

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Pasco County by Holiday Utility Company,
Inc.

DOCKET NO. 070394-WU
ORDER NO. PSC-08-0593-PAA-WU
ISSUED: September 12, 2008

The following Commissioners participated in the disposition of this matter:

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

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

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the statutory four-year rate reduction and temporary rates in the event of protest which are final agency action, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. BACKGROUND

Holiday Utility Company, Inc. (Holiday or Utility) is a Class C water utility serving approximately 345 water customers in Pasco County. According to the Utility's 2006 annual report, total gross revenue was \$110,491 and total operating expense was \$172,664.

Holiday began operations in 1969. The Utility was granted water certificate No. 224-W in 1975.¹ The Utility's last staff-assisted rate case was filed in 2004.² In that docket, we approved \$288,519 of pro forma plant additions for Holiday. The Utility's rates were approved for two phases whereby phase II rates were implemented when our staff verified the completion of all pro forma additions.

¹ See Order No. 6780, issued July 17, 1975, in Docket No. 73489, In re: Application of Holiday Utility Company for a certificate to operate a water system in Pasco County, Florida.

² See 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.

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FPSC-COMMISSION CLERK

We approved a transfer of majority organizational control to Holiday Waterworks Corporation in 2006 in Docket No. 030458-WU.³ In addition, the Utility currently has an open docket for the amendment of its service territory to address an area the Utility is serving that is outside its authorized territory.⁴ Pasco County objected to Docket Nos. 030458-WU and 070084-WU; however, the dockets are in abeyance while the Utility negotiates the sale of the system.

The Utility's official date of filing for a staff-assisted rate case was on September 2, 2007. We have the authority and jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

II. QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by the Utility by evaluating three separate components of water 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.

A. Quality of Utility's Product

The Westwood and Anclote water systems are regulated by the Florida Department of Environmental Protection (DEP) and the Southwest Florida Water Management District (SWFWMD). DEP inspected the systems on August 9, 2007. The Utility has conformed with all testing and chemical analysis required by DEP and the test results have been satisfactory for the Westwood system.

Holiday signed a DEP Consent Order dated March 26, 2008, which addresses problems with the Anclote water system. According to the Order, the Utility exceeded the maximum contaminant level for sodium for each sample tested since May 3, 2006, and failed to take several required samples during that period. The Utility was ordered to disconnect the system's drinking water wells and begin purchasing water through an existing interconnection with the City of Tarpon Springs by no later than July 1, 2008. In addition, the Utility was required to apply for a permit from the SWFWMD to abandon its wells and to pay \$5,800 in penalties for violations of Section 403.121, F.S., and Rules 62-550.310 (1)(a), 62-550.513(2), and 62-555.340(5), F.A.C. The Order further acknowledged that the Utility had contacted this Commission regarding modification of its current rate case to incorporate the requirements of this Order. DEP confirms that the Utility paid the \$5,800 fine; however, the Utility requested a 90-day extension of time to abandon the Anclote system wells and begin purchasing water from Tarpon Springs. DEP granted the extension until October 1, 2008.

³ See Order No. PSC-06-0380-FPF-WU, issued May 8, 2006, In re: Application for transfer of majority organization control of Holiday Utility Company, Inc. in Pasco County to Holiday Waterworks Corporation, and amendment of Certificate No. 224-W.

⁴ See Docket No. 070084-WU, In re: Application for amendment of Certificate No. 224-W to extend territory in Pasco County by Holiday Utility Company, Inc.

Based on the above, the quality of the water at Westwood appears to meet the regulatory standards and shall be considered satisfactory. Although the quality of water at the Anclote water system is marginal because of the sodium levels, the Utility appears to be working to improve the quality of the water through the interconnection with Tarpon Springs.

B. Operational Conditions at the Plant

According to a DEP letter dated August 27, 2007, several deficiencies were identified at the Westwood and Anclote water plants during DEP's August 9, 2007, compliance inspection. One of the wells at the Westwood plant was not properly capped. At the Anclote plant, the check valve at one well was inoperable, the concrete apron on another well had cracks that needed repair, and the plant operator was not visiting the plant frequently enough. According to a September 26, 2007, letter from the Utility to DEP, the deficiencies have been corrected. DEP is planning a follow-up compliance inspection sometime in July 2008. Based on the above information, the operational conditions at the water treatment plants shall be considered satisfactory at this time.

C. Utility's Attempt To Address Customer Satisfaction

An informal customer meeting was held on May 14, 2008, in New Port Richey, Florida. Five customers and one Utility representative attended the meeting. Only one customer provided comments about the Utility. The customer was concerned about the amount of the rate increase, the rate structure, and the planned interconnection with the City of Tarpon Springs.

Our staff explained that most of the rate increase comes from DEP's requirement that the Utility interconnect with the Tarpon Springs water system because the Anclote water system has exceeded the maximum contaminant level for sodium since May 3, 2006. The Utility's representative stated that providing water service through the existing interconnection with Tarpon Springs was the most economic option.

We find that the owner of the Utility is putting forth a sufficient good faith effort to respond to customer complaints. A review of our complaint tracking system shows that very few complaints had been filed against the Utility and all of them were resolved in a timely manner. Therefore, the Utility's attempts to resolve customer complaints shall be considered satisfactory.

D. Quality of Service Summary

Based on all of the above, the overall quality of service provided by the Utility shall be considered satisfactory. The quality of the water at Westwood shall be considered satisfactory; however, the quality of water at the Anclote water system is marginal because of the sodium levels, although the Utility appears to be working to improve the quality of the water through the interconnection with Tarpon Springs. The operational conditions at the water treatment plants and the Utility's attempts to resolve customer complaints are satisfactory. However, the Utility shall provide monthly status reports to the Commission beginning November 1, 2008, addressing the requirements of the DEP consent order to abandon the wells in the Anclote water system and

begin purchasing water from Tarpon Springs. The reporting shall continue until all requirements of the consent order are fulfilled.

III. EXCESSIVE UNACCOUNTED FOR WATER

Pursuant to Rule 25-30.4325, F.A.C., unaccounted for water in excess of 10 percent of the total water produced and treated is considered excessive. During the test year, the Westwood water system had 2,290,000 gallons of unaccounted for water (18 percent) compared to 12,569,000 gallons of water produced and treated. The Anclote water system produced and treated 19,494,000 gallons of water during the test year, for which 3,658,000 gallons (18 percent) were unaccounted. The Utility implemented a system-wide meter change out program during 2005; however, it appears that there were significant line breaks and leaks during the test year that created excessive unaccounted for water (EUW). Therefore, purchased power and chemicals for the Westwood system shall be reduced by eight percent during the test year period and the pro forma purchased water expense for the Anclote water system shall be reduced by eight percent.

IV. USED AND USEFUL PLANT

A. Westwood Water Treatment Plant and Distribution System

The Westwood water treatment plant has one well, rated at 210 gallons per minute. Raw water is treated with liquid chlorine, which is injected prior to entry into the hydropneumatic tank, and then pumped into the distribution system. There is also an interconnection with the Pasco County water system for backup and emergency supply. Pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system with one well should be considered 100 percent used and useful.

The Utility's distribution system in the Westwood development was constructed to serve approximately 130 lots and there were an average of 121 customers during the test year. There has been no significant growth in the Westwood area in the past five years, and the surrounding property is served by Pasco County. Therefore, we find that the water distribution system is 100 percent used and useful.

B. Anclote WTP and Distribution System

As previously discussed, pursuant to a Consent Order dated March 26, 2008, DEP is requiring Holiday to disconnect the Anclote system's drinking water wells and provide water to its customers through the existing interconnection with Tarpon Springs. Because the water treatment plant will be retired, no used and useful calculation is necessary.

The Utility's distribution system in the Anclote area was constructed to serve approximately 250 lots and there were an average of 225 customers during the test year. There has been no significant growth in the Anclote area in the past five years, and the surrounding property is served by Pasco County. Therefore, we find that the water transmission and distribution system is 100 percent used and useful.

V. RATE BASE

As stated earlier, the Utility's rate base was last established by Order No. PSC-05-0621-PAA-WU. We have selected a test year ended June 30, 2007, for this rate case. Rate base components, established in Order No. PSC-05-0621-PAA-WU, have been updated through June 30, 2007, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

A. Utility Plant in Service (UPIS)

The Utility recorded \$864,452 of UPIS for the test year ended June 30, 2007. We have made the following adjustments to UPIS:

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

The net adjustment to UPIS is an increase of \$14,385 for water, for a UPIS balance of \$878,837.

B. Non-used and Useful Plant

As discussed above, we have determined that Holiday's water treatment plant and water distribution system shall be considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

C. Contributions in Aid of Construction (CIAC)

The Utility recorded CIAC of \$203,774 for the test year ended June 30, 2007. Pursuant to Audit Finding No. 4, Holiday did not record the CIAC approved in the previous rate case. Therefore, we have increased this account by \$682 for a total CIAC amount of \$204,456.

D. Accumulated Depreciation

Holiday recorded a balance for accumulated depreciation of \$282,335 for the test year. Using the prescribed depreciation rates set forth in Rule 25-30.140, F.A.C., we have decreased this account by \$33,746 to reflect the appropriate accumulated depreciation. Also, we have decreased this account by \$11,271 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation of \$237,318.

E. Accumulated Amortization of CIAC

The Utility recorded \$33,063 for amortization of CIAC. We have recalculated amortization of CIAC using the composite depreciation rates. Based on this recalculation, we have increased amortization of CIAC by \$2,377. Also, we have decreased this account by \$3,851 to reflect an averaging adjustment. These adjustments result in amortization of CIAC of \$31,589.

F. Working Capital Allowance

Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we have used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, we find the working capital allowance is \$20,603 (based on O&M of \$164,823). Working capital has been increased by \$20,603 to reflect one-eighth of the approved O&M expenses.

G. Rate Base Summary

Based on the forgoing, we find that the appropriate test year average rate base is \$489,255. Our calculation of rate base is shown on Schedule No. 1-A, and our adjustments are shown on Schedule No. 1-B.

VI. COST OF CAPITAL

The Utility recorded the following items in its capital structure for the test year: common stock of \$140,500; retained earnings of negative \$44,363; paid-in-capital of \$196,897; long term debt of \$317,946; and customer deposits of \$3,781. We have reconciled the Utility's capital structure with the approved rate base.

Based on this capital structure, and using our most recently approved leverage formula,⁵ we calculate the cost of equity to be 11.19 percent, with a range of 10.19 percent - 12.19 percent. Combining this with the other components of the capital structure, we calculate the overall rate of return to be 9.24 percent. Our calculation of the appropriate rate of return is shown on Schedule No. 2.

VII. TEST YEAR REVENUES

Per Audit Finding No. 5, the Utility recorded total revenues of \$129,854 for the 12-month period ended June 30, 2007. During the audit, the staff auditor discovered that the Utility overstated its revenues for December 2006 by \$3,421 to adjust a prior-year adjustment to balance its cash subsidiary account. Therefore, we have decreased test year revenues by this amount. Based on this adjustment, we find test year revenue to be \$126,433. Our calculation of test year revenue is shown on Schedule No. 3-A. Our related adjustments are shown on Schedule No. 3-B.

VIII OPERATING EXPENSES

Holiday recorded operating expenses of \$192,941 during the test year ending June 30, 2007. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. We have made several adjustments to the Utility's operating expenses, as summarized below:

A. Purchased Water – 610

The Utility recorded \$378 to this account during the test year. As discussed above, DEP is requiring Holiday to disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through its existing six-inch metered interconnection with Tarpon Springs. Based on the Utility's test year consumption and Tarpon Springs' rates (\$445.90 base facility charge, 0 – 5 kgal per 1,000 gallonage rate of \$2.04, and over 5 kgal per 1,000 gallonage rate of \$4.07), we calculate purchased water cost to be \$84,570. Therefore, we have increased this account by \$84,192 (\$84,570 - \$378). Also, as discussed above, the Utility has eight percent EUW for the Anclote system. Thus, we have decreased this account by \$6,338. Based on the above, we find that the cost of purchased water for the test year is \$78,232.

B. Purchased Power – 615

Holiday recorded \$8,625 to this account during the test year. As a result of the Utility purchasing water from Tarpon Springs, we have decreased purchased power by \$5,517 to remove the expense related to the Anclote system. The amount recorded in this account included \$1,582 for the Westwood system. Based on eight percent EUW for the Westwood system, we

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 Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

have decreased this account by \$127 ($\$1,582 \times 8$ percent) to reflect an EUW adjustment for the Westwood system. Finally, we have also decreased this account by \$1,526 to remove a non-Utility expense per Audit Finding No. 6. We calculate purchased power for the test year to be \$1,455.

C. Chemicals – 618

The Utility recorded \$2,460 to this account during the test year. We have decreased this account by \$2,114 to remove chemical expense related to the Anclote system. The amount recorded in this account included \$347 for the Westwood system. We have this account by \$28 ($\347×8 percent) to reflect an EUW adjustment for the Westwood system. Based on these adjustments, we calculate the expense for chemicals for the test year to be \$319.

D. Material and Supplies – 620

Holiday recorded \$532 to this account during the test year. Per Audit Finding No. 6, the Utility understated its material and supplies expense. Therefore, we have increased this account by \$37, for a total material and supplies expense for the test year of \$569.

E. Contractual Services – Professional – (631)

The Utility recorded \$79,377 to this account during the test year. We have decreased this account by \$10,928 to amortize non-reoccurring engineering expenses. Per Audit Finding No. 6, we have decreased this account by \$4,930 to remove non-utility expenses and decreased it by \$13,157 to remove capitalized meters. Because Holiday must disconnect its Anclote system, the Utility will have a reduction in duties. Therefore, we have decreased this account by \$6,926 to reflect a reduction in the management fee paid to U.S. Water Corporation. Also, we have increased this account by \$2,400 ($\$12,000/5$) to amortize the cost of the Anclote well retirements. Finally, we have increased this account by \$1,220 to reflect an amortization from the previous rate case that has not expired, and by \$7,077 to reverse a credit to this account for prior period expenses.

Holiday has requested that legal fees associated with territory rights, property rights, and a previous staff-assisted rate case (SARC) be considered in this case. For territory rights, Holiday requested that it be allowed to recover \$23,008. The Utility has an open docket before this Commission where it is in dispute over territory with Pasco County. The case is still ongoing. Therefore, we shall not consider the legal fees until the matter is finalized. The Utility included an amortization of \$5,492 for the legal fees related to a territory dispute. We have decreased this account by \$5,492 to remove the amortization of the legal fees associated with territory rights.

The legal fees associated with property rights totaled \$120,971. The property rights dispute was between the Utility and the Dimmint family. The Utility has an easement for its one well and hydropneumatic tank located on the Dimmint property. The Utility also has connections to three additional well sites. Two of the well sites are located in the middle of the

Dimmint property. The third is located on the outmost perimeter of the Dimmint property. The Utility wanted to improve the two well sites located in the middle of Dimmint property. Holiday began the necessary work needed to make the improvements to the two well sites. However, the Dimmint family thought that the Utility was trespassing on the property and did not have the rights to the well sites. The Utility believed that since it already had lines connected to the wells, it had the right to improve the two well sites. The Utility and the Dimmint family eventually came to a settlement whereby the Dimmint family would pay for the construction of lines around the perimeter of its property to the Utility's third well site. It appears that the legal fees incurred are the direct result of the Utility's failure to exercise due diligence in obtaining the proper easement prior to starting improvements to the well sites. Therefore, we find that the legal fees associated with property rights shall not be included as an amortized expense.

Finally, the legal fees associated with the previous SARC filing totaled \$9,730. We have already made a decision with regard to the previous SARC. The Utility should have requested the consideration of those legal fees at that time. Therefore, the legal fees associated with the previous SARC shall not be included as an amortized expense.

Based on the above, we find contractual services – professional for the test year to be \$48,640.

F. Contractual Services – Testing – (635)

Holiday recorded \$2,225 to this account during the test year. We have increased this account by \$8 to \$2,233 to reflect the appropriate testing for the Westwood system per the staff engineer.

G. Rents – (640)

The Utility recorded \$2,625 to this account during the test year. Because the Utility is retiring the wells of the Anclote system that is situated on rented land, Holiday will no longer need to rent the land. Therefore, we have decreased this account by \$2,625, for a total for rents for the test year of \$0.

H. Insurance – (655)

Holiday recorded \$2,155 to this account during the test year. Per Audit Finding No. 6, we have increased this account by \$35 to annualize insurance expense, for a total insurance expense for the test year of \$2,190.

I. Regulatory Commission Expense – (665)

The Utility recorded \$493 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Holiday paid a \$1,000 rate case filing fee for water. The Utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. For this noticing expense, we estimate \$263

postage expense, \$225 printing expense, and \$32 for envelopes, for a total amount for noticing of \$520. Holiday's rate case expenses for its consultant are \$5,262. Therefore, the Utility's total rate case expense is \$6,782. Because rate case expense is amortized over four years, we calculate annual rate case expense to be \$1,696 ($\$6,782/4$), and have increased this account by that amount. Based on this addition, we calculate regulatory commission expense for the test year to be \$2,189.

J. Bad Debt Expense – (670)

Holiday recorded \$0 to this account during the test year. Per Audit Finding No. 6, it is the Utility's policy to write off accounts over 90 days as uncollectible. Based on its current policy, we have increased this account by \$847.

K. Miscellaneous Expense – (675)

Holiday recorded \$14,481 in this account for the test year. Per Audit Disclosure No. 6, the Utility included interest on loans and customer deposits. We have decreased this account by \$24,989 to remove the interest. Holiday credited this account for a loan application fee, and we have increased this account by \$14,137 to remove the credit. Also, we have decreased this account by \$1,934 to reflect the appropriate balance per the audit. Finally, we have increased this account by \$1,094 to reflect amortization included in the last rate case that has not expired. Based on the above, our net adjustments to this account is a decrease of \$11,695, for a miscellaneous expense for the test year of \$2,786.

L. Operation and Maintenance Expense (O&M Summary)

Based on the above adjustments, O&M expenses shall be increased by \$26,109 to \$164,823. Our adjustments are shown on Schedule No. 3-C.

M. Depreciation Expense (Net of Amortization of CIAC)

Holiday recorded \$41,109 net for water depreciation expense during the test year. Using the rates prescribed in Rule 25-30.140, F.A.C., we calculated test year depreciation expense to be \$33,146; therefore, we have decreased this account by \$15,605 ($\$48,751 - \$33,146$) for water. Amortization of CIAC has a negative impact on depreciation expense. The Utility recorded amortization of CIAC of \$7,642. Using composite rates, we calculated Holiday's test year amortization of CIAC to be \$7,749. Therefore, we have increased amortization of CIAC by \$107 ($\$7,749 - \$7,642$). Based on the above, we calculate net depreciation expense to be \$25,397 ($\$33,146 - \$7,749$).

N. Taxes Other Than Income (TOTI)

The Utility recorded taxes other than income of \$18,883 for water. As discussed above, we decreased test year revenue by \$3,421. Based on the approved test year revenues, Holiday's RAFs shall be \$5,689. Therefore, we have decreased regulatory assessment fees (RAFs) by

\$1,683 (\$7,372 - \$5,689). We have increased this account by \$918 to reflect payroll taxes on our approved salary. Pursuant to Audit Finding No. 7, we have decreased this account by \$3,600 to remove an accrual entry by the Utility. We have also increased this account by \$23 to include expense for an occupational license. Our net adjustment to this account is a decrease of \$4,342.

O. Income Tax

Holiday recorded income tax of \$0 for water. The Utility is an 1120 C corporation; however, the Utility has a large amount of loss carry-forwards based on its current income tax return. These loss carry-forwards will continue to exist over the next couple of years. Therefore, we have not made an adjustment to this account.

P. Operating Expenses Summary

The application of our adjustments to the audited test year operating expenses result in calculated operating expenses of \$204,760. Our calculation of operating expenses is shown on Schedule No. 3-A, with the related adjustments shown on Schedule No. 3-B.

IX. REVENUE REQUIREMENT

The Utility shall be allowed an annual increase of \$129,355 (102.31 percent) for water. This will allow Holiday the opportunity to recover its expenses and earn a 9.24 percent return on its investment. Our calculation is as follows:

	<u>Water</u>
Adjusted Rate Base	\$489,255
Rate of Return	x .0924
Return on Rate Base	<u>\$ 45,206</u>
Adjusted O & M expense	164,823
Depreciation expense (Net)	25,397
Amortization	\$0
Taxes Other Than Income	20,362
Income Taxes	<u>\$0</u>
Revenue Requirement	\$255,788
Less Test Year Revenues	<u>126,433</u>
Annual Increase	<u>\$129,355</u>
Percent Increase/(Decrease)	<u><u>102.31%</u></u>

Our calculation of the revenue requirement is shown on Schedule No. 3-A.

X. RATE STRUCTURE

The Utility's current rate structure consists of a BFC/uniform gallonage charge rate structure. The Utility's rates in effect during the test year were charges of \$10.70 per equivalent residential connection (ERC) for water service, and \$3.08 for each kgal consumed. Subsequent to the end of the test year, the Utility applied for and received an increase in rates through a price index increase, pursuant to Rule 25-30.425, F.A.C. Therefore, the resulting current rates are \$11.00 per ERC per month, plus \$3.17 per kgal consumed.

As determined earlier, the revenue requirement increase is 102.31 percent. The average monthly water consumption for residential customers is 4.9 kgals. We believe 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.

We take 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 our rate structure methodology is contained in Attachment A.

The approved rate design for the water system is shown on the following page in Table 9-1.

TABLE 9-1

**HOLIDAY UTILITY COMPANY, INC.
 APPROVED AND ALTERNATIVE
 WATER RATE STRUCTURES AND RATES ⁽¹⁾**

<u>Current Rate Structure and Rates</u>		<u>Approved Rate Structure and Rates</u>	
BFC/uniform kgal charge BFC = 38%		Three-tier inclining block charge Monthly kgal usage blocks at 0-8, 8.001-15, 15+ Usage block rate factors at 1, 1.25, 1.5BFC = 25%	
BFC	\$11.00	BFC	\$14.49
All kgals	\$3.17	0 – 8 kgals	\$7.28
		8.001 – 15 kgals	\$9.10
		15 + kgals	\$10.92
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$11.00	0	\$14.49
1	\$14.17	1	\$21.77
3	\$20.51	3	\$36.33
5	\$26.85	5	\$50.89
10	\$42.70	10	\$90.93
20	\$74.40	20	\$191.03

Based on the foregoing and the discussion contained in Attachment A, we find that the appropriate rate structure for the Utility is a three-tier inclining block rate structure. The usage blocks shall be set for monthly usage levels of: 1) 0-8 kgals; 2) 8.001-15 kgals; and 3) usage in excess of 15 kgals. The usage block rate factors shall be set at 1.0, 1.25, and 1.5, respectively, and the BFC cost recovery allocation shall be set at 25 percent.

XI. REPRESSION

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 ratesetting process, price increases will, all other things equal, result in under-earning for the Utility, jeopardizing the Utility's financial health.

Over the past several years, our staff has calculated repression adjustments for utilities receiving rate increases and/or rate structure changes resulting from rate cases. Utilities have been required to file monthly reports to monitor the effects of the revenue and/or rate structure changes. These reports are intended to provide our staff with comparable data from other utilities receiving revenue and/or rate structure changes. An equally important use of these reports is to provide our staff with data regarding each utility's customer-specific response to these revenue and/or rate structure changes. This customer-specific data is among the most reliable data to be used when considering repression (price elasticity) adjustments for those customers in subsequent rate cases.⁶

As mentioned in the case background, the Utility's last SARC was filed in 2004, and resulted in Phase I and Phase II rates. We find it is appropriate to base our repression adjustment on Holiday's most recent consumption data filed with us and arising from the Phase II price increase that began in June 2006 in Docket No. 041145-WU.⁷ This is the same approach for calculating repression adjustments that we have approved in prior cases when utility-specific data was available.⁸

⁶ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

⁷ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

⁸ See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

Based on the foregoing, a repression adjustment is appropriate. Residential water consumption should be reduced by 10.3 percent, resulting in a consumption reduction of approximately 1,882 kgals. Total water consumption for ratesetting is 23,915 kgals. The resulting water system reductions to revenue requirements are \$106 in purchased power expense, \$23 in chemicals expense, \$5,708 in purchased water expense, and \$275 in regulatory assessment fees (RAFs). Therefore, the post-repression revenue requirement is \$249,625.

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

XII WATER RATES

Excluding miscellaneous service revenues, the approved rates are designed to produce revenues of \$249,625. Our calculation of the appropriate rates is shown on Schedule No. 4. Approximately 25 percent (or \$63,934) of the water monthly service revenues is recovered through the base facility charges, while approximately 75 percent (or \$191,803) represents revenue recovery through the consumption charges.

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

XIII. FOUR-YEAR RATE REDUCTION

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAfs which is \$1,776 for water. Using the Utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

XIV. TEMPORARY RATES IN THE EVENT OF PROTEST

By this order, we propose an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Holiday, the proposed approved rates shall be approved as temporary rates. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

Holiday shall be authorized to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$87,634. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) No funds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

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

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Holiday Utility Company, Inc. for a staff-assisted rate case is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that Holiday Utility Company, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order and the attachments and schedules attached hereto. It is further

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

ORDERED that the approved rates shall 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. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that the Utility shall provide proof of the date the notice was given no less than 10 days after the date of the notice. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates approved herein shall be approved for the Utility on a temporary basis subject to refund with interest, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that prior to implementation of any temporary rates, the Utility shall provide appropriate security and any temporary rates shall be subject to the refund provisions set forth in the body of this Order. It is further

ORDERED that the security shall be in the form of a bond or letter of credit in the amount of \$87,634. Alternatively, the Utility could establish an escrow agreement with an independent financial institution. It is further

ORDERED that the Utility shall be authorized to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. It is further

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

ORDERED that the Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to

refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that to monitor the effects of both the changes in revenues and rate structure, Holiday Utility Company, Inc. shall file monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed for each system. In addition, the reports shall be prepared by customer class and meter size. It is further

ORDERED that the reports shall 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. It is further

ORDERED that to the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the Utility shall provide monthly status reports to the Commission beginning November 1, 2008, addressing the requirements of the Department of Environmental Protection consent order to abandon the wells in the Anclote water system and begin purchasing water from Tarpon Springs. The reporting shall continue until all requirements of the consent order are fulfilled. It is further

ORDERED that the water rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. It is further

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

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

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

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Order, a Consummating Order will be issued. However, the docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. It is further

ORDERED that when the tariff and notice actions are complete, this docket may be closed administratively when this Order becomes final.

By ORDER of the Florida Public Service Commission this 12th day of September, 2008.



ANN COLE
Commission Clerk

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, except for temporary rates in the event of a protest and the statutory four-year rate reduction which are final agency action, our action proposing a rate increase is preliminary in nature. Any person whose substantial interests are affected by the

action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 3, 2008. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

HOLIDAY UTILITY COMPANY, INC.
HISTORICAL TEST YEAR ENDED
JUNE 30, 2007

ATTACHMENT A
PAGE 1

DETERMINATION OF APPROPRIATE RATE STRUCTURE

HISTORY OF CURRENT RATES

- (1) The Utility's test year BFC/uniform gallonage charge rate structure and rates were approved in the Utility's most recent staff-assisted rate case. Under this usage-sensitive rate structure, customers using a 5/8" x 3/4" meter were charged a BFC of \$10.70 per month for water service, plus \$3.08 for each kgal consumed.⁹
- (2) Subsequent to the end of the test year, the Utility received an increase in rates through a price index increase, pursuant to Rule 25-30.425, Florida Administrative Code. Therefore, the resulting current rates for a 5/8" x 3/4" meter are \$11.00 per month, plus \$3.17 per kgal consumed. The current BFC cost recovery percentage is 38%.

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.¹⁰ The Commission follows the WMD guideline whenever possible.¹¹
- (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 streamflow and saltwater intrusion.¹²
- (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.¹³

⁹ See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

¹⁰ 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.

¹¹ 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.

¹² Southwest Florida Water Management District, news release dated June 26, 2007.

¹³ Ibid.

HOLIDAY UTILITY COMPANY, INC.		ATTACHMENT A
HISTORICAL TEST YEAR ENDED JUNE 30, 2007		PAGE 2
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's 16 county area. Subsequently, the District's Governing Board twice determined that a modification to extend the expiration of the Order was necessary. The Second Modification to the Order was set to expire on November 30, 2007.¹⁴

	(7)	<p>The Governing Board, during a public hearing held on November 26, 2007, again received testimony regarding the existence of an ongoing water shortage within the District. Specific data presented at the hearing included, but were not limited to, the following items: 1) rainfall data indicated that the deficits in several counties, including Polk County, were categorized as critically abnormal; 2) all counties within the District were experiencing drought or drought-like conditions; 3) the Standard Precipitation Index indicated that several counties, including Polk County, were experiencing moderately abnormal conditions; 4) both the U.S. Drought Monitor and the Long-Term Palmer Index indicated that several counties, including Polk County, were experiencing critically abnormal conditions; and 5) the National Oceanic and Atmospheric Administration's Climate Prediction Center predicted below-normal rainfall from December 2007 through May 2008.</p> <p>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, 2007.¹⁵</p>
	(8)	<p>On June 24, 2008, the District's Governing Board again voted unanimously to further extend the Order declaring a severe water shortage through September 30, 2008. The extension of the current Water Shortage Order continues lawn watering restrictions throughout the District at one day per week.¹⁶</p>
WATER CONSERVATION INITIATIVE	(9)	<p>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.¹⁷</p>

¹⁴ Southwest Florida Water Management District, Third Board Order Modifying Water Shortage Order No. SWF 07-02, November 26, 2007.

¹⁵ Ibid.

¹⁶ Southwest Florida Water Management District, new release dated June 24, 2008.

¹⁷ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

HOLIDAY UTILITY COMPANY, INC.		ATTACHMENT A
HISTORICAL TEST YEAR ENDED JUNE 30, 2007		PAGE 3
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. ¹⁸
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)	Our 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. ¹⁹
	(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. ²⁰ However, the National Oceanic and Atmospheric Administration's (NOAA's) Climate Prediction Center forecasts that a moderate drought will persist. ²¹
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 4.9 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)	Our 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; and 3) remove nonconserving water rate structures.
	(17)	Our staff's evaluation criteria excluded rate structures that: 1) resulted in greater price

¹⁸ 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.

¹⁹ National Weather Service, Climate Prediction Center, U.S. Seasonal Drought Outlook, June 5, 2008.

²⁰ Ibid.

²¹ National Oceanic and Atmospheric Administration, Climate Prediction Center, Palmer Drought Severity Forecast, July 26, 20089.

	increases at 0 kgal of consumption than at 7 kgal of consumption; 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.
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HOLIDAY UTILITY COMPANY, INC.		ATTACHMENT A
HISTORICAL TEST YEAR ENDED JUNE 30, 2007		PAGE 4
DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)		

(18) We have considered staff's recommended rates and rate structure, along with two alternative rate structures and the Utility's current rates, on Table 9-1.

COMMISSION APPROVED	We find the appropriate rate structure for the Utility's water system is a three-tier inclining block rate structure. The usage blocks shall be set for monthly usage levels of: 1) 0-8 kgals; 2) 8.001-15 kgals; and 3) usage in excess of 15 kgals. The usage block rate factors shall be set at 1.0, 1.25 and 1.5, respectively, and the BFC cost recovery allocation shall be set at 25%.
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HOLIDAY UTILITY COMPANY		SCHEDULE NO. 1-A	
TEST YEAR ENDING 06/30/2007		DOCKET NO. 070394-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMN. ADJUST. TO UTIL. BAL.	BALANCE PER COMMN.
1. UTILITY PLANT IN SERVICE	\$864,452	\$14,385	\$878,837
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(203,774)	(682)	(204,456)
5. ACCUMULATED DEPRECIATION	(282,335)	45,017	(237,318)
6. AMORTIZATION OF CIAC	33,063	(1,474)	31,589
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>20,603</u>	<u>20,603</u>
8. WATER RATE BASE	<u>\$411,406</u>	<u>\$77,849</u>	<u>\$489,255</u>

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

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

	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect plant addition to Acct. No. 304	\$187
2. To remove fully depreciated plant in Acct No. 309	(7,230)
3. To reflect the appropriate plant balance for Acct. No. 307	716
4. To reflect the appropriate plant balance for Acct. No. 309	5,392
5. To retire 75% of replacement plant for Acct. No. 309	(1,106)
6. To reflect balance for Acct. No. 311 per previous order	(9,728)
7. To retire 75% of replacement plant for Acct. No. 311	(5,614)
8. To reflect balance for Acct. No. 320 per previous order	2,314
9. To retire 75% of replacement plant for Acct. No. 320	(663)
10. To reflect the appropriate balance for Acct. No. 330	7,761
11. To reflect the appropriate plant balance for Acct. No. 331	14,862
12. To retire 75% of replacement plant for Acct. No. 331	(2,312)
13. To reflect the appropriate plant balance for Acct No. 334	(518)
14. To reflect invoices not recorded on the company's books for Acct. No. 334	20,578
15. To retire 75% of replacement plant for Acct. No. 334	(2,462)
16. To reflect an averaging adjustment	(7,792)
Total	<u>\$14,385</u>
<u>CIAC</u>	
1. To reflect the appropriate CIAC balance	(\$682)
Total	<u>(\$682)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect test year depreciation calculated per 25-30.140 FAC.	\$33,746
2. To reflect an averaging adjustment	11,271
Total	<u>\$45,017</u>
<u>AMORTIZATION OF CIAC</u>	
1. To reflect accumulated amortization per 25-30.140 FAC.	\$2,377
2. To reflect an averaging adjustment	(3,851)
Total	<u>(\$1,474)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$20,603</u>

HOLIDAY UTILITY COMPANY
TEST YEAR ENDING 06/30/2007
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 070394-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER COMMN.	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$140,500	\$0	\$140,500					
2. RETAINED EARNINGS	(44,363)	0	(44,363)					
3. PAID IN CAPITAL	196,897	0	196,897					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$293,034	\$0	\$293,034	(\$60,194)	\$232,840	47.59%	11.19%	5.32%
6. LONG TERM DEBT								
NOTES PAYABLE	\$317,946	0	\$317,946	(\$65,312)	\$252,634	51.64%	7.50%	3.87%
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$317,946	0	\$317,946	(\$65,312)	\$252,634	51.64%		
7. CUSTOMER DEPOSITS	\$3,781	<u>0</u>	\$3,781	<u>0</u>	\$3,781	<u>0.77%</u>	6.00%	<u>0.05%</u>
8. TOTAL	<u>\$614,761</u>	<u>\$0</u>	<u>\$614,761</u>	<u>-\$125,506</u>	<u>\$489,255</u>	<u>100.00%</u>		<u>9.24%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.19%</u>	<u>12.19%</u>	
OVERALL RATE OF RETURN						<u>8.77%</u>	<u>9.72%</u>	

HOLIDAY UTILITY COMPANY TEST YEAR ENDING 06/30/2007 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070394-WU		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTED	COMMUN. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$129,854</u>	<u>(\$3,421)</u>	<u>\$126,433</u>	<u>\$129,355</u> 102.31%	<u>\$255,788</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$138,714	\$26,109	\$164,823	0	\$164,823
3. DEPRECIATION (NET)	41,109	(15,712)	25,397	0	25,397
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	18,883	(4,342)	14,541	5,821	20,362
6. INCOME TAXES	<u>(5,765)</u>	<u>5,765</u>	<u>0</u>	<u>0</u>	0
7. TOTAL OPERATING EXPENSES	<u>\$192,941</u>	<u>\$11,820</u>	<u>\$204,760</u>	<u>\$5,821</u>	<u>\$210,581</u>
8. OPERATING INCOME/(LOSS)	<u>(\$63,087)</u>		<u>(\$78,327)</u>		<u>\$45,207</u>
9. WATER RATE BASE	<u>\$411,406</u>		<u>\$489,255</u>		<u>\$489,255</u>
10. RATE OF RETURN	<u>-15.33%</u>		<u>-16.01%</u>		<u>9.24%</u>

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

**SCHEDULE NO. 3-B
 DOCKET NO. 070394-WU
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	<u>WATER</u>
OPERATING REVENUES	
1. a. To adjust Utility revenues to audited test year amount.	<u>(\$3,421)</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Water (610)	
a. To reflect purchase water expense	\$84,192
b. To reflect purchase water EUW	<u>(6,338)</u>
	<u>\$77,854</u>
2. Purchase Power (615)	
a. To remove purchase power for Anclote system	(\$5,517)
b. To remove purchase power expense for EUW for Westwood	(127)
c. To remove nonutility expense	<u>(1,526)</u>
	<u>(\$7,170)</u>
3. Chemicals (618)	
a. To remove chemical expense associated with Anclote	(\$2,114)
b. To remove chemical expense of EUW for Westwood	<u>(28)</u>
	<u>(\$2,141)</u>
4. Materials and Supplies (620)	
a. To reflect the appropriate material supplies expense (AF 6)	<u>\$37</u>
5. Contractual Services - Professional (631)	
a. To amortize non-recurring engineering expenses	(\$10,928)
b. To remove non- utility expenses	(4,930)
c. To remove capitalized meters	(13,157)
d. To reduce management fee for reduction in duties	(6,926)
e. To amortize well expenses over 5 years (\$12,000/5)	2,400
f. To include previous amortization	1,220
g. To remove the Utility's journal entry	7,077
h. To remove amortization of transfer expenses	<u>(5,492)</u>
	<u>(\$30,737)</u>
6. Contractual Services - Testing (635)	
a. To reflect the appropriate testing for the Westwood system	<u>\$8</u>
7. Rents (640)	
a. To remove rent on land	<u>(\$2,625)</u>
8. Insurance Expenses (655)	
a. To annualize insurance expense (AF 6)	<u>\$35</u>
9. Regulatory Commission Expense (665)	
a. To amortize rate case expense over 4 years	\$1,696
	<u>\$1,696</u>
10. Bad Debt Expense (670)	
a. To reflect the appropriate bad debt expense (AF 6)	<u>\$847</u>
11. Miscellaneous Expense (675)	
a. To remove interest on loan and customer deposits	(\$24,989)
b. To correct credit account for loan application fee	14,134
c. To reflect appropriate balance per audit	(1,934)
d. To include previous amortization	<u>1,094</u>
Total	<u>(\$11,695)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$26,108</u>

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

SCHEDULE NO. 3-B
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	<u>WATER</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$15,605)
2. Test year amortization of CIAC.	(107)
Total	<u>(\$15,712)</u>
TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees on test year revenue.	(\$1,683)
2. To adjust payroll tax for recommended salaries.	918
3. To reflect the appropriate test year property taxes	(3,600)
4. To include occupational license fee	<u>23</u>
Total	<u>(\$4,342)</u>

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

	TOTAL PER UTILITY	COMMN. PER ADJUST.	TOTAL PER COMMN.
(601) SALARIES AND WAGES - EMPLOYEES	\$12,000	\$0	\$12,000
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	378	77,854	78,232
(615) PURCHASED POWER	8,625	(7,170)	1,455
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,460	(2,141)	319
(620) MATERIAL AND SUPPLIES	532	37	569
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	73,885	(25,245)	48,640
(635) CONTRACTUAL SERVICES - TESTING	2,225	8	2,233
(636) CONTRACTUAL SERVICES - OTHER	13,363	0	13,363
(640) RENTS	2,625	(2,625)	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	2,155	35	2,190
(665) REGULATORY COMMISSION EXPENSE	493	1,696	2,189
(670) BAD DEBT EXPENSE	0	847	847
(675) MISCELLANEOUS EXPENSES	<u>19,973</u>	<u>(17,187)</u>	<u>2,786</u>
	<u>\$138,714</u>	<u>\$26,108</u>	<u>\$164,823</u>

HOLIDAY UTILITY COMPANY TEST YEAR ENDING 06/30/2007 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 070394-WU	
	UTILITY'S EXISTING RATES	COMMN APPROVED RATES	MONTHLY RATE REDUCTION
Residential			
<u>and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$11.00	\$14.49	\$0.10
3/4"	\$16.50	\$21.74	\$0.15
1"	\$27.50	\$36.23	\$0.25
1-1/2"	\$55.00	\$72.45	\$0.50
2"	\$88.00	\$115.92	\$0.80
3"	\$175.99	\$231.84	\$1.61
4"	\$274.99	\$362.25	\$2.52
6"	\$549.88	\$724.50	\$5.03
<u>Residential and General Service Gallonage Charge (Per 1,000 Gallons)</u>			
<u>Residential</u>			
All gallons	\$3.17		
0 - 8,000 Gallons		\$7.28	\$0.05
8,001 - 15,000 Gallons		\$9.10	\$0.06
15,000+ Gallons		\$10.92	\$0.08
<u>General Service</u>			
All gallons		\$7.83	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$20.51	\$36.33	
5,000 Gallons	\$26.85	\$50.89	
10,000 Gallons	\$42.70	\$90.93	