's proposed rates to allow time for staff's review of the case.

Although the Utility was approved for a projected test year ending December 31, 2007, Colonial actually submitted a 2006 simple average rate base and capital structures, 2006 year-end operating revenues and expenses, and pro forma plant and expenses related to its ion exchange treatment facilities. Because rates are set on a prospective basis, staff has included the Utility's 2007 plant additions and brought accumulated depreciation forward to update its rate base to a 2007 simple average. Also, given that Colonial's service area is built out, staff believes it is appropriate to use the audited 2006 revenues and expenses, pro forma long-term debt issuances, and pro forma plant and expenses associated with the ion exchange treatment facilities.

Moreover, because the ion exchange treatment facilities will not be completed until February 2009 or after, staff believes that phased rates are necessary. Phase-one rates exclude all pro forma costs related to the Utility's ion exchange treatment facilities. Phase-two rates include those pro forma costs but rates would not become effective until the Florida Department of

¹ See Order No. 5846, issued September 11, 1973, in Docket No. 73135-W, In Re: Application of Floralino Properties, Inc. for a certificate to operate an existing water system in Pasco County, Florida.

² See Order No. PSC-01-1302-FOF-WU, issued June 15, 2001, in Docket No. 991486-WU, In Re: Investigation into retention of certificated area of Ellis & Comuanv, Ltd. (Holiday Mall) by Floralino Properties, Inc. in Pasco County.

³ In Docket No. 041461-WU, In Re: Application for transfer of Certificate No. 153-W in Pasco County from Floralino Properties, Inc. to Colonial Manor Utility Company

Environmental Protection (FDEP) certifies completion of the ion exchange treatment system and the system becomes operational.

Because Colonial's initial filing had a related party estimate for its requested pro forma costs related to ion exchange treatment facilities, the Utility had to re-bid this project. On July 31, 2007, Colonial provided fully executed agreements with two entities for the installation of an ion exchange treatment system. Because of the considerable time it took the Utility to supply the support information, Colonial agreed to waive the five-month deadline under the proposed agency action provision of Section 367.081(8), F.S., through the August 19, 2008, Agenda Conference.

This recommendation addresses Colonial's requested final rate increase. The Commission has jurisdiction pursuant to Section 367.081, F.S.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Colonial considered satisfactory?

Recommendation: Yes. The overall quality of service provided by Colonial should be considered satisfactory. Although the Utility's quality of water is currently marginal because of the nitrate levels, Colonial appears to be working to improve the quality by proposing to construct an ion exchange filter system. The operational condition of the system and the Utility's attempts to resolve customer complaints should be considered satisfactory. However, Colonial should be required to provide quarterly status reports to the Commission beginning November 1, 2008, addressing the requirements of the FDEP Consent Order to construct a centralized ion exchange treatment system to reduce the nitrate levels in the system's water. The reporting should continue until all requirements of the consent order are fulfilled. (Daniel)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations, including: the quality of the Utility's product, the operating condition of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction.

Quality of Utility's Product and Operational Condition of the Water Facilities

The Utility's water system consists of four wells rated at 200, 195, 425, and 165 gallons per minute (gpm), respectively, as well as an additional inactive well. According to a FDEP warning letter dated September 8, 2005, two of Colonial's wells exceeded the maximum contaminant level (MCL) for nitrate, which is a violation of Rule 62-550.310(1)(a), F.A.C. As part of its corrective action, the Utility took the two wells out of service in 2005 and issued a public notification of the nitrate violations to its customers. Since then, Colonial has been providing water to its customers from the two remaining wells. On October 11, 2006, the Utility sampled one of the two remaining wells, found that it also exceeded the MCL for nitrate, and again issued a public notification to its customers. Subsequently, a nitrate confirmation sample was taken which indicated that the well did not exceed the MCL for nitrate.

Utility representatives met with FDEP several times during 2006 and 2007 to address the nitrate levels. In order to reach a final resolution, Colonial signed a Consent Order on July 19, 2007. According to the Consent Order, the Utility agreed to monitor each in-service well for nitrates, report the results to FDEP on a monthly basis, and apply for a permit and construct a centralized ion exchange treatment system to reduce the nitrate levels in the system's finished water. The Consent Order requires Colonial to complete the construction within 30 months of issuance of the DEP permit. The construction permit was issued by FDEP on June 12, 2007. Therefore, the Utility has until the end of 2009 to complete the construction of the ion exchange filter system. Colonial has awarded two bids for the construction project. The total cost to construct the centralized ion exchange treatment system is estimated to be \$894,100.

In general, during the engineering field inspection, maintenance at the water treatment plants appeared to be satisfactory. Although the Utility's quality of water is currently marginal because of the nitrate levels, Colonial appears to be working to improve the quality by proposing to construct an ion exchange filter system.

Utility's Attempt To Address Customer Satisfaction

A customer meeting was held on September 6, 2007, in New Port Richey. Of the 15 customers that attended, 10 offered comments concerning the quality of the water, the notices regarding the nitrate levels, and the amount of the rate increase. Five Utility representatives and a representative from the Office of Public Counsel also attended the meeting.

Many of the customers were concerned about whether Colonial's water was safe to drink. Staff explained that the Utility had taken two wells out of service because of the high nitrates and that the remaining two wells were in compliance with the nitrate standard. Staff further explained that FDEP had issued a Consent Order on July 27, 2007, which required Colonial to construct a centralized ion exchange treatment system to reduce the nitrate levels in the system's water. Regarding the rate increase, staff explained that the major cost associated with the proposed rate increase is for the construction of the new treatment system.

Staff reviewed the Commission's complaint tracking system and found that very few complaints had been filed against the Utility, and all of them were resolved in a timely manner. Staff believes that Colonial is putting forth a good faith effort to respond to customer complaints. Therefore, staff recommends that Colonial's attempts to resolve customer complaints should be considered satisfactory.

Quality of Service Summary

Based on all of the above, staff recommends that the overall quality of service provided by Colonial should be considered satisfactory. Although, the Utility's quality of water is currently marginal because of the nitrate levels, Colonial appears to be working to improve the quality by proposing to construct an ion exchange filtration system. The operational condition of the system and the Utility's attempts to resolve customer complaints should be considered satisfactory. However, Colonial should be required to provide quarterly status reports to the Commission beginning November 1, 2008, addressing the requirements of the FDEP Consent Order to construct a centralized ion exchange treatment system to reduce the nitrate levels in the system's water. The reporting should continue until all requirements of the Consent Order are fulfilled.

RATE BASE

Issue 2: Should the audit adjustments to rate base and net operating income be made?

Recommendation: Yes. Plant-in-service, revenues, operation and maintenance (O&M) expense, depreciation expense, and taxes other than income should be reduced by \$76,382, \$5,219, \$7,358, \$1,427, and \$185, respectively. Accumulated depreciation should be increased by \$76,847. The detailed account adjustments for plant, accumulated depreciation, O&M expenses, and depreciation expense are shown on Schedules Nos. 1-E and 1-H. (Fletcher)

Staff Analysis: In conducting the audit of Colonial's books and records, the staff auditor determined that several adjustments are necessary to bring the company's books and records into compliance with Commission rules. The auditor identified several plant accounts where new plant items were booked, but the accounting entry to remove the replaced item had not been made. In addition, the auditor identified some items that were booked to the wrong plant account. With respect to net operating income, depreciation expense was adjusted for the impact of the plant in service adjustments. Revenues were reduced by \$5,219 to correct a misclassification. Operating and maintenance expenses were further adjusted to remove non-utility and out-of-period expenses. Property taxes were reduced by \$185 because Utility failed to take advantage of discounts. Several adjustments were made to reclassify expenses to the proper accounts. Colonial agrees with the auditor's adjustments.

Staff has incorporated the impact of the auditor's findings in determining the appropriate rate base and net income. As a result, staff recommends that plant-in-service, revenues, O&M expense, depreciation expense, and taxes other than income should be reduced by \$76,382, \$5,219, \$7,358, \$1,427, and \$185, respectively. Also, accumulated depreciation should be increased by \$76,847. The detailed account adjustments for plant, accumulated depreciation, O&M expenses, and depreciation expense are shown on Schedules Nos. 1-E and 1-H.

Issue 3: Should any adjustment be made to plant-in-service for the test year ending December 31, 2007?

Recommendation: Yes. In order to reflect the Utility's rate base to a 2007 simple average balance and to capitalize expenses associated with emergency main breaks, plant should be increased by \$13,632. Corresponding adjustments should be made to increase accumulated depreciation by \$15,699 and depreciation expense by \$478. (Fletcher)

Staff Analysis: As discussed in the case background, the Utility was approved for a projected test year ending December 31, 2007. However, Colonial actually submitted a 2006 simple average rate base and capital structure, 2006 year-end operating revenues and expenses, and pro forma plant and expenses related to its ion exchange treatment facilities. Because rates are set on a prospective basis, staff believes the average balance of the Utility's 2007 plant additions of \$8,679 (\$17,357 divided by 2) should be included for rate setting purposes. Accordingly, staff also believes that the Utility's accumulated depreciation balance should be brought forward to update its rate base to a 2007 simple average balance. This represents an increase to accumulated depreciation of \$15,584 and an increase to depreciation expense of \$363.

Moreover, in response to a staff data request, Colonial agreed that \$4,953 of expenses associated with emergency main breaks should be capitalized. Accordingly, staff believes that accumulated depreciation and depreciation expense should both be increased by \$115.

Based on the above, staff recommends that plant be increased by \$13,632 (\$8,679 plus \$4,953). Corresponding adjustments should be made to increase accumulated depreciation by \$15,699 (\$15,584 plus \$115) and depreciation expense by \$478 (\$363 plus \$115).

Issue 4: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. In order to remove pro forma amounts to reflect the appropriate phase-one rate base, plant and accumulated depreciation should be reduced by \$794,458 and \$37,826, respectively. With regard to phase-two, pro forma plant should be increased by \$99,642. In accordance with the depreciation rates required in Rule 25-30.140, F.A.C., phase-two pro forma accumulated depreciation should be decreased by \$3,907. (Fletcher)

Staff Analysis: In its filing, Colonial reflected pro forma plant and accumulated depreciation of \$794,458 and \$37,826, respectively. To remove pro forma amounts to reflect the appropriate phase-one rate base, plant and accumulated depreciation should be reduced by \$794,458 and \$37,826, respectively.

With regard to phase-two, since the filing of the Utility's initial MFRs on December 22, 2006, the MFR estimate of \$794,458 for the ion exchange treatment project was approximately seven months old and was provided by U.S. Water Corporation, a related party, without going through the standard bidding process.

Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the Utility's burden to prove that its costs are reasonable.⁴ This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to the contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair.⁵ Thus, at the request of staff, the Utility decided to bid-out this project.

On March 21, 2008, Colonial provided staff with a third-party bid from Cimarron Construction, Inc. in the amount of \$951,420. However, on July 31, 2008, the Utility provided copies of two awarded bids for this construction project. The first bid was awarded to U.S. Water Corporation in the amount of \$687,100 covering the cost for the ground storage tank, pumping system, site work, chlorine disinfection system, well monitoring equipment, and nitrate removal system. The second bid was awarded to Cimarron Construction, Inc. in the amount of \$207,000 covering the cost for connecting the five existing well to the new ion exchange treatment system. Based on the awarded bids, staff recommends that the total pro forma plant should be \$894,100 for phase-two. Accordingly, staff recommends phase-two pro forma plant should be increased by \$99,642. In accordance with the depreciation rates required in Rule 25-30.140, F.A.C., staff recommends that phase-two pro forma accumulated depreciation be decreased by \$3,907.

⁴ See Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

⁵ See also Order No. PSC-05-0621-PAA-WU, issued, June 6, 2005 in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; Order No. PSC-00-1513-TRF-WS, issued August 21, 2000, in Docket No. 991835-WS, In Re: Application for allowance for funds prudently invested (AFPI).

Issue 5: What portions of the Utility's water facilities are used and useful?

Recommendation: The Utility's water treatment facilities and distribution system should be considered 100 percent used and useful. (Daniel)

Staff Analysis: Colonial has four separate water treatment plants, with one well at each site, that are interconnected by the distribution mains throughout the service territory. Two of the well sites are not currently in service and the two remaining wells are rated at 195 and 425 gpm, respectively. Raw water is treated with liquid chlorine, which is injected prior to entry into the hydropneumatic tank, and then pumped into the distribution system.

The firm reliable capacity of the two active wells is 195 gpm. The peak day demand in the test year was 172,000 gallons (119 gpm) on June 1, 2006. There does not appear to be any excessive unaccounted for water. The Utility provides fire protection via fire hydrants throughout the distribution system. The Pasco County fire code requires a minimum of 500 gpm for four hours. The water distribution system was designed to serve the Utility's existing customers, which are predominately residential with a few general service customers along the outskirts of the service area.

The Utility's service area has been built out since the late 1970's and there is no apparent potential for growth. Therefore, staff recommends that, pursuant to Rule 25-30.4325, F.A.C., the water treatment facilities and distribution system are 100 percent used and useful.⁶

⁶ $((119*2) + 500)/195 \Rightarrow 100\%$

Issue 6: Should the Utility's request for an acquisition adjustment be approved?

Recommendation: No. Colonial's request for a positive acquisition should be denied. An adjustment should be made to remove the acquisition adjustment in the amount of \$188,851. (Fletcher)

Staff Analysis: An acquisition adjustment is the difference between the purchase price of a utility and an original cost calculation. Such an adjustment provides an incentive for stronger companies to purchase weak or troubled companies. Acquisition adjustments have been allowed in extraordinary circumstances if a company could demonstrate that customers will derive certain benefits attributable to the acquisition. The Commission has addressed positive acquisition adjustments in the water and wastewater industry by Rule 25-30.0371(2), F.A.C., which states:

Positive Acquisition Adjustments. A positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. Any entity that believes a full or partial positive acquisition adjustment should be made has the burden to prove the existence of extraordinary circumstances. In determining whether extraordinary circumstances have been demonstrated, the Commission shall consider evidence provided to the Commission such as anticipated improvements in quality of service, anticipated improvements in compliance with regulatory mandates, anticipated rate reductions or rate stability over a long-term period, and anticipated cost efficiencies.

In its filing, the Utility requested a positive acquisition adjustment of \$188,851. In Audit Finding No. 1, the staff auditors recommended the removal of the requested acquisition adjustment because the Commission denied an acquisition adjustment in the 2004 transfer docket. By Order No. PSC-05-0422-PAA-WU, p. 5, the Commission found the following:

Pursuant to Rule 25-30.0371 , Florida Administrative Code, a positive acquisition adjustment shall not be included in rate base absent proof of extraordinary circumstances. The buyer has neither requested an acquisition adjustment nor identified any extraordinary circumstances here, and therefore, we will not include an acquisition adjustment in the calculation of rate base for transfer purposes.

In its response to a staff data request, Colonial contends that the existence of extraordinary circumstances is derived from the previous owner's need to sell the Utility because it would not have been able to maintain the quality of service due to the cost of necessary repairs and the age of the system infrastructure. Also, the Utility asserted that many deficiencies in quality of service, age, deterioration of infrastructure, and water outages were noted by customers before the transfer. Other than the above narrative response, Colonial has not provided any additional support for its requested positive acquisition adjustment.

The transfer order mentioned above was issued on April 20, 2005. As discussed in Issue 1, Colonial has exceeded the MCL for nitrates since September 8, 2005. Pursuant to the Consent Order executed on July 19, 2007, between the DEP and the Utility, Colonial is required to complete the construction of its ion exchange treatment system by the end of 2009 in order to reduce the nitrate levels in the finished water product. Staff believes that the Utility should have

been more proactive to address the excessive nitrate levels. Based on the above, staff believes the Utility has not demonstrated any extraordinary circumstances related to Colonial's ability to improve quality of service or make improvements in compliance with regulatory mandates because of its failure to timely address the excessive nitrate levels in the finished water product.

The Utility has not submitted any potential or actual qualitative and quantitative benefits to address any of the other factors mentioned in Rule 25-30.0371(2), F.A.C., which are anticipated rate reductions or rate stability over a long-term period, and anticipated cost efficiencies. The factor of anticipated cost efficiencies would include, lower operating costs; increased ability to attract capital for improvements; lower overall cost of capital; and more professional and experienced managerial, financial, technical and operational resources.

Based on the above, staff does not believe that the utility has met its burden to demonstrate any extraordinary circumstances that a positive acquisition adjustment is warranted in this case. Therefore, the Colonial's request for a positive acquisition adjustment should be denied. An adjustment should be made to remove the acquisition adjustment in the amount of \$188,851.

Issue 7: What is the appropriate working capital allowance?

Recommendation: In accordance with Rule 25-30.433(2), F.A.C., the appropriate amount of working capital is \$15,324 for phase-one and \$20,359 for phase-two. (Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. Colonial has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the Utility's balance of O&M expenses. Due to the adjustments recommended in other issues, staff recommends working capital of \$15,324 for phase-one and \$20,359 for phase-two be approved. This reflects a decrease of \$7,770 for phase-one and \$2,735 for phase-two to Colonial's requested working capital allowance of \$23,094.

Docket No. 060540-WU
Date: August 11, 2008

Issue 8: What is the appropriate rate base for the December 31, 2007, test year?

Recommendation: The appropriate water rate base for the test year ending December 31, 2007, is \$244,706 for phase-one and \$1,109,922 for phase-two. (Fletcher)

Staff Analysis: Using the Utility's MFRs with adjustments as recommended in the proceeding issues, staff has calculated Colonial's rate base to be \$244,706 for phase-one and \$1,109,922 for phase-two.

COST OF CAPITAL

Issue 9: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2007?

Recommendation: The appropriate return on equity is 12.01 percent with a range of 11.01 percent - 13.01 percent. The appropriate overall rate of return is 5.86 percent for phase-one and 6.59 percent for phase-two. (Fletcher)

Staff Analysis: The weighted average cost of capital included in the Utility's filing is 8.41 percent. Staff believes specific adjustments to the Utility's long-term debt and accumulated deferred income taxes (ADITs) components should be made. Staff also believes Colonial's requested return on equity of 11.96 percent should be revised using the Commission's 2007 leverage formula.

First, Colonial's filing reflects only \$613,342 of additional long-term debt to fund the installation of the ion exchange treatment system. However, in response to a staff data request, Colonial provided a bank commitment letter from Merchantile Bank in the amount of \$500,000 with an interest rate of 7.51 percent. In addition, the Utility's owner provided a certificate of deposit in the amount of \$600,000 with interest rate of 3.34 percent in order to also fund the ion exchange treatment system. As recommended in Issue 12, the requested \$8,000 for appraisal fees should be treated as unamortized issuing expense associated with the loan from Merchantile Bank, instead of pro forma O&M expenses. Based on the above, staff recommends that the appropriate long-term debt amount and weighted average cost of debt are \$1,334,895 and 5.67 percent, respectively. As a result, long-term debt has been increased by \$480,005, and the Utility's requested weighted average cost of debt has been reduced by 189 basis points.

Second, the Utility reflected \$32,012 of ADITs. As discussed in Issue 4, staff has recommended \$894,100 for the total pro forma plant to install the ion exchange treatment system. Accordingly, staff believes that a corresponding adjustment should be made to increase credit ADITs in the capital structure. Thus, staff recommends that the ADITs should be increased by \$627.

Using the Commission's 2007 leverage formula, the appropriate rate of return on equity is 12.01 percent.⁷ Colonial's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 12.01 percent with a range of 11.01 percent - 13.01 percent, and an overall rate of return of 5.86 percent for phase-one and 6.59 percent for phase-two. The return on equity and overall rate of return are shown on Schedule No. 2.

⁷ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

NET OPERATING INCOME

Issue 10: What is the appropriate annualized revenue adjustment?

Recommendation: The appropriate annualized revenue adjustment is \$1,786, and the utility's annualized revenue adjustment amount of \$5,000 should be reduced by \$3,214. (Fletcher)

Staff Analysis: In its filing, the Utility included an annualized revenue adjustment of \$5,000 by applying the Commission's 2006 price index of 3.09 percent to its 2006 revenues. Using test year billing units, staff calculated an annualized revenue adjustment of \$1,786 which is the same amount the Utility reflected on its MFR Schedule E-2. Thus, staff recommends that test year revenues be reduced by \$3,214.

Issue 11: Should any further adjustments be made to the Utility's test year operation and maintenance expenses?

Recommendation: Yes. O&M expenses should be decreased by \$6,689 to amortize non-recurring expenses and by \$4,953 to remove expenses that should be capitalized. (Fletcher)

Staff Analysis: In its filing, Colonial reflected \$141,214 in test year O&M expenses. As discussed in Issue 2, staff has recommended O&M expenses be reduced by \$7,358 for audit adjustments agreed to by the Utility. Upon a review of Colonial's O&M expenses, staff believes further adjustments should be made to amortize non-recurring expenses and remove expenses that should be capitalized.

First, as stated in the contract dated January 1, 2004, between U.S. Water Services Corporation (USWSC) and Colonial, USWSC pays all cost associated with the monthly sampling and testing of the Utility's water distribution system which is approximately \$194 monthly or \$2,328 annually. According to USWSC invoices to Colonial for the calendar years 2005 and 2006, USWSC billed Colonial for additional testing expense of \$800 (Invoice No. 518642) in 2005, and \$7,474 (Invoices Nos. 80243, 604657, 605972, 606395, and 607528) in 2006. This represents an increase of \$6,674 or 834% in testing expenses. In response to a staff data request, the Utility stated that the \$7,474 amount was a non-recurring expense. Rule 25-30.433(8), F.A.C., states "[n]on-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." In accordance with Rule 25-30.433(8), F.A.C., the appropriate annual amortization amount should be \$1,495. As such, O&M expenses should be reduced by \$5,979.

Second, according to Invoice No. 607638 from USWSC, the Utility spent \$523 to distribute boil water notices on November 3 and 9, 2006, due to high nitrate levels and spent \$364 to distribute boil water notices on November 7, 2006, due to chloramines. In response to a staff data request, the Utility stated that these amounts were non-recurring expenses. In accordance with Rule 25-30.433(8), F.A.C., the appropriate annual amortization amount should be \$177. As such, O&M expenses should be reduced by \$710. Third, as discussed in Issue 3, Colonial asserted that \$4,953 related to emergency main breaks repairs should be capitalized.

Based on the above, staff recommends that O&M expenses should be decreased by \$6,689 (\$5,979 plus \$710) to amortize non-recurring expenses and by \$4,953 to remove expenses that should be capitalized.

Issue 12: Should any adjustments be made to pro forma operating expenses?

Recommendation: Yes. In order to remove pro forma amounts to reflect the appropriate phase-one net operating income, O&M expense, depreciation expense, and property taxes should be reduced by \$43,165, \$37,826, and \$15,108, respectively. Phase-two pro forma O&M expenses, depreciation expense, and property taxes should be reduced by \$2,883, \$3,907, and \$883, respectively. (Fletcher)

Staff Analysis: In its filing, Colonial reflected pro forma O&M expense, depreciation expense, and property taxes of \$43,540, \$37,826, and \$15,108, respectively. In order to remove pro forma amounts to reflect the appropriate phase-one net operating income, O&M expense, depreciation expense, and property taxes should be reduced by \$43,165, \$37,826, and \$15,108, respectively.

With regard to phase-two, staff believes adjustments are necessary to pro forma O&M expense, depreciation expense, and property taxes. First, pursuant to the \$500,000 loan with Merchantile Bank, an appraisal is required of Colonial's assets. However, staff believes that the \$8,000 in pro forma appraisal fees should be treated as unamortized debt issuing expense which is a below-the-line expense because it will increase the cost rate associated with this debt issuance. This represents an \$8,000 reduction to O&M expense. Second, in response to a staff data request, the Utility provide an insurance policy bill for its affiliated company, Holiday Utility Company, Inc. to support its requested \$3,000 of pro forma insurance costs. The bill reflected that Colonial pays \$2,179 annually for a \$1 million per occurrence coverage. One of the provisions of the loan with Merchantile Bank requires Colonial to obtain liability insurance policy for the term of the loan. Given the pro forma plant costs are \$894,100 and staff's recommended total utility investment excluding working capital is \$1,089,563, staff believes the \$2,179 amount is a reasonable level for pro forma insurance costs, which represents an \$821 reduction. Third, the Utility initially requested \$9,005 in pro forma purchased power. Colonial later provided an updated estimate of \$10,620 to account for power demands for additional pumping facilities and lighting requirements. As a result, staff believes pro forma purchase power should be increased by \$1,615. Fourth, the Utility also provided an estimate of \$4,323 for brine waste disposal costs associated with the new treatment system. This estimate was derived by using projected flows to determine the amount of brine waste generated, current landfill charges for regular wastewater treatment plant sludge hauling, and transportation costs. Although Colonial did not initially request this pro forma expense in its filing, staff believes this expense is a known and measurable change that should be allowed for rate setting purposes.

Based on the above, staff recommends that phase-two pro forma O&M expenses be reduced by \$2,883. Moreover, consistent with staff's recommended pro forma plant discussed in Issue 4, the depreciation rates required in Rule 25-30.140, F.A.C., and the Pasco County millage rate, staff recommends that phase-two pro forma depreciation expense and property taxes be decreased by \$3,907 and \$883, respectively.

Issue 13: What is the test year pre-repression operating income or loss before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating income for phase-one and operating loss for phase-two before any provision for increased revenues are \$11,764 and \$28,225, respectively. (Fletcher)

Staff Analysis: As shown on attached Schedules Nos. 3-A and 3-C, after applying staff's adjustments, the test year net operating income for phase-one and net operating loss for phase-two before any revenue increase are \$11,764 and \$28,225, respectively. Staff's adjustments to operating income and expenses are shown on Schedule No. 3-B for phase-one and Schedule No. 3-D for phase-two.

REVENUE REQUIREMENT

Issue 14: What is the appropriate pre-repression revenue requirement for the December 31, 2007 test year?

Recommendation: The following pre-repression revenue requirement should be approved.

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Phase-One	\$157,364	\$4,308	\$161,672	2.74%
Phase-Two	\$157,364	\$170,204	\$327,568	108.16%

(Fletcher)

Staff Analysis: Colonial requested final rates designed to generate annual water revenues of \$349,060. This represents a revenue increase of \$183,263 (110.53%). Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a pre-repression revenue requirements of \$161,672 for phase-one and \$327,568 for phase-two. The recommended revenue requirements exceed staff's adjusted test year revenues by \$4,308 or 2.74 percent for phase-one, and \$170,204 or 108.16 percent for phase-two. The recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 5.86 percent and 6.59 percent return on its phase-one and phase-two rate bases, respectively.

RATES AND CHARGES

Issue 15: What are the appropriate rate structures for phase-one and phase-two for the Utility?

Recommendation: The Utility's current inclining block rate structure should remain in place during phase-one. The appropriate phase-two rate structure is a continuation of the phase-one rate structure, with usage blocks remaining at residential monthly usage levels of: 1) 0-10,000 gallons (10 kgals); and 2) usage in excess of 10 kgals. However, the usage block rate factors should be changed to 1.0 and 2.0, respectively, and the base facility charge (BFC) cost recovery allocation should be set at 40 percent. The uniform gallonage charge should continue to be applied to all general service consumption. (Lingo, Fletcher)

Staff Analysis: The Utility's current two-tier inclining block rate structure was set in its most recent staff-assisted rate case.⁸ The usage blocks were set for residential monthly usage of: 1) 0-10 kgals; and 2) usage in excess of 10 kgals. The usage block rate factors were set at 1.0 and 1.25, respectively. A uniform monthly kgal charge was applied to general service customers. During the test year, customers using a 5/8" x 3/4" meter (representing one ERC) were charged a BFC of \$8.02 per month for water service. The residential kgal charge for monthly usage of 0-10 kgals was \$2.12, while the charge for monthly usage in excess of 10 kgals was \$2.65. General service customers were charged a uniform monthly usage rate of \$2.19 per kgal.

As discussed in Issue 14, staff's recommended phase-one revenue requirement increase is 2.74 percent. Due to the nominal percentage increase, staff recommends that the current rate structure remain in place, and an across-the-board increase of 2.76 percent will be applied to all current rates.

As also discussed in Issue 14, staff's recommended phase-two revenue requirement increase is 108.16 percent. The average monthly water consumption for residential customers is 4.7 kgals. Staff believes a rate design goal is to design rates that result in lesser percentage increases to low-volume users, while sending progressively stronger price signals to higher-volume users. This is consistent with Commission practice.⁹

Staff takes several things into consideration when designing rates, including, but not limited to: 1) the current rate structure; 2) characteristics of the utility's customer base; 3) setting the water system's BFC between 25 percent and 40 percent whenever possible; 4) various conditions of the Utility's Consumptive Use Permit; 5) the existence of any water shortage declaration within the Utility's service area; and 6) current and anticipated climatic conditions in the Utility's service area. A detailed discussion of staff's rate structure methodology is contained in Attachment A.

Staff's recommended rate design for phase-two is shown on the following page on Table 15-1. Staff has also presented two alternative rate structures to illustrate other rate recovery

⁸ See Order No. PSC-03-1250-PAA-WU, issued December 6, 2003, in Docket No. 030250-WU, In re: Application for staff-assisted rate case in Pasco County by Florolino Properties, Inc.

⁹ Ibid.

methodologies. (All rate structures and rates presented in Table 15-1 assume that the Commission approves staff's recommended repression adjustments discussed in Issue 16.)

TABLE 15-1

COLONIAL MANOR UTILITY COMPANY STAFF'S RECOMMENDED AND ALTERNATIVE PHASE TWO RESIDENTIAL WATER RATE STRUCTURES AND RATES (1)			
Current Rate Structure and Rates (2)		Recommended Rate Structure and Rates	
Two-tier inclining block charge Monthly kgal usage blocks at 0-10, 10+ Usage block rate factors at 1, 1.25 BFC = 44%		Two-tier inclining block charge Monthly kgal usage blocks at 0-10, 10+ Usage block rate factors at 1.0, 2.0 BFC = 40%	
BFC	\$8.24	BFC	\$14.95
0 – 10 kgals	\$2.18	0 – 10 kgals	\$5.44
10 + kgals	\$2.72	10 + kgals	\$10.88
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$8.24	0	\$14.95
1	\$10.42	1	\$20.39
3	\$14.78	3	\$31.27
5	\$19.14	5	\$42.15
10	\$30.04	10	\$69.35
20	\$57.24	20	\$178.15
Alternative 1		Alternative 2	
Four-tier inclining block charge Monthly kgal usage blocks at 0-5, 5.001-10, 10.001-15, 15+ Usage block rate factors at 1, 1.25, 1.5, 1.75 BFC = 40%		Three-tier inclining block charge Monthly kgal usage blocks at 0-8, 8.001-15, 15+ Usage block rate factors at 1, 1.25, 1.5 BFC = 35%	
BFC	\$14.92	BFC	\$13.08
0 – 5 kgals	\$5.50	0 – 8 kgals	\$5.98
5.001 – 10 kgals	\$6.88	8.001 – 15 kgals	\$7.47
10.001 – 15 kgals	\$8.25	15 + kgals	\$8.97
15 + kgals	\$9.63		
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$14.92	0	\$13.08
1	\$20.42	1	\$19.06
3	\$31.42	3	\$31.02
5	\$42.42	5	\$42.98
10	\$76.82	10	\$75.86
20	\$166.22	20	\$158.06
(1) Post repression rates.			
(2) Recommended phase-one rates.			

Based on the foregoing and the discussion contained in Attachment A, staff recommends that the Utility's current inclining block rate structure should remain in place during phase-one. The appropriate phase-two rate structure is a continuation of the phase-one rate structure, with usage blocks remaining at residential monthly usage levels of: 1) 0-10 kgals; and 2) usage in excess of 10 kgals. However, the usage block rate factors should be changed to 1.0 and 2.0, respectively, and the BFC cost recovery allocation should be set at 40 percent. The uniform gallonage charge should continue to be applied to all general service consumption.

Issue 16: Are repression adjustments appropriate for phase-one and phase-two in this case, and, if so, what are the appropriate adjustments to make for this utility?

Recommendation: No repression adjustment is appropriate for phase-one; however, a repression adjustment is appropriate for phase-two. Residential water consumption in phase-two should be reduced by 15.1%, resulting in a consumption reduction of approximately 5,846 kgals. Total water consumption for rate setting is 33,953 kgals. The resulting water system reductions to revenue requirements are \$2,534 in purchased power expense, \$1,058 in chemicals expense, \$495 in purchased water expense, and \$192 in regulatory assessment fees (RAFs). The appropriate phase-two post-repression revenue requirement is \$319,192.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system during phase-one and phase-two. 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 phase-one rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, demand decreases.

As discussed by several representatives of the Water Management Districts (WMDs) participating in the Commission's rate design workshop in February 2006, the WMDs advocate and utilize inclining block rates because they are effective in reducing demand. This is true especially if the inclining block rate increase (or any other price increase) is targeted toward reducing demand at the more elastic end uses. This reduction in demand is often referred to as "demand repression," and is an example of the effects of price elasticity of demand. If the anticipated consumption reductions (loss of demand) are not considered in the rate setting process, price increases will, all other things equal, result in under-earning for the utility, jeopardizing the utility's financial health.

As discussed in Issue 14, staff's recommended phase-one revenue requirement increase is 2.74 percent. Due to the nominal percentage increase, staff recommends that no repression adjustment is appropriate for phase-one. As also discussed in Issue 14, staff's recommended phase-two revenue requirement increase is 108.16 percent. Staff believes it is reasonable and appropriate to anticipate consumption reductions resulting from the phase-two increase.

Based on the foregoing, no repression adjustment is appropriate for phase-one. However, a repression adjustment is appropriate for phase-two. Residential water consumption should be reduced by 15.1%, resulting in a consumption reduction of approximately 5,846 kgals. Total water consumption for rate setting is 33,953 kgals. The resulting water system reductions to revenue requirements are \$2,534 in purchased power expense, \$1,058 in chemicals expense, \$495 in purchased water expense, and \$192 in RAFs. The appropriate phase-two post-repression revenue requirement is \$319,192.

In order to monitor the effects of both the changes in revenues and rate structure, the Utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system during phase-one and phase-two. 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 17: What are the appropriate monthly rates for the Utility?

Recommendation: The appropriate monthly phase-one and phase-two rates are shown on Schedule No. 4. Excluding miscellaneous service revenues, the phase-two recommended rates are designed to produce revenues of \$319,192. In addition, phase-two rates should not become effective until the FDEP certifies completion of the ion exchange treatment system. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Fletcher)

Staff Analysis: Because the ion exchange treatment system will not be completed until February 2009, or after, staff believes that phased rates are necessary. Phase-one rates exclude all pro forma costs related to the Utility's ion exchange treatment facilities. Phase-two includes those pro forma costs, but the rates should not become effective until the FDEP certifies completion of the ion exchange treatment system.

As discussed in Issue 14, staff has recommended a revenue increase of \$4,308 or 2.74 percent for phase-one. Staff believes an across-the-board increase is appropriate for phase-one. After the removal of miscellaneous service charge revenues, staff has calculated an across-the-board increase of 2.76 percent which is designed to allow the utility the opportunity to generate annual operating revenues of \$161,672 recommended in Issue 14. The 2.76 percent for phase-one should be applied as an across-the-board increase to the Utility's current service rates.

Excluding miscellaneous service revenues, the phase-two recommended rates are designed to produce revenues of \$319,192. The recommended rates are shown on Schedule No. 4. Approximately 40% (or \$129,388) of the water monthly service revenues is recovered through the base facility charges, while approximately 60% (or \$194,083) represents revenue recovery through the consumption charges.

In addition, staff recommends that phase-two rates should not become effective until the FDEP certifies completion of the ion exchange treatment system. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.

The Utility's test year, proposed final rates, and staff's recommended phase-one and phase-two rates are shown on Schedule No. 4.

Issue 18: 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 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. (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 \$393 annually. Using the Utility's phase-two 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.

OTHER

Issue 19: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Colonial should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Fletcher)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Colonial should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Docket No. 060540-WU

Date: August 11, 2008

Issue 20: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor the appropriate implementation of phase-two rates. (Jaeger, Fletcher)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor the appropriate implementation of phase-two rates.

COLONIAL MANOR UTILITY COMPANY		ATTACHMENT A
PHASE TWO HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007		PAGE 1
PHASE TWO: DETERMINATION OF APPROPRIATE RATE STRUCTURE		
HISTORY OF CURRENT RATES	(1)	The utility's test year rate structure and rates were approved in the utility's most recent staff-assisted rate case. (During that period, the utility was operating under the name of Floralino Properties, Inc.) Under the approved conservation-oriented rate structure, customers using a 5/8" x 3/4" meter (one ERC) were charged a BFC of \$8.02 per month for water service. The usage blocks for residential service were established for monthly consumption at: 1) 0 – 10 kgal; and 2) for usage in excess of 10 kgal. The usage rates were \$2.12 and \$2.65, respectively. The uniform consumption rate for general service customers was established at \$2.19 for all kgal consumed. ¹⁰
	(2)	As discussed in the phase-one portion of Issue 17, staff has recommended corresponding Phase One monthly rates of \$8.24 per ERC. Recommended residential usage rates are \$2.18 for monthly usage of 0-10 kgal, and \$2.72 for usage in excess of 10 kgal. The recommended general service monthly usage rate is \$2.25 per kgal.
PRACTICES OF and WITH THE WATER MANAGEMENT DISTRICTS	(3)	The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service. ¹¹ The Commission follows the WMD guideline whenever possible. ¹²
	(4)	The utility is located in the Southwest Florida Water Management District (SWFWMD or District), in the Northern Tampa Bay Water Use Caution Area (NTBWUCA). In 1989, the District's Governing Board declared portions of northern Hillsborough and southwestern Pasco counties, and all of Pinellas county, a WUCA to address groundwater withdrawals that had resulted in lowered lake levels, destruction or deterioration of wetlands, reduced stream flow and saltwater intrusion. ¹³
	(5)	In June 2007, the District's Governing Board approved a rule amendment which expanded the NTBWUCA into the portions of Pasco and northeastern Hillsborough counties not currently in the WUCA to address increasing water use due to rapid growth and development in the area. ¹⁴

¹⁰ See Order No. PSC-03-1250-PAA-WU, issued December 6, 2003, in Docket No. 030250-WU, In re: Application for staff-assisted rate case in Pasco County by Floralino Properties, Inc.

¹¹ Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

¹² Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

¹³ Southwest Florida Water Management District, news release dated June 26, 2007.

¹⁴ Ibid.

COLONIAL MANOR UTILITY COMPANY		ATTACHMENT A
PHASE TWO HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007		PAGE 2
PHASE TWO: DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)		
PRACTICES OF and WITH THE WATER MANAGEMENT DISTRICTS (cont.)	(6)	On January 9, 2007 a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD signed Order No. SWF-07-02 (Order). In that Order, a Phase II Severe Water Shortage was declared for all ground and surface waters within the District. Subsequently, the District's Governing Board twice determined that a modification to extend the expiration of the Order was necessary. The Second Modification to the Order was set to expire on November 30, 2007. ¹⁵
	(7)	The Governing Board, during a public hearing held on November 26, 2007 again received testimony regarding the existence of an ongoing water shortage within the District. Specific data presented at the hearing included, but were not limited to, the following items: 1) Districtwide rainfall data indicated a deficit categorized as extremely abnormal; 2) all counties within the District were experiencing drought or drought-like conditions; and 3) the National Oceanic and Atmospheric Administration's Climate Prediction Center predicted below-normal rainfall from December 2007 through May 2008. Based upon the testimony, data, District staff recommendations and public comments, the District's Governing Board voted unanimously to further extend the Order declaring a severe water shortage through June 30, 2008. ¹⁶
	(8)	On June 24, 2008 the Governing Board, during a public hearing, again received testimony regarding the existence of an ongoing water shortage within the District. Specific data presented at the hearing included, but were not limited to, the following items: 1) Districtwide rainfall data indicated a deficit categorized as moderately abnormal; 2) all three of the major groundwater regions of the District were experiencing conditions categorized as moderately abnormal; 3) the U.S. Drought Monitor indicated that fourteen of the District's sixteen counties were experiencing abnormal conditions; and 4) the Long-Term Palmer Index indicated that all of the District's sixteen counties were experiencing abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the District's Governing Board again voted unanimously to further extend the Order declaring a severe water shortage through September 30, 2008. ¹⁷ The extension of the current Water Shortage Order continues lawn watering restrictions throughout the District at one day per week. ¹⁸
WATER CONSERVATION INITIATIVE	(9)	In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the BFC portion of the bill usually should not represent more than 40% of the utility's total revenues. ¹⁹

¹⁵ Southwest Florida Water Management District, Third Board Order Modifying Water Shortage Order No. SWF 07-02, November 26, 2007.

¹⁶ Ibid.

¹⁷ Southwest Florida Water Management District, Fourth Board Order Modifying Water Shortage Order No. SWF 07-02, June 24, 2008.

¹⁸ Southwest Florida Water Management District, new release dated June 24, 2008.

¹⁹ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

COLONIAL MANOR UTILITY COMPANY		ATTACHMENT A
PHASE TWO HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007		PAGE 3
PHASE TWO: DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)		
WATER CONSERVATION INITIATIVE (cont.)	(10)	Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the five Florida WMDs, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the <u>Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC)</u> and its associated Work Plan. ²⁰
FLORIDA STATUTES re: WATER CONSERVATION	(11)	Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."
CURRENT AND ANTICIPATED CLIMATIC CONDITIONS	(12)	Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the National Weather Service's Climate Prediction Center, mild to moderate drought conditions exist in the utility's service area. ²¹
	(13)	Based on information from the National Weather Service's Climate Prediction Center, for the period of June through August 2008, higher than average temperatures will be mitigated by greater than average rainfall, thereby improving the drought situation in the central portion and the southwestern portion of Florida. ²²
CUSTOMER WATER USAGE PATTERNS	(14)	The utility has a somewhat seasonal customer base consisting of a mix of single-person and multi-person households.
	(15)	The average monthly water consumption per residential customer is approximately 4.7 kgal. A review of the utility's service area indicates that numerous customers have replaced turf in the front yards with gravel, thereby reducing irrigation requirements for those customers.
WATER SYSTEM BFC COST RECOVERY AND DESIGN OF RATE STRUCTURE	(16)	Staff performed detailed analyses of the data in order to evaluate various combinations of usage blocks, usage block rate factors, and BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; 2) equitably distribute cost recovery among the utility's customers; 3) minimize the percentage price increases at monthly consumption of 5 kgal or less; while 4) sending progressively more aggressive price signals at greater levels of consumption.

²⁰ Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

²¹ National Weather Service, Climate Prediction Center, U.S. Seasonal Drought Outlook, June 5, 2008.

²² Ibid.

COLONIAL MANOR UTILITY COMPANY		ATTACHMENT A
PHASE TWO HISTORICAL TEST YEAR ENDED DECEMBER 31, 2007		PAGE 4
PHASE TWO: DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)		
	(17)	Staff's evaluation criteria excluded rate structures that: 1) resulted in price increases of greater than 125% at 5 kgal; or 2) that resulted in bills of \$200 or greater at 20 kgal of consumption. These criteria eliminated the majority of rate structures from further consideration.
	(18)	Staff has presented its recommended rates and rate structure, along with two alternative rate structures and the Utility's current rates, on Table 15-1.
STAFF RECOMMENDATION	The appropriate rate structure for the utility's water system is a two-tier inclining block rate structure. The usage blocks should be set for monthly usage levels of: 1) 0-10 kgals; and 2) usage in excess of 10 kgals. The usage block rate factors should be set at 1.0 and 2.0, respectively, and the BFC cost recovery allocation should be set at 40%.	

Colonial Manor Utility Company Schedule of Water Rate Base Test Year Ended 12/31/07 - Phase One				Schedule No. 1-A Docket No. 060540-WU	
Description	Test Year Per Utility 12/31/2006	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Staff Adjust- ments	Staff Adjusted Test Year 12/31/2007
1 Plant in Service	\$516,574	\$794,458	\$1,311,032	(\$857,208)	\$453,824
2 Land and Land Rights	16,272	0	16,272	0	16,272
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(301,861)	(37,826)	(339,687)	98,974	(240,713)
5 CIAC	(173,559)	0	(173,559)	0	(173,559)
6 Amortization of CIAC	173,559	0	173,559	0	173,559
7 Construction-Work -In-Progress	44,006	(44,006)	0	0	0
8 Acquisition Adjustment	206,019	(17,168)	188,851	(188,851)	0
9 Working Capital Allowance	<u>17,652</u>	<u>5,442</u>	<u>23,094</u>	<u>(7,770)</u>	<u>15,324</u>
10 Rate Base	<u>\$498,662</u>	<u>\$700,900</u>	<u>\$1,199,562</u>	<u>(\$954,856)</u>	<u>\$244,706</u>

Colonial Manor Utility Company Adjustments to Rate Base Test Year Ended 12/31/07 - Phase One		Schedule No. 1-B Docket No. 060540-WU
Explanation	Water	
<u>Plant In Service</u>		
1	To reflect plant retirements and reclassification of expenses. (Issue 2)	(\$76,382)
2	To reflect 2007 plant additions. (Issue 3)	8,679
3	To capitalized costs associated with emergency main breaks. (Issue 3)	4,953
4	Remove pro forma amount for the ion exchange treatment plant. (Issue 4)	<u>(794,458)</u>
	Total	<u>(\$857,208)</u>
<u>Accumulated Depreciation</u>		
1	To reflect plant retirements and reclassification of expenses. (Issue 2)	\$76,847
2	To reflect appropriate historical 2007 accumulated depreciation. (Issue 3)	(15,584)
3	To capitalized costs associated with emergency main breaks. (Issue 3)	(115)
4	Remove pro forma amount for the ion exchange treatment plant. (Issue 4)	<u>37,826</u>
	Total	<u>\$98,974</u>
<u>Acquisition Adjustment</u>		
	To remove acquisition adjustment previously denied. (issue 6)	<u>(\$188,851)</u>
<u>Working Capital</u>		
	To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$7,770)</u>

Colonial Manor Utility Company Schedule of Water Rate Base Test Year Ended 12/31/07 - Phase Two			Schedule No. 1-C Docket No. 060540-WU		
Description	Test Year Per Utility 12/31/2006	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Staff Adjust- ments	Staff Adjusted Test Year 12/31/2007
1 Plant in Service	\$516,574	\$794,458	\$1,311,032	\$36,892	\$1,347,924
2 Land and Land Rights	16,272	0	16,272	0	16,272
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(301,861)	(37,826)	(339,687)	65,055	(274,632)
5 CIAC	(173,559)	0	(173,559)	0	(173,559)
6 Amortization of CIAC	173,559	0	173,559	0	173,559
7 Construction-Work -In-Progress	44,006	(44,006)	0	0	0
8 Acquisition Adjustment	206,019	(17,168)	188,851	(188,851)	0
9 Working Capital Allowance	<u>17,652</u>	<u>5,442</u>	<u>23,094</u>	<u>(2,735)</u>	<u>20,359</u>
10 Rate Base	<u>\$498,662</u>	<u>\$700,900</u>	<u>\$1,199,562</u>	<u>(\$89,640)</u>	<u>\$1,109,922</u>

Colonial Manor Utility Company Adjustments to Rate Base Test Year Ended 12/31/07 - Phase Two		Schedule No. 1-D Docket No. 060540-WU
Explanation	Water	
<u>Plant In Service</u>		
1	To reflect plant retirements and reclassification of expenses. (Issue 2)	(\$76,382)
2	To reflect 2007 plant additions. (Issue 3)	8,679
3	To capitalized costs associated with emergency main breaks. (Issue 3)	4,953
4	To reflect the appropriate pro forma amount for the ion exchange treatment plant. (Issue 4)	<u>99,642</u>
	Total	<u>\$36,892</u>
<u>Accumulated Depreciation</u>		
1	Reflect plant retirements and reclassification of expenses. (Issue 2)	\$76,847
2	Reflect appropriate historical 2007 accumulated depreciation. (Issue 3)	(15,584)
3	To capitalized costs associated with emergency main breaks. (Issue 3)	(115)
4	Reflect the appropriate pro forma amount for the ion exchange treatment plant. (Issue 4)	<u>3,907</u>
	Total	<u>\$65,055</u>
<u>Acquisition Adjustment</u>		
	To remove acquisition adjustment previously denied. (issue 6)	<u>(\$188,851)</u>
<u>Working Capital</u>		
	To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$2,735)</u>

Colonial Manor Utility Company				Schedule No. 1-E	
Audit Adjustments to Plant in Service				Docket No. 060540-WU	
Account No.	Reason for Adjustment	2004 Total Adj.	2005 Total Adj.	2006 Total Adj.	Total Adjustments
304	Retirement of Roof	(\$2,298)			(\$2,298)
304	Retirement of Roof		(9,609)		(9,609)
304	Reclassify Well Pump to Acct. 311		(5,068)		(5,068)
307	Retirement of Well		(13,979)		(13,979)
309	Reclassify Gate Valves from Acct. 311	3,720			3,720
309	Reclassify Gate Valves from Acct. 320	2,783			2,783
309	Retirement of Gate Valves	(2,087)			(2,087)
309	Retirement of Gate Valves	(2,790)			(2,790)
309	Retirement of Water Mains		(10,360)		(10,360)
309	Capitalize Repair/Replacement of Mains			3,442	3,442
311	Retirement of Motor Controls	(4,946)			(4,946)
311	Reclassify Gate Valves to Acct. 309	(3,720)			(3,720)
311	Reclassify Well Pump from Acct. 311		5,068		5,068
311	Retirement of Well Pump		(3,801)		(3,801)
311	Retirement of Pumps		(7,046)		(7,046)
320	Reclassify Gate Valves to Acct. 309	(2,783)			(2,783)
331	Retirement of Water Main & Valves	(8,489)			(8,489)
331	Correction for Accum. Dep > UPIS				0
331	Year End Adjustment		(8,882)		(8,882)
333	Reclassify Water Meters to Acct. 334	(6,259)			(6,259)
334	Reclassify Water Meters from Acct. 333	6,259			6,259
334	Retirement of Water Meters	(4,694)			(4,694)
334	Retirement of Meter Replacements		(5,734)		(5,734)
335	Year End Adjustment		8,882		8,882
	To Apply an Averaging Adjustment				(3,990)
	Total	(\$25,305)	(\$50,529)	\$3,442	(\$76,382)

Colonial Manor Utility Company				Schedule No. 1-F	
Audit Adjustments to Accumulated Depreciation				Docket No. 060540-WU	
Account No.	Reason for Adjustment	2004 Total Adj.	2005 Total Adj.	2006 Total Adj.	Total Adjustments
304	Retirement of Roof	(\$2,339)	(82)	(82)	(\$2,503)
304	Retirement of Roof		(9,871)	(524)	(10,395)
304	Reclassify Well Pump to Acct. 311				0
307	Correction for Accum. Dep > UPIS	(\$474)			(474)
307	Retirement of Well		(13,647)	(518)	(14,165)
309	Reclassify Gate Valves from Acct. 311	(2,775)	29	29	(2,717)
309	Reclassify Gate Valves from Acct. 320	(2,076)	22	22	(2,032)
309	Retirement of Gate Valves				0
309	Retirement of Gate Valves		(4,558)	(324)	(4,882)
309	Retirement of Water Mains				0
309	Capitalize Repair/Replacement of Mains			53	53
311	Retirement of Motor Controls	(5,092)	(291)	(291)	(5,674)
311	Reclassify Gate Valves to Acct. 309	(109)	(219)	(219)	(547)
311	Reclassify Well Pump from Acct. 311				0
311	Retirement of Well Pump		(3,763)	75	(3,688)
311	Retirement of Pumps		(7,252)	(415)	(7,667)
320	Reclassify Gate Valves to Acct. 309	(82)	(164)	(164)	(410)
320	Correction for Accum. Dep > UPIS			(1,951)	(1,951)
331	Retirement of Water Main & Valves	(8,601)	(223)	(223)	(9,047)
331	Correction for Accum. Dep > UPIS		(1,951)		(1,951)
331	Year End Adjustment		(117)	(234)	(351)
333	Reclassify Water Meters to Acct. 334	(89)	(179)	(179)	(447)
334	Reclassify Water Meters from Acct. 333				0
334	Retirement of Water Meters	(4,649)	92	92	(4,465)
334	Correction for Accum. Dep > UPIS			3,670	3,670
334	Correction for Accum. Dep > UPIS		(2,083)	(337)	(2,420)
335	Year End Adjustment		111	222	333
	To Apply an Averaging Adjustment				(5,117)
	Total	(\$26,286)	(\$44,146)	(\$1,298)	(\$76,847)

Colonial Manor Utility Company		Schedule No. 1-G
Audit Adjustments to Operating and Maintenance Expense		Docket No. 060540-WU
Account No.	Reason for Adjustment	Total Adjustments
610	Reclassification of Purchased Water Expense from Account 615	551
615	Remove Out-of-Period/Reclass Purchased Water Exp. from Acct. 615	(564)
620	Reclassification of Equipment Rental to Account 640	(63)
631	Reclassification of Engineering Fees to Account 105	(5,108)
631	Reclassification of Accounting Fees to Account 632	(2,657)
631	Reclassification of Monthly Management Fees to Account 634	(74,803)
631	Reclassification of Services Rendered by US Water Corp to Acct. 636	(2,334)
632	Reclassification of Accounting Fees from Account 631	2,657
634	Reclassification of Monthly Management Fees from Account 631	74,803
635	Reclassification of Well Pump Testing to Account 636	(335)
636	Reclassification of Services Rendered by US Water Corp from 635	2,334
636	Reclassification of Well Pump Testing from Account 635	335
636	Reclassification of Engineering & Construct. Costs to Account 309	(3,442)
636	Reclassification of Equipment Rental Costs to Account 640	(79)
636	Costs for Engineering & Emergency Preparedness	1,312
640	Reclassification of Equipment Rental from Account 615	63
640	Reclassification of Equipment Rental Costs from Account 636	79
675	Removal of Chemical Expense Incorrectly Booked to Colonial Manor	(107)
	Total O & M Expense Adjustments	(\$7,358)

Colonial Manor Utility Company		Schedule No. 1-H
Audit Adjustments to Depreciation Expense		Docket No. 060540-WU
Account No.	Reason for Adjustment	Total Adjustments
304	Retirement of Roof	(\$82)
309	Reclassify Gate Valves from Acct. 311	29
309	Reclassify Gate Valves from Acct. 320	22
309	Reclassification to Supply Mains	54
311	Retirement of Motor Controls	(291)
311	Reclassify Gate Valves to Acct. 309	(219)
320	Reclassify Gate Valves to Acct. 309	(164)
331	Retirement of Water Main & Valves	(223)
333	Reclassify Water Meters to Acct. 334	(179)
334	Retirement of Water Meters	92
304	Retirement of Roof	(524)
307	Retirement of Well	(518)
309	Retirement of Gate Valves	(324)
311	Retirement of Well Pump	75
311	Retirement of Pumps	(415)
320	Correction for Accum. Dep > UPIS	(1,951)
331	Year End Adjustment	(234)
334	Correction for Accum. Dep > UPIS	(337)
334	Additional Depreciation on Meters	3,670
335	Year End Adjustment	222
	CIAC Backflow	(130)
	Total Depreciation Expense Adjustments	(\$1,427)

Colonial Manor Utility Company Capital Structure-Simple Average Test Year Ended 12/31/07 - Phase One						Schedule No. 2-A Docket No. 060540-WU		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$241,548	\$613,342	\$854,890	\$12,005	\$866,895	72.27%	7.56%	5.46%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	129,655	160,000	289,655	0	289,655	24.15%	11.96%	2.89%
5 Customer Deposits	8,164	2,836	11,000	0	11,000	0.92%	6.00%	0.06%
6 Deferred Income Taxes	<u>7,236</u>	<u>24,776</u>	<u>32,012</u>	<u>0</u>	<u>32,012</u>	<u>2.67%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$386,603</u>	<u>\$800,954</u>	<u>\$1,187,557</u>	<u>\$12,005</u>	<u>\$1,199,562</u>	<u>100.00%</u>		<u>8.41%</u>
Per Staff								
8 Long-term Debt	\$854,890	\$480,005	\$1,334,895	(\$1,169,678)	\$165,217	67.52%	5.67%	3.83%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	289,655	0	289,655	(253,805)	35,850	14.65%	12.01%	1.76%
12 Customer Deposits	11,000	0	11,000	0	11,000	4.50%	6.00%	0.27%
13 Deferred Income Taxes	<u>32,012</u>	<u>627</u>	<u>32,639</u>	<u>0</u>	<u>32,639</u>	<u>13.34%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$1,187,557</u>	<u>\$480,632</u>	<u>\$1,668,189</u>	<u>(\$1,423,483)</u>	<u>\$244,706</u>	<u>100.00%</u>		<u>5.86%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>	
OVERALL RATE OF RETURN						<u>5.71%</u>	<u>6.00%</u>	

Colonial Manor Utility Company Capital Structure-Simple Average Test Year Ended 12/31/07 - Phase Two						Schedule No. 2-B Docket No. 060540-WU			
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$241,548	\$613,342	\$854,890	\$12,005	\$866,895	72.27%	7.56%	5.46%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	129,655	160,000	289,655	0	289,655	24.15%	11.96%	2.89%	
5 Customer Deposits	8,164	2,836	11,000	0	11,000	0.92%	6.00%	0.06%	
6 Deferred Income Taxes	<u>7,236</u>	<u>24,776</u>	<u>32,012</u>	<u>0</u>	<u>32,012</u>	<u>2.67%</u>	0.00%	<u>0.00%</u>	
7 Total Capital	<u>\$386,603</u>	<u>\$800,954</u>	<u>\$1,187,557</u>	<u>\$12,005</u>	<u>\$1,199,562</u>	<u>100.00%</u>		<u>8.41%</u>	
Per Staff									
8 Long-term Debt	\$854,890	\$480,005	\$1,334,895	(\$458,729)	\$876,166	78.94%	5.67%	4.47%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	289,655	0	289,655	(99,538)	190,117	17.13%	12.01%	2.06%	
12 Customer Deposits	11,000	0	11,000	0	11,000	0.99%	6.00%	0.06%	
13 Deferred Income Taxes	<u>32,012</u>	<u>627</u>	<u>32,639</u>	<u>0</u>	<u>32,639</u>	<u>2.94%</u>	0.00%	<u>0.00%</u>	
14 Total Capital	<u>\$1,187,557</u>	<u>\$480,632</u>	<u>\$1,668,189</u>	<u>(\$558,267)</u>	<u>\$1,109,922</u>	<u>100.00%</u>		<u>6.59%</u>	
						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>		
OVERALL RATE OF RETURN						<u>6.42%</u>	<u>6.76%</u>		

Colonial Manor Utility Company Statement of Water Operations Test Year Ended 12/31/07 - Phase One						Schedule No. 3-A Docket No. 060540-WU	
Description	Test Year Per Utility 12/31/2006	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Staff Adjust- ments	Staff Adjusted Test Year 12/31/2007	Phase One Revenue Increase	Phase One Revenue Requirement
1 Operating Revenues:	<u>\$160,797</u>	<u>\$188,263</u>	<u>\$349,060</u>	<u>(\$191,696)</u>	<u>\$157,364</u>	<u>\$4,308</u> 2.74%	<u>\$161,672</u>
Operating Expenses							
2 Operation & Maintenance	141,214	43,540	184,754	(62,166)	122,588		122,588
3 Depreciation	16,829	37,826	54,655	(38,774)	15,881		15,881
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	11,673	18,327	30,000	(23,919)	6,081	194	6,275
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,050</u>	<u>1,050</u>	<u>1,548</u>	<u>2,598</u>
7 Total Operating Expense	<u>169,716</u>	<u>99,693</u>	<u>269,409</u>	<u>(123,809)</u>	<u>145,600</u>	<u>1,742</u>	<u>147,342</u>
8 Operating Income	<u>-\$8,919</u>	<u>\$88,570</u>	<u>\$79,651</u>	<u>(\$67,887)</u>	<u>\$11,764</u>	<u>\$2,566</u>	<u>\$14,330</u>
9 Rate Base	<u>\$498,662</u>		<u>\$1,199,562</u>		<u>\$244,706</u>		<u>\$244,706</u>
10 Rate of Return	<u>-1.79%</u>		<u>6.64%</u>		<u>4.81%</u>		<u>5.86%</u>

Colonial Manor Utility Company Adjustment to Operating Income Test Year Ended 12/31/07 - Phase One		Schedule No. 3-B Docket No. 060540-WU
Explanation	Water	
<u>Operating Revenues</u>		
1 Remove requested final revenue increase.		(\$183,263)
2 To correct a misclassification of revenues. (Issue 2)		(5,219)
3 To reflect the appropriate amount of annualized revenues. (Issue 10)		<u>(3,214)</u>
Total		<u>(\$191,696)</u>
<u>Operation and Maintenance Expense</u>		
1 Adjusted for out-of-period, non-recurring, non-utility expenses, etc. (Issue 2)		(\$7,358)
2 Remove non-recurring costs. (Issue 11)		(6,689)
3 To capitalized costs associated with emergency main breaks. (Issue 11)		(4,953)
4 Remove all pro forma expenses. (Issue 12)		<u>(43,165)</u>
Total		<u>(\$62,166)</u>
<u>Depreciation Expense - Net</u>		
1 To reflect plant retirements and reclassification of expenses. (Issue 2)		(\$1,427)
2 To reflect 2007 plant additions. (issue 3)		363
3 To capitalized costs associated with emergency main breaks. (Issue 3)		115
4 Remove pro forma amount for the ion exchange treatment plant. (Issue 4)		<u>(37,826)</u>
Total		<u>(\$38,774)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$8,626)
2 To reflect the appropriate historical 2006 TOTI. (Issue 3)		(185)
3 Remove all pro forma property taxes. (Issue 12)		<u>(15,108)</u>
Total		<u>(\$23,919)</u>
<u>Income Taxes</u>		
To reflect the appropriate provision of test year income taxes.		<u>\$1,050</u>

Colonial Manor Utility Company Statement of Water Operations Test Year Ended 12/31/07 - Phase Two						Schedule No. 3-C Docket No. 060540-WU	
Description	Test Year Per Utility 12/31/2006	Utility Adjust- ments	Adjusted Test Year Per Utility 12/31/2007	Staff Adjust- ments	Staff Adjusted Test Year 12/31/2007	Phase Two Revenue Increase	Phase Two Revenue Requirement
1 Operating Revenues:	<u>\$160,797</u>	<u>\$188,263</u>	<u>\$349,060</u>	<u>(\$191,696)</u>	<u>\$157,364</u>	<u>\$170,204</u> 108.16%	<u>\$327,568</u>
Operating Expenses							
2 Operation & Maintenance	\$141,214	\$43,540	\$184,754	(\$21,884)	\$162,870		\$162,870
3 Depreciation	16,829	37,826	54,655	(4,855)	49,800		49,800
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	11,673	18,327	30,000	(9,694)	20,306	7,659	27,965
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>(47,387)</u>	<u>(47,387)</u>	<u>61,166</u>	<u>13,779</u>
7 Total Operating Expense	<u>\$169,716</u>	<u>\$99,693</u>	<u>\$269,409</u>	<u>(\$83,820)</u>	<u>\$185,589</u>	<u>\$68,825</u>	<u>\$254,414</u>
8 Operating Income	<u>(\$8,919)</u>	<u>\$88,570</u>	<u>\$79,651</u>	<u>(\$107,876)</u>	<u>(\$28,225)</u>	<u>\$101,379</u>	<u>\$73,155</u>
9 Rate Base	<u>\$498,662</u>		<u>\$1,199,562</u>		<u>\$1,109,922</u>		<u>\$1,109,922</u>
10 Rate of Return	<u>-1.79%</u>		<u>6.64%</u>		<u>-2.54%</u>		<u>6.59%</u>

Colonial Manor Utility Company Adjustment to Operating Income Test Year Ended 12/31/07 - Phase Two		Schedule No. 3-D Docket No. 060540-WU
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase.	(\$183,263)
2	To correct a misclassification of revenues. (Issue 2)	(5,219)
3	To reflect the appropriate amount of annualized revenues. (Issue 10)	<u>(3,214)</u>
	Total	<u>(\$191,696)</u>
<u>Operation and Maintenance Expense</u>		
1	Adjusted for out-of-period, non-recurring, non-utility expenses, etc. (Issue 2)	(\$7,358)
2	Remove non-recurring costs. (Issue 11)	(6,689)
3	To capitalized costs associated with emergency main breaks. (Issue 11)	(4,953)
4	Remove appraisal fees due to lack of support documentation. (Issue 12)	(8,000)
5	Remove insurance due to lack of support documentation. (Issue 12)	(821)
6	Reflect the appropriate purchased power expense. (Issue 12)	1,615
7	Reflect hauling costs for brine wastewater generated by new treatment system. (Issue 12)	<u>4,323</u>
	Total	<u>(\$21,884)</u>
<u>Depreciation Expense - Net</u>		
1	To reflect plant retirements and reclassification of expenses. (Issue 2)	(\$1,427)
2	To reflect 2007 plant additions. (issue 3)	363
3	To capitalized costs associated with emergency main breaks. (Issue 3)	115
4	Reflect the appropriate pro forma amount for the ion exchange treatment plant. (Issue 4)	<u>(3,907)</u>
	Total	<u>(\$4,855)</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above.	(\$8,626)
2	To reflect the appropriate historical 2006 TOTI. (Issue 3)	(185)
3	To reflect the appropriate pro forma property taxes. (Issue 4)	<u>(883)</u>
	Total	<u>(\$9,694)</u>
<u>Income Taxes</u>		
	To reflect the appropriate provision of test year income taxes.	<u>(\$47,387)</u>

Colonial Manor Utility Company Water Monthly Service Rates Test Year Ended 12/31/07			Schedule No. 4 Docket No. 060540-WU		
	Rates Prior to Filing	Utility Requested Final	Staff Recomm. Phase One Rates	Staff Recomm. Phase Two Rates	4-year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.02	\$17.48	\$8.24	\$14.95	\$0.02
3/4"	\$12.03	\$26.22	\$12.36	\$22.43	\$0.03
1"	\$20.06	\$43.73	\$20.61	\$37.38	\$0.04
1-1/2"	\$40.11	\$87.44	\$41.22	\$74.75	\$0.09
2"	\$64.18	\$139.84	\$65.95	\$119.60	\$0.14
3"	\$128.36	\$279.68	\$131.90	\$239.20	\$0.29
4"	\$200.56	\$437.00	\$206.09	\$373.75	\$0.45
6"	\$401.12	\$874.00	\$412.18	\$747.50	\$0.90
<u>Res. Gall. Charge, per 1,000 Gallons</u>					
0-10,000 gallons	\$2.12	\$4.62	\$2.18	\$5.44	\$0.01
Above 10,000 gallons	\$2.65	\$5.48	\$2.72	\$10.88	\$0.01
General Service Gallanage Charge	\$2.19	\$4.77	\$2.25	\$5.64	\$0.01
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$14.38	\$31.34	\$14.78	\$31.27	
5,000 Gallons	\$18.62	\$40.58	\$19.13	\$42.15	
10,000 Gallons	\$29.22	\$63.68	\$30.03	\$69.35	