

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 6, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Deason, Bruce, Buleeza-Banks, Fletcher, Redemann) *DR AB*
Office of the General Counsel (Hartman) *CSB BS 108*

RE: Docket No. 080714-WS – Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

AGENDA: 08/18/09 – Regular Agenda – Proposed Agency Action except for Issues 13, 14 and 15 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 3/24/10 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080714.RCM.DOC

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Case Background

Hidden Valley SPE LLC d/b/a Orange Lake Utilities (Orange Lake or Utility) is a Class C water and wastewater utility located in Lake County serving approximately 248 water and 242 wastewater customers in Orange Lake Mobile Home Community. Orange Lake is located in the St. Johns River Water Management District (SJRWMD or District). The Utility's 2008 annual report reflects operating revenues of \$44,665 for water and \$46,291 for wastewater service and an operating loss of \$12,425 for water and \$41,153 for wastewater.

Orange Lake has been under Commission jurisdiction since December 22, 2004. The Utility began operations in 1985. On September 24, 2004, Orange Lake applied for original certificates to operate a water and wastewater utility in Lake County. Certificate Nos. 625-W and 536-S were

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granted to Orange Lake in 2004.¹ Prior to that time, the Utility provided water and wastewater service solely to the rental community tenants as a part of the rent, and was therefore exempt from Commission regulation pursuant to Section 367.022(5), Florida Statutes (F.S.). On December 19, 2008, Orange Lake applied for a staff-assisted rate case (SARC). The Utility has not previously filed a request for a rate case.

Staff has audited Orange Lake's records for compliance with Commission rules and orders, and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water and wastewater facilities along with the service area. The Utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, plant in service, and quality of service. Staff has selected a historical test year ended December 31, 2008.

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

¹ See Order No. PSC-04-1270-PAA-WS, issued December 22, 2004, in Docket No. 041141-WS, In Re: Application for certificates to provide water and wastewater service in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake.

Discussion of Issues

Issue 1: Is the quality of service provided by Orange Lake satisfactory?

Recommendation: Yes. The overall quality of service provided by Orange Lake is satisfactory. (Redemann)

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 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. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Florida Department of Environmental Protection (DEP) is also considered.

Quality of Utility's Product

Orange Lake's water and wastewater plants are regulated by the DEP Central District office in Orlando. The Utility is current in all of the required chemical analyses and the Utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered satisfactory by the DEP.

Operational Conditions of Plants

A staff field investigation of the Utility's service areas was conducted on February 25, 2009. The water and wastewater plants appeared to be operating normally and were well-maintained. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, the operational conditions of the water and wastewater plants are satisfactory.

Customer Satisfaction

A customer meeting was held on June 29, 2009, in Clermont. Utility representatives and nine customers attended. Most customers were concerned with the water and wastewater rate increases, particularly during the current economic times. One customer was concerned about a wastewater backup, but stated the Utility resolved the problem. In addition, she was concerned with boil water notices and the quality of the water.

According to the DEP, the Utility provided incident reports when a boil water notice was needed and when the wastewater line became plugged. All boil water notices have been closed out and the wastewater line has been repaired. Further, DEP received no complaints regarding the Orange Lake water system from 2007 to 2009, and they have no concerns over the finished water quality.

There are no outstanding complaints on the Commission's Complaint Tracking System and the Utility indicated that they did not receive any customer complaints during the test year.

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Therefore, staff recommends that the Utility's attempts to address customer concerns are satisfactory.

Quality of Service Summary

The quality of the product and the condition of the Utility's water and wastewater plants are in compliance with regulatory standards. In addition, the Utility addresses customer concerns on a timely basis and there are no outstanding complaints at this time. Therefore, staff recommends that the Utility's overall quality of service be considered satisfactory.

Issue 2: What are the used and useful percentages of Orange Lake's water treatment plant, ground storage tank, water distribution lines, wastewater treatment plant, and wastewater collection system?

Recommendation: The Orange Lake water treatment plant, ground storage tank, water distribution system, wastewater treatment plant, and wastewater collection system are 100 percent used and useful. (Redemann)

Staff Analysis: The Orange Lake water treatment system has two wells which are rated at 230 and 650 gallons per minute (gpm). Raw water is treated with aeration and liquid chlorine and then pumped into the water distribution system from the ground storage tank. The ground storage tank has a usable capacity of 67,500 gallons. The single maximum day in the test year of 156,000 gallons occurred on June 24, 2008; however, because flows before and after that day and through the whole month of June, 2008 were significantly lower, staff recommends using the second single maximum day in the test year of 108,000 gallons which occurred on May 7, 2008. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's records indicate that 36 percent of the water produced during the test year was unaccounted for. Therefore, 26 percent of the water produced (16,430 gallons) is considered excessive unaccounted for water. An adjustment for unaccounted for water is addressed in Issue 8. The Utility's fire flow requirement is 500 gpm for 2 hours or 60,000 gallons. There has been no growth in the service area since the Utility became certificated; therefore it appears to be built out.

Based on a peak day of 108,000 gpd, an excessive unaccounted for water adjustment of 16,430 gpd, a fire flow allowance of 60,000 gpd and a firm reliable capacity of 220,800 gpd, the water treatment plant is 69 percent used and useful. However, staff recommends that the water treatment plant be considered 100 percent used and useful because the system is built out. In addition, because the usable storage capacity is less than the peak day demand, the storage tank should be considered 100 percent used and useful pursuant to Rule 25-30.4325(8), F.A.C. The distribution system was designed to serve the existing customers and is built out; therefore, staff recommends that the water distribution system is 100 percent used and useful.

The Utility's wastewater collection system is composed of PVC, with one lift station located in the service area. The lift station transfers the influent by a force main to the wastewater treatment plant. In June 2006, the Utility signed a consent order with DEP agreeing to increase the plant capacity by 30,000 gpd because the wastewater flows were exceeding the 50,000 gpd permitted capacity and the plant could not properly treat the flows. The wastewater treatment plant is now permitted by the DEP at 80,000 gallons per day (gpd) based on average annual daily flow (AADF) using extended aeration. Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds. There does not appear to be excessive infiltration or inflow at this time.

Pursuant to Rule 25-30.432, F.A.C., the wastewater treatment plant is 36 percent used and useful based on the AADF of 29,100 gpd and the permitted capacity of 80,000 gpd, although it should be noted that flows have declined significantly since 2005. However, because the service territory is built out, staff recommends that the wastewater treatment plant and wastewater collection system should be considered 100 percent used and useful.

Issue 3: Should the 2009 pro forma adjustment to water treatment plant be included?

Recommendation: Yes. The pro forma adjustment of \$1,875 for the replacement of valves should be included in rate base, and the corresponding retirement of the old valves should be removed from rate base. (Redemann, Deason)

Staff Analysis: As mentioned in the unaccounted for water issue discussed later, the Utility had some malfunctioning check valves connected to the high service pumps. The valves did not close properly and caused unaccounted for water. On March 23, 2009, the Utility replaced the valves. Staff believes this was a prudent decision to replace the defective check valves. The cost of these valves of \$1,875 should be included in rate base, and the corresponding retirement of the old valves should be removed from rate base.²

² Staff could not determine the original cost of the old valves. Pursuant to Commission practice, staff used 75 percent of the replacement cost. Therefore, plant in service should be reduced by \$1,406 ($\$1,875 \times 0.75$). Also, accumulated depreciation should be reduced by the same amount. The net effect on rate base of the decrease in plant in service and accumulated depreciation is \$0.

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

Recommendation: The appropriate average test year rate base for the Utility is \$281,950 for water and \$181,769 for wastewater. (Deason)

Staff Analysis: Staff selected a test year ending December 31, 2008 for this rate case. Rate base components have been updated through December 31, 2008, using information obtained from staff's SARC audit and engineering reports. A summary of each component and the adjustments follows.

Utility Plant in Service (UPIS): The Utility recorded \$587,230 for water UPIS and \$422,847 for wastewater UPIS for the test year ending December 31, 2008. By Order No. PSC-04-1270-PAA-WS, the Commission established the beginning balances of the rate base as of December 31, 2004, based on an original cost study performed in connection with the original certificate filing. The following is a breakdown of the plant additions and retirements since December 31, 2004:

Water

	Per Utility	Difference	Per Audit
2005 Additions	\$0	\$0	\$0
2006 Additions	\$60,742	(\$4,406)	\$56,336
2007 Additions	\$0	\$30,168	\$30,168
2008 Additions	\$0	\$2,148	\$2,148
12/31/2008 Balance	\$587,229	\$27,910	\$615,139

Wastewater

	Per Utility	Difference	Per Audit
2005 Additions	\$0	\$0	\$0
2006 Additions	\$64,100	\$0	\$64,100
2007 Additions	\$0	\$133,031	\$133,031
2008 Additions	\$0	\$9,831	\$9,831
12/31/2008 Balance	\$422,849	\$142,862	\$565,711

As such, staff recommends that plant in service be increased by \$27,910 for water and \$142,862 for wastewater. Staff has also reduced both the water and wastewater plant in service accounts by \$1,074 and \$4,916, respectively, to reflect an averaging adjustment. As discussed in Issue 3, staff has increased water plant by \$1,875 to reflect pro forma valves. Therefore, the appropriate amount of test year plant in service is \$615,941 ($\$587,230 + \$27,910 - \$1,074 + \$1,875$) for water and \$560,795 ($\$422,849 + 142,862 - \$4,916$) for wastewater.

Land & Land Rights: The Utility's records reflect balances of \$4,600 and \$3,750, respectively, in Acct Nos. 303 and 353 – Land and Land Rights as of December 31, 2008. The National Association of Utility Commissioners Uniform System of Accounts (NARUC USOA), Balance Sheet Acct. Nos. 303 and 353 – Land and Land Rights, states that the cost of land should be recorded at its original cost when it was first dedicated to utility service. Staff auditors confirmed that the Utility recorded the land at its original cost when it was first dedicated to utility service. Therefore, no adjustment is unnecessary.

Non-used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the Utility's water treatment, wastewater treatment, water distribution, and wastewater collection plants should be considered 100 percent used and useful. Therefore, a non-used and useful adjustment is unnecessary.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC of \$107,789 for water and \$178,699 for wastewater, respectively, for the test year ended December 31, 2008. Staff auditors confirmed that the CIAC balance is correct. Thus, no adjustment is necessary.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of \$305,376 for water and \$306,707 for wastewater for the test year ending December 31, 2008. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$4,083 for water and \$30,285 for wastewater to reflect depreciation calculated per staff. Staff has also increased both the water and wastewater accumulated depreciation by \$9,352 and \$13,493, respectively, to reflect an averaging adjustment. Additionally, staff has increased accumulated depreciation for water by \$94 to reflect the depreciation associated with the 2009 pro forma replacement valves. These adjustment results in average accumulated depreciation of \$299,969 for water and \$323,499 for wastewater.

Accumulated Amortization of CIAC: The Utility recorded accumulated amortization of CIAC balances of \$61,729 for water and \$110,689 and wastewater for the test year. Staff calculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C. Based on this calculation, staff increased accumulated amortization of CIAC by \$3,390 for water and \$3,634 for wastewater. Staff has also decreased accumulated amortization of CIAC by \$1,332 for water and \$2,385 for wastewater, to reflect an averaging adjustment. These adjustment results in total accumulated amortization of CIAC adjustment of \$2,059 for water and \$1,249 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working

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capital allowance of \$5,379 for water and \$7,485 for wastewater (based on O&M of \$43,035 for water and 59,883 for wastewater). Working capital has been increased by \$5,379 for water and \$7,485 for wastewater to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$281,950 for water and \$181,769 for wastewater. Water and Wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. Staff's adjustments are shown on Schedule 1-C.

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

Recommendation: The appropriate return on equity is 11.14 percent with a range of 10.14 percent - 12.14 percent. The appropriate overall rate of return is 7.90 percent. (Deason)

Staff Analysis: According to staff's audit, Orange Lake recorded the following items in its capital structure: common equity of \$1,292,779,443; negative retained earnings of \$0; and paid-in-capital of \$0. The Utility's capital structure consists of long term debt in the amount of \$1,753,785,919. All investor sources of capital are from the Utility's parent company, Hometown America. Using the most recent Commission-approved leverage formula³ and with an equity ratio of 42.43 percent, the appropriate return on equity (ROE) is 11.14 percent. Orange Lake's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 11.14 percent with a range of 10.14 percent - 12.14 percent, and an overall rate of return of 7.90 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³ See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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.

Issue 6: What are the appropriate amounts of test year revenues in this case?

Recommendation: The appropriate amounts of test year revenues in this case are \$47,049 for the water system and \$47,452 for the wastewater system. (Bruce, Deason)

Staff Analysis: Orange Lake reported test year revenues of \$44,665 for the water system and \$46,291 for the wastewater system. Based on detailed billing information obtained from the Utility, staff recalculated test year revenues. Staff recommends revenue imputations of \$2,384 for the water system and \$1,161 for the wastewater system. Based on the foregoing, staff recommends that the appropriate amounts of test year revenues in this case are \$47,049 for the water system and \$47,452 for the wastewater system.

Issue 7: What are the appropriate operating expenses?

Recommendation: The appropriate amount of operating expense for the Utility is \$69,131 for water and \$97,805 for wastewater. (Deason, Redemann)

Staff Analysis: Orange Lake recorded operating expenses of \$37,002 for water and \$63,164 for wastewater during the test year ending December 31, 2008. The test year O&M expenses have been reviewed, through an examination of invoices, canceled checks, and other supporting documentation. Staff made several adjustments to the Utility's operating expenses, as summarized below:

Purchased Power – (615,715) – Orange Lake recorded a water balance of \$136 in Account No. 615 – and a wastewater balance of \$10,987 in Account No. 715 for the 12 months ended December 31, 2008. Pursuant to Audit Finding No. 6, staff's review revealed that Account No. 615 is understated by \$5,229 (\$5,291 - \$62) based on the audit staff's review of all vendor invoices for 2008. The Utility did not include in the general ledger all twelve months of electric bills from Progress Energy for the water generator which totaled \$5,291. Also, Orange Lake overstated the gas bills from Lake Apopka Natural Gas District by \$62. Additionally, the Utility included a late payment penalty in the amount of \$18, and double booked an invoice amount of \$866 for the electric invoices for Progress Energy in Acct. No. 715. As discussed in Issue 8, staff is recommending a reduction of \$697 related to excessive unaccounted for water. Based on these adjustments, staff recommends purchased power expense for the test year of \$4,668 (\$136 + \$5,229 - \$697) for Acct. No. 615 and \$10,103 (\$10,987 - \$18 - \$864) for Acct. No. 715.

Contractual Services - Testing – (635,735) – Orange Lake recorded \$13,408 in Acct. No. 635 and \$10,279 in Acct. No. 735 for the test year. Staff has increased Account No. 635 by \$528 for water. State and local authorities require that several analyses be submitted in accordance with Chapter 62-550, F.A.C. The list below describes other less frequent tests required by DEP:

Water

<u>Rule</u>	<u>Description</u>	<u>Frequency</u>	<u>Cost per year</u>
62-550.310(1) F.A.C.	Primary	36 months	\$229
62-550.513 F.A.C.	& Inorganics	36 months	Included in Primary
62-550.320 F.A.C.	Secondary	36 months	\$200
62-550.516 F.A.C.	Synthetic Organics	36 months	\$1,000
62-550.512(1) F.A.C.	Nitrate & Nitrite	Annually	\$150
62-550.515 F.A.C.	Volatile Organics	36 months	\$125
62-550.310(3) F.A.C.	Radionuclide's	36 months	\$561
EPA L & C Rule, 40	Lead & Copper	36 months	\$600
62-550.514 F.A.C.	TTHM	36 months	<u>\$250</u>
	Total Cost		\$3,115
	Yearly Cost		\$1,038
Lead & Copper		Tested on 10/31/08	<u>(\$510)</u>
Adjustment to the test year 2008			\$528.

Therefore, staff recommends increasing Account No. 635 by \$528 to reflect annual DEP testing for water.

Contractual Services - Other – (636,736) – The Utility recorded \$1,046 in Acct. No. 636 and \$0 in Acct. No. 736 for the test year. Pursuant to Audit Finding No. 6, staff discovered that Acct. No. 636 is understated by \$2,232 ($\186×12) based on the audit staff's review of all vendor invoices for the year 2008. Orange Lake did not include the invoices for FewTek, Inc. that represents the meter reading service, for each month of \$186. In addition, DEP Rule 62-555.350(2), F.A.C. - Permitting Construction, Operation and Maintenance of Public Water Systems requires hydropneumatic tanks and finished water storage tanks to be cleaned from the inside and inspected for structural and coating integrity at least once every 5 years. The tanks were inspected in 2007 at a cost of \$6,000. This cost should be amortized over 5 years for a yearly amount of \$1,200. Based on these adjustments, Acct. No. 636 should be increased by \$3,432 ($\$2,232 + \$1,200$).

Regulatory Commission Expense – (665,765) – The Utility recorded \$0 for Acct. No. 675 and \$0 for Acct. No. 775 for the test year. Pursuant to Audit Finding No. 6, staff noted that Orange Lake did not include an invoice from Excel Engineering in the amount of \$1,536 that represents the preparation of this rate case. This results in an increase to Acct. Nos. 675 and 775 of \$192 ($\$1,536/4 \text{ years}/2$). Also, staff has included the filing fee of \$1,500 which results in an increase of \$188 ($\$1,500/4 \text{ years}/2$) to Acct. Nos. 675 and 775. Additionally, staff has included the costs associated with the notices for this rate case which result in an increase of \$51 ($\$407/4/2$) to Acct. Nos. 675 and 775. These adjustments result in an increase of \$431 ($\$192 + \$188 + \51) to Acct. Nos. 675 and 775.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be increased \$8,923 for water and reduced \$453 for wastewater as shown on Schedule No. 3-C. Staff's recommended O&M expenses of \$43,035 for water and \$59,883 for wastewater as shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded \$0 in water and \$0 in wastewater for depreciation expense. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year net depreciation expense is \$19,748 for water and \$28,136 for wastewater. Thus, staff has increased water by \$19,748 and wastewater by \$28,136. Also, staff has included an increase of \$94 to water to reflect the depreciation expense associated with the 2009 pro forma replacement valves. Therefore, staff recommends net depreciation expense of \$19,842 ($\$19,748 + \94) for water and \$28,136 for wastewater.

Taxes Other Than Income (TOTI) – Orange Lake's records reflect water and wastewater balances of \$2,890 and \$2,828, respectively, for Acct. No. 408 – TOTI. Based on staff's audit, TOTI is understated by \$702 and \$2,188.

Further, based on the tax bill provided by the Utility, the total property tax amount of 38.4 acres is \$95,888. The property tax bill covers the property that covers 38.4 acres; the water system sits on 0.33 acres, and the wastewater system sits on 0.88 acres of the total 38.4 acres. Staff auditors calculated the property taxes to be \$824 ($\$95,888 \times 0.33/38.4$) and \$2,197 ($\$95,888$

X 0.88/38.4) for water and wastewater, respectively. No consideration for the assessed values of the structures on the property were considered because the information was not available.

The Utility included in the 2008 general ledger the 2007 Regulatory Assessment Fees (RAFs) return amount. The audit staff calculated the 2008 RAFs amount based on the calculated revenues which are \$2,048 and \$2,099 for water and wastewater, respectively. These amounts reflect an increase of \$36 and \$149 for water and wastewater, respectively.

The staff auditors recalculated the Federal Insurance Contributions Act (FICA) tax to be \$720 each for water and wastewater, for the test year. The total payroll of \$18,824 x (6.2 percent Social Security Rate plus 1.45 percent Medicare Rate) equals \$720 (\$1,440/2). This represents a decrease of \$158 each for water and wastewater.

Based on these adjustments, TOTI should be increased by \$702 (\$824 + \$36 - \$158) and \$2,188 (\$2,197 + \$149 - \$158) for water and wastewater, respectively. Staff recommends TOTI of \$3,592 (\$2,890 + 702) for water and \$5,016 (\$2,828 + 2,188) for wastewater.

Income Tax – The Utility recorded income tax of \$0 for water. Orange Lake is a limited partnership. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$69,131 for water and \$97,805 for wastewater. Operating expenses for water and wastewater are shown on Schedule Nos. 3-A and 3-B, respectively. The related adjustments are shown on Schedule 3-C.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$93,495 for water and \$115,214 for wastewater. (Deason)

Staff Analysis: The Utility should be allowed an annual increase of \$46,446 (98.72 percent) for water and \$67,762 (142.03 percent) for wastewater. This will allow Orange Lake the opportunity to recover its expenses and earn a 7.90 percent return on its investment. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$281,950	\$181,769
Rate of Return	x .0790	x .0790
Return on Rate Base	<u>\$22,274</u>	<u>\$14,360</u>
Adjusted O & M expense	43,035	59,883
Depreciation expense (Net)	19,842	28,136
Amortization	2,663	4,770
Taxes Other Than Income	5,682	8,065
Income Taxes	<u>0</u>	<u>0</u>
Revenue Requirement	\$93,495	\$115,214
Less Test Year Revenues	<u>47,049</u>	<u>47,452</u>
Annual Increase	<u>\$46,446</u>	<u>\$67,762</u>
Percent Increase/(Decrease)	<u>98.72%</u>	<u>142.80%</u>

Issue 9: Does Orange Lake have excessive unaccounted for water and, if so, what adjustments are necessary?

Recommendation: Yes. Pursuant to Rule 25-30.4325(1)(e), F.A.C. Orange Lake has unaccounted for water in excess of 10 percent of the amount produced. A reduction of \$697 should be made to Purchased Power Acct. No. 615. (Redemann)

Staff Analysis: Pursuant to Rule 25-30.4325(1)(e), F.A.C., it is Commission practice to allow 10 percent of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by small leaks, meter inaccuracy, unrecorded line flushing, and plant usage.

The total treated water from the production meter (23,065,000) was compared with the total water sold to the customers (14,454,700). The total unaccounted for water was determined to be 36 percent. Therefore, the excessive unaccounted for water was calculated to be 26 percent. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. Staff contacted the Utility and its consultants to determine what action it was taking to reduce the amount of unaccounted for water and to determine if it knew the cause of the unaccounted for water. It believes the high service check valves were faulty.

Water is pumped from the wells to the ground storage tank and is chlorinated when the well pumps are activated. Since the wells activate the chlorine pumps, no additional chlorine was used. After storage, high service pumps distribute the water into the hydropneumatic tank and into the water distribution system. It appears that the lack of working check valves connected to the high service pumps allowed water from the hydropneumatic tank to backflow through the production water meter and high service pumps into the ground storage tank. On March 25, 2009, the check valves were replaced. The Utility has requested a pro forma addition for the valves. This issue is addressed in Issue 3. The backflow of water caused the high service pumps to re-pump the water; however, the well pumps were not affected, since they only pump the water into the storage tank one time. It is estimated by staff that the electric usage from the well pumps and the high service pumps are about equal. Therefore, about 13 percent additional electricity was used due to the excessive amount of unaccounted for water. Staff recommends reducing Purchased Power Acct. No. 615 by \$697 ($\$5,364 \times .13$).

Issue 10: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a monthly base facility charge (BFC) which includes a two-tier inclining block rate structure, with usage blocks set at 0-10 kgals and usage in excess of 10 kgals, and rate factors of 1.0 and 1.50. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge. The water system's BFC cost recovery should be set at 35 percent. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent. The residential wastewater cap should remain set at 8,000 gallons (8 kgals). (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water system's residential and non-residential class. The monthly BFC is \$9.14 and the usage charge is \$1.37 per kgals.

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

Orange Lake Mobile Home Park is located in the SJRWMD. Prior to 2001, Orange Lake experienced high water usage, and the District required the Utility to submeter all individual homes and miscellaneous uses within the mobile home park. As a part of the Orange Lake's consumptive use permit (CUP), the Utility had been required by the District to form a private utility capable of charging for water and wastewater to promote water conservation. According to District staff, as a result of the water conservation efforts, the Utility had reduced its usage.

As discussed in Issue 8, currently the Utility has excessive unaccounted for water. The Utility reported in its 2008 annual report that 23,065,000 gallons were pumped and 14,448,010 gallons were sold. However, staff's analysis of the consumption data provided by the Utility indicates the total gallons sold in 2008 were 14,454,700. Staff used these gallons for rate setting purposes. Representatives of the Utility believed that the check valves on the high service pumps were faulty and were the cause of the unaccounted for water. The check valves were replaced on March 25, 2009. Since the replacement, according to an analysis recently performed by the engineer, the unaccounted for water has decreased. However, it is greater than ten percent. Staff has been in contact with District staff and indicated that they will be conducting a water audit.

Furthermore, as indicated in the CUP, Condition No. 21 states that the permittee must maintain a BFC/uniform gallonage charge rate structure. Again, staff has been in contact with the District and it has indicated that it is in favor of PSC staff implementing an inclining block rate structure as the choice of rate structure.

Based on staff's analysis, the customer base is non-seasonal and the average customer's monthly overall consumption is approximately 5.1 kgals. According to representatives of the Utility, the mobile home park is comprised of families that consist of at least four to five people. For this reason, staff believes it is appropriate to increase the threshold for a customer's essential usage to approximately 9.8 kgals per month. This number is derived based on the average number of persons per household, gallons per day and, days per month ($5.0 \times .065 \times 30$). Staff's billing data indicates there is a small portion of customers who consume over 10 kgals a month. Based on the above, staff believes it is appropriate to set a two-tier inclining block rate structure, with usage blocks set at 0-10 kgals and usage in excess of 10 kgals. The two-tiered rate structure will lower bills for customers using less than 10 kgals per month, while also sending a water conserving price signal to customers using more than 10 kgals per month.

Staff's recommended rate design for the water system is shown on Table 10-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 10-1

HIDDEN VALLEY d/b/a ORANGE LAKE MOBILE HOME PARK STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC = 58%		2-Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.50 BFC = 35%	
BFC	\$9.14	BFC	\$11.12
All kgals	\$1.37	0-10 kgals	\$4.38
		10+ kgals	\$6.56
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$9.14	0	\$11.12
1	\$10.51	1	\$15.50
3	\$13.25	3	\$24.26
5	\$15.99	5	\$33.02
10	\$22.84	10	\$54.92
20	\$36.54	20	\$120.52
Alternative 1		Alternative 2	
2- Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.50 BFC = 25%		2- Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.50 BFC = 40%	
BFC	\$7.93	BFC	\$12.72
0-10 kgals	\$5.17	0-10 kgals	\$4.00
10 + kgals	\$7.75	10+ kgals	\$6.00
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$7.93	0	\$12.72
1	\$13.10	1	\$16.72
3	\$23.44	3	\$24.72
5	\$33.78	5	\$32.72
10	\$59.63	10	\$52.72
20	\$137.13	20	\$112.72

Furthermore, staff recommends that the initial BFC cost recovery of 58.6 percent be reduced to 35 percent. Staff's analysis indicates that this recommended BFC cost recovery allocation allows staff to design a more effective conserving rate structure that will target usage above 10 kgals without lowering the BFC. Also, this BFC allocation is consistent with the District's request to cover no more than 40 percent in the base charge.

Based on the foregoing, staff recommends that the current water system rate structure be changed to a two tier inclining block rate structure with usage blocks set at 0-10 kgals and usage in excess of 10 kgals. The appropriate usage rate factors should be 1.0 and 1.50. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 35 percent.

Wastewater Rates: The Utility's current rate structure consists of a BFC/gallonage rate structure for the wastewater systems' residential and non-residential class. The monthly BFC is \$9.22 and the usage charge is \$1.74.

The accounting staff's initial allocation for the wastewater BFC cost recovery for the residential class is 50 percent. Staff believes the accounting staff's BFC allocation is appropriate because it falls within Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants.

Furthermore, a review of the billing data indicates that setting the residential monthly wastewater cap at 8 kgals is appropriate. Therefore, staff recommends that the Utility's current residential monthly wastewater cap of 8 kgals remains unchanged. Also, staff recommends that general service gallonage charge is 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 10-2 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 10-2

HIDDEN VALLEY d/b/a ORANGE LAKE MOBILE HOME PARK STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC =57%		BFC/uniform kgals charge BFC = 50%	
BFC	\$9.22	BFC	\$19.78
All kgals	\$1.74	All kgals	\$5.08
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$9.22	0	\$19.78
1	\$10.96	1	\$24.86
3	\$14.44	3	\$35.02
6	\$19.66	6	\$50.26
8	\$23.14	8	\$60.42
Alternative 1		Alternative 2	
BFC/uniform kgals charge BFC = 60%		BFC/uniform kgals charge BFC =70%	
BFC	\$23.62	BFC	\$27.56
All kgals	\$4.08	All kgals	\$3.06
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$23.72	0	\$27.56
1	\$27.77	1	\$30.62
3	\$35.86	3	\$36.74
6	\$48.10	6	\$45.92
8	\$56.26	8	\$52.04

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential is changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should remain set at 8 kgals per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

Issue 11: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 9 percent, resulting in a consumption reduction of approximately 1,317 kgals. Purchased power expense should be reduced by \$414, chemical expense should be reduced by \$235, and regulatory assessment fees (RAFS) should be reduced by \$31. The final post-repression revenue requirement for the water system should be \$92,815. For the wastewater system, test year kgals sold should be reduced by 9 percent, resulting in a consumption reduction of approximately 1,093 kgals. Sludge removal expense should be reduced by \$1557, purchased power expense should be reduced by \$909, and RAFs should be reduced by \$111. The final post-repression revenue requirement for the wastewater system should be \$112,636.

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

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. As discussed in Issue 10, the average customer's monthly overall consumption is 5.1 kgals. Also, as discussed in Issue 10, staff believes it is appropriate to set the threshold for the customer's essential usage to approximately 9.8 kgals per month. However, staff's billing data indicates that there is a small portion of customers who consume over 10 kgals a month. Staff's recommended repression adjustment therefore only applies to water consumption above 10 kgals per month.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, calculated test year residential water sold should be reduced by 1,317 kgals. Purchased power expense should be reduced by \$414, chemical expense should be reduced by \$235, and RAFS should be reduced by \$31. The final post-repression revenue requirement for the water system should be \$92,815. For the wastewater system, test year kgals sold should be reduced by 1,093 kgals. Sludge removal expense should be reduced by \$1557, purchased power expense should be reduced by \$909, and RAFs should be reduced by \$111. The final post-repression revenue requirement for the wastewater system should be \$112,636.

Issue 12: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenues of \$92,815 for water and \$112,636 for wastewater, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Deason)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$92,815 for the water system and \$112,636 for the wastewater system.

Staff recommends that the current water system rate structure be changed to a two tier inclining block rate structure with usage blocks set at 0-10 kgals and usage in excess of 10 kgals. The appropriate usage rate factors should be 1.0 and 1.50. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 50 percent. Staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential be changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should be set at 8 kgals per month. The general service gallonage charge should be 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

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

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

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedules 4-A and 4-B.

Issue 13: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B, respectively, 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. (Deason)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$431 annually for both water and wastewater. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

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

Issue 14: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

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

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

The Utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$78,068. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 15: 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 NARUC 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, Orange Lake should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Deason)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Orange Lake provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 16: Should this docket be closed?

Recommendation: No. The docket should remain open until a final order has been issued, staff has approved the revised tariffs sheets and customer notices, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Hartman, Deason)

Staff Analysis: The docket should remain open until a final order has been issued, staff has approved the revised tariffs sheets and customer notices, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES TEST YEAR ENDING 12/31/2008 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 080714-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$587,230	\$28,711	\$615,941
2. LAND & LAND RIGHTS	4,600	0	4,600
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(107,789)	0	(107,789)
5. ACCUMULATED DEPRECIATION	(305,376)	5,407	(299,969)
6. AMORTIZATION OF CIAC	61,729	2,059	63,788
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,379</u>	<u>5,379</u>
8. WATER RATE BASE	<u>\$240,394</u>	<u>\$41,556</u>	<u>\$281,950</u>

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES
TEST YEAR ENDING 12/31/2008
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 080714-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$422,847	\$137,947	\$560,794
2. LAND & LAND RIGHTS	3,750	0	\$3,750
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(178,699)	0	(178,699)
5. ACCUMULATED DEPRECIATION	(306,707)	(16,792)	(323,499)
6. AMORTIZATION OF CIAC	110,689	1,249	111,938
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,485</u>	<u>7,485</u>
8. WASTEWATER RATE BASE	<u>\$51,880</u>	<u>\$129,889</u>	<u>\$181,769</u>

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES
TEST YEAR ENDING 12/31/2008
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 080714-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To record retired water pump	(\$4,406)	\$0
2. To include 2007 plant additions	42,918	133,031
3. To record 2007 retired plant	(12,750)	0
4. To record 2008 plant additions	3,193	10,982
5. To record 2008 retired plant	(1,045)	(1,151)
6. To reflect averaging adjustment	(1,074)	(4,916)
7. To include 2009 Pro Forma Plant Valves	1,875	0
Total	<u>\$28,711</u>	<u>\$137,947</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per rule	(\$4,083)	(\$30,285)
2. To reflect averaging adjustment	9,352	13,493
3. To reflect 2009 Pro Forma Accumulated Depreciation	94	0
Total	<u>\$5,407</u>	<u>(\$16,792)</u>
<u>AMORTIZATION OF CIAC</u>		
1. To reflect appropriate Accumulated Amortization of CIAC	\$3,390	\$3,634
2. To reflect averaging adjustment	(1,332)	(2,385)
Total	<u>\$2,059</u>	<u>\$1,249</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$5,379</u>	<u>\$7,485</u>

**HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES
TEST YEAR ENDING 12/31/2008
SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2
DOCKET NO. 080714-WS**

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$1,292,779,443	\$0	\$1,292,779,443					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	\$1,292,779,443	\$0	\$1,292,779,443	(\$1,292,582,669)	\$196,774	42.43%	11.14%	4.73%
6. LONG TERM DEBT-Note	\$1,753,785,919	\$0	\$1,753,785,919	(\$1,753,518,975)	\$266,944	57.57%	5.51%	3.71%
TOTAL LONG TERM DEBT	\$1,753,785,919	\$0	\$1,753,785,919	(\$1,753,518,975)	\$266,944	57.57%	5.51%	3.71%
8. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
9. TOTAL	<u>\$3,046,565,362</u>	<u>\$0</u>	<u>\$3,046,565,362</u>	<u>\$3,046,101,643</u>	<u>\$463,719</u>	<u>100.00%</u>		<u>7.90%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.14%</u>	<u>12.14%</u>	
OVERALL RATE OF RETURN						<u>7.48%</u>	<u>8.32%</u>	

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES					SCHEDULE NO. 3-A	
TEST YEAR ENDING 12/31/2008					DOCKET NO. 080714-WS	
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR	STAFF ADJ.	STAFF	ADJUST.		
	PER UTILITY	PER UTILITY	ADJUSTED	FOR		REVENUE
			TEST YEAR	INCREASE		REQUIREMENT
1. OPERATING REVENUES	<u>\$44,665</u>	<u>\$2,384</u>	<u>\$47,049</u>	<u>\$46,446</u>		<u>\$93,495</u>
				98.72%		
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$34,112	\$8,923	\$43,035	0		\$43,035
3. DEPRECIATION (NET)	0	19,842	19,842	0		19,842
4. AMORTIZATION	0	2,663	2,663	0		2,663
5. TAXES OTHER THAN INCOME	2,890	702	3,592	2,090		5,682
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$37,002</u>	<u>\$32,129</u>	<u>\$69,131</u>	<u>\$2,090</u>		<u>\$71,221</u>
8. OPERATING INCOME/(LOSS)	<u>\$7,663</u>		<u>(\$22,082)</u>			<u>\$22,274</u>
9. WATER RATE BASE	<u>\$240,394</u>		<u>\$281,950</u>			<u>\$281,950</u>
10. RATE OF RETURN	<u>3.19%</u>		<u>-7.83%</u>			<u>7.90%</u>

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES					SCHEDULE NO. 3-B	
TEST YEAR ENDING 12/31/2008					DOCKET NO. 080714-WS	
SCHEDULE OF WASTEWATER OPERATING INCOME						
	TEST YEAR	STAFF ADJ.	STAFF	ADJUST.		
	PER UTILITY	PER UTILITY	ADJUSTED	FOR		REVENUE
			TEST YEAR	INCREASE		REQUIREMENT
1. OPERATING REVENUES	<u>\$46,291</u>	<u>\$1,161</u>	<u>\$47,452</u>	<u>\$67,762</u>		<u>\$115,214</u>
				142.80%		
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$60,336	(\$453)	\$59,883	0		\$59,883
3. DEPRECIATION (NET)	0	28,136	28,136	0		28,136
4. AMORTIZATION	0	4,770	4,770	0		4,770
5. TAXES OTHER THAN INCOME	2,828	2,188	5,016	3,049		8,065
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$63,164</u>	<u>\$34,641</u>	<u>\$97,805</u>	<u>\$3,094</u>		<u>\$100,854</u>
8. OPERATING INCOME/(LOSS)	<u>(\$16,873)</u>		<u>(\$50,353)</u>			<u>\$14,360</u>
9. WATER RATE BASE	<u>\$51,880</u>		<u>\$181,769</u>			<u>\$181,769</u>
10. RATE OF RETURN	<u>-32.52%</u>		<u>-27.70%</u>			<u>7.90%</u>

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES		SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/2008		DOCKET NO. 080714-WS	
ADJUSTMENTS TO OPERATING INCOME			
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
To reflect the appropriate test year annualized revenue	<u>\$2,384</u>	<u>\$1,161</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Purchased Power Expense (615,715)			
To remove overstated purchased power expense	\$0	(\$884)	
To include understated Purchased Power	5,229	0	
To adjust for excessive unaccounted for water	<u>(697)</u>	<u>0</u>	
Subtotal	<u>\$4,532</u>	<u>(\$884)</u>	
2. Contractual Services - Testing (635,735)			
To reflect annual DEP testing	<u>\$528</u>	<u>\$0</u>	
3. Contractual Services - Other (636,736)			
To include understated Contractual Services	\$2,232	\$0	
To amortize DEP required tank inspection and cleaning	<u>1,200</u>	<u>0</u>	
Subtotal	<u>\$3,432</u>	<u>\$0</u>	
4. Regulatory Commission Expense (665,765)			
To amortize rate case expense	<u>\$431</u>	<u>\$431</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$8,923</u>	<u>(\$453)</u>	
DEPRECIATION EXPENSE			
1. To reflect net depreciation calculated per 25-30.140, FAC	\$19,748	\$28,136	
2. To reflect 2009 pro forma Depreciation Expense	<u>94</u>	<u>0</u>	
Total	<u>(\$19,842)</u>	<u>(\$28,136)</u>	
AMORTIZATION OF CIAC			
To reflect appropriate amortization of CIAC	<u>\$2,663</u>	<u>\$4,770</u>	
TAXES OTHER THAN INCOME			
1. To reflect test year RAFs	\$36	\$149	
2. To reflect test year property taxes	824	2,197	
3. Payroll Tax	<u>(158)</u>	<u>(158)</u>	
Total	<u>\$702</u>	<u>\$2,188</u>	

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES**SCHEDULE NO. 3-D****TEST YEAR ENDING 12/31/2008****DOCKET NO. 070714-WS****ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE**

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$9,412	\$0	\$9,412
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	1,870	0	1,870
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	136	4,532	4,668
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,653	0	2,653
(620) MATERIALS AND SUPPLIES	377	0	377
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	5,087	0	5,087
(635) CONTRACTUAL SERVICES - TESTING	13,408	528	13,936
(636) CONTRACTUAL SERVICES - OTHER	1,046	3,432	4,478
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	431	431
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>123</u>	<u>0</u>	<u>123</u>
	<u>\$34,112</u>	<u>\$8,923</u>	<u>\$43,035</u>

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE UTILITIES

SCHEDULE NO. 3-E

TEST YEAR ENDING 12/31/2008

DOCKET NO. 080714-WS

ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$9,412	\$0	\$9,412
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSION & BENEFITS	1,870	0	1,870
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	17,118	0	17,118
(715) PURCHASED POWER	10,987	(884)	10,103
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	8,331	0	8,331
(720) MATERIALS AND SUPPLIES	171	0	171
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	2,044	0	2,044
(735) CONTRACTUAL SERVICES - TESTING	10,279	0	10,279
(736) CONTRACTUAL SERVICES - OTHER	0	0	0
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSE	0	431	431
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>124</u>	<u>0</u>	<u>124</u>
	<u>\$60,336</u>	<u>\$(453)</u>	<u>\$59,883</u>

**HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE
 UTILITIES
 TEST YEAR ENDING 12/31/2008
 MONTHLY WATER RATES**

**SCHEDULE NO. 4-A
 DOCKET NO. 080714-WS**

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>General and Residential Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$9.14	\$11.12	\$0.05
3/4"	\$9.14	\$16.68	\$0.08
1"	\$9.14	\$27.80	\$0.13
1-1/2"	\$9.14	\$55.60	\$0.27
2"	\$9.14	\$88.96	\$0.43
3"	\$9.14	\$177.92	\$0.86
4"	\$9.14	\$278.00	\$1.34
6"	\$9.14	\$556.00	\$4.68
<u>Residential Gallonage Charge</u>			
Per 1,000 gallons	\$1.37		
Per 1,000 gallons, 0-10 kgal		\$4.38	\$0.02
Per 1,000 gallons, 10+ kgal		\$6.56	\$0.03
<u>General Service Gallonage Charge</u>			
Per 1,000 gallons	\$1.37	\$4.46	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$13.25	\$24.26	
5,000 Gallons	\$15.99	\$33.02	
10,000 Gallons	\$22.84	\$54.92	

HIDDEN VALLEY SPE LLC d/b/a ORANGE LAKE		SCHEDULE NO. 4-B	
UTILITIES		DOCKET NO. 080714-WS	
TEST YEAR ENDING 12/31/2008			
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u> (all meter sizes)	\$9.22	\$19.78	\$0.08
<u>General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$9.22	\$19.78	\$0.08
3/4"	\$9.22	\$29.67	\$0.12
1"	\$9.22	\$49.45	\$0.19
1-1/2"	\$9.22	\$98.90	\$0.39
2"	\$9.22	\$158.24	\$0.62
3"	\$9.22	\$316.48	\$1.24
4"	\$9.22	\$494.50	\$1.93
6"	\$9.22	\$989.00	\$3.87
<u>Residential Gallonage Charge</u>			
Per 1,000 gallons	\$1.74		
Per 1,000 gallons (capped at 6,000 gallons)		\$5.08	\$0.02
<u>General Gallonage Charge</u>			
Per 1,000 gallons	\$1.74	\$6.10	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$14.44	\$35.02	
5,000 Gallons	\$17.92	\$45.18	
10,000 Gallons	\$26.62	\$50.26	