

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 (Roberts, Bulecza-Banks, Fletcher, Hudson, Walden) *HW PA*
Office of the General Counsel (Williams) *new JSB*

JH *CRB* *BS* *SA* *W*
108

RE: Docket No. 080709-WS – Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

AGENDA: 08/18/09 – Regular Agenda – Proposed Agency Action Except for Issues 12, 13 and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 5/11/10 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\080709.RCM.DOC

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Case Background

Damon Utilities, Inc. (Damon or Utility) is a Class C utility which is currently providing water service to approximately 278 customers and wastewater service to approximately 101 customers. Damon is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the Utility's 2008 annual report, Damon had operating revenues of \$50,214 for water and \$39,143 for wastewater.

The Utility was granted Water Certificate No. 499-W and Wastewater Certificate No. 433-S in 1988.¹ Damon serves three developments which are Casa Del Lago, Village Green, and River Green. The Casa Del Lago development receives water and wastewater service. It consists of triplexes and quadraplexes. The Village Green development also receives water and wastewater service. It consists of 12 single family homes and two general service customers, both of which are clubhouses. Finally, the River Green development is a golf course community consisting of 197 single family homes and a four unit condominium. This development only receives water service from Damon.

The Utility's current rates and charges were set in 2003.² On January 30, 2009, Damon filed an application for a SARC and paid the appropriate filing fee on February 11, 2009.

This recommendation addresses Damon's request to increase its rates. The Commission has jurisdiction in this case pursuant to Section 367.011, 367.081, 367.101, and 367.121, Florida Statutes. (F.S.)

¹ See Order No. 19655, issued July 11, 1988, in Docket No. 871026-WS, In re: Application of Damon Utilities, Inc. for original water and sewer certificates in Highlands County.

² See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for a staff assisted rate case in Highlands County by Damon Utilities, Inc.

Discussion of Issues

Issue 1: Is the quality of service provided by Damon Utilities, Inc. satisfactory?

Recommendation: The overall quality of service provided by the Utility should be considered satisfactory. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by the evaluating the quality of the Utility's product, the operational condition of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The Utility's compliance with the Florida Department of Environmental Protection (DEP) regulations and customer comments or complaints received by the Commission are also reviewed. Staff conducted a field inspection of the Utility's facilities on March 26, 2009.

Quality of the Product

Highlands County is under the purview of the South District of the DEP. According to that office, the water quality meets the standards set forth by the DEP and the Utility is current in all required chemical analyses. In reviewing the data available on the water and wastewater quality, it appears that the quality of the product is satisfactory.

Operational Conditions at the Plant

In the last Sanitary Survey conducted by the DEP on April 11, 2007, it was suggested that the Utility obtain battery backup for its telemetry system should there be a power failure and the generator fail to start. Damon has upgraded its system to include battery backup which is a safety issue so that if the plant loses power, notification will be made to the plant operator. The Utility contracts with Short Utility Service, Inc. for plant operation and testing of samples. There were several instances of failed bacteriological samples in summer 2008, about the time the pump at the second well was being replaced. Resampling and retesting showed new samples were in compliance.

For the wastewater plant, Damon will submit an application for renewal of its operating permit in 2009. The plant is about twenty years old and is functioning in accordance with its original design. The site is fenced and has some landscaping to partially obscure the plant from view. Plant effluent runs through a sand filter and then to an on-site drainfield. There were no offensive odors or excessive noise observed at the time of staff's inspection. The plant flows do not exceed the permitted capacity, and there are no outstanding operational issues with the DEP.

Customer Satisfaction

The Utility received six complaints during 2008. Three of the complaints involved discolored water, one was an odor complaint, one involved low pressure, and the last was a high bill complaint. All complaints have been resolved. No complaints have been filed with the Commission since 2000.

Several customers wrote to the Commission explaining that they could not attend the customer meeting scheduled in June. Two customers objected to paying the base facility charge when they are not in residence. Two others said the amount of the increase was significant, especially to residents living on fixed incomes. Letters were sent by staff to two customers explaining the ratemaking process, noting that the staff would perform inspections and conduct an audit, disallowing any expenses that are imprudent. Another customer said the noise from the wastewater plant was objectionable, although Damon made some changes and the noise was lessened.

A customer meeting was held at River Green Clubhouse on June 10, 2009. About 15 customers attended, and several customers spoke to staff about the rate increase. Mr. Mark Clifford said that he was opposed to a rate increase and thought cost saving measures should be considered, suggesting bi-monthly or quarterly billing as examples. Mr. Tom Stewart said the rates proposed were reasonable. Mr. Gaylord Borst said that rates had increased more than 12 percent since 2003. There were no indications of service deficiencies.

Staff believes that monthly billing is a preferred method of billing to customers. Monthly billing helps customers to watch usage more carefully and is an easier way to budget expenses. Rates for service have increased 17.1 percent since September 2001 and 2.4 percent since September 2003. Staff's rate comparison is calculated for a water and wastewater customer like Mr. Borst, using 4,000 gallons per month.

Summary

Based on the above discussion, staff concludes that service provided to the customers is adequate. Staff therefore recommends that the customer satisfaction and overall quality of service be found satisfactory.

Issue 2: What are the used and useful percentages of the Utility's water treatment plant and distribution system?

Recommendation: The water plant and distribution system should be considered 100 percent used and useful. (Walden)

Staff Analysis: In the last two rate cases, the water plant was found to be 100 percent used and useful. Well production quantities have been re-rated since the last rate case. The Utility has two wells rated at a total capacity of 130 gallons per minute (gpm) and a new pump for the second well was installed during the test year. The peak day on May 15, 2008 (67 gpm) exceeds the firm reliable capacity of 40 gpm. Unaccounted for water is less than 10 percent, which is an acceptable amount. Therefore, staff recommends that the water plant be found 100 percent used and useful.

The service area is essentially built out, although in the last five years Damon has added 18 water customers according to the annual reports filed with the Commission. While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be nine ERCs per year, and average growth has been less than that per year. The distribution system has not been enlarged since the last rate case when the Commission found it 95.6 percent used and useful. Staff recommends that the Commission find the distribution system 100 percent used and useful because the service area appears to be built out.

Issue 3: What are the used and useful percentages of the Utility's wastewater treatment plant and collection system?

Recommendation: The wastewater treatment plant and collection system should be considered 100 percent used and useful. (Walden)

Staff Analysis: The Utility's wastewater plant is permitted for 50,000 gpd based upon three months average daily flow (TMADF). The Commission found the wastewater plant 22.3 percent used and useful in the last rate case, based upon TMADF of 9,750 gpd for 71 ERCs, or 137 gpd/ERC.

Current wastewater flows are 9,989 gpd TMADF for 101 ERCs, or 99 gpd/ERC. The Utility calculates flows through the treatment plant using a time clock and pump capacity rating in gallons per minute. Staff has suggested that Damon recheck the pump capacity to make sure that the correct flow rate is being used when calculations are being made. There does not appear to be excessive infiltration or inflow.

There is some seasonality of flows, with higher flows in January, February, and March. Eleven customers have been added in the last five years comprised of single family homes, duplexes, triplexes, or quadplexes. Only a portion of the service area has a collection system, while the majority of water customers have septic tanks. Customers in Casa del Lago and Village Green are connected to the wastewater system. A few more connections can be added in Casa del Lago and five more connections can be added in Village Green. The plant and collection system were designed to serve the current development and it appears that nearly all customers that could be served are on line, even though additional capacity is available at the treatment plant.

While there are a few vacant lots still available upon which to build homes, there is little potential for growth. Growth in the last case was expected to be 2 ERCs per year. The collection system has not been enlarged since the last rate case when the Commission found it to be 86.2 percent used and useful. Staff recommends that the Commission find the wastewater treatment plant and collection system 100 percent used and useful because there has been a significant reduction in flows and the service area appears to be built out.

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 \$37,564 for water and \$42,795 for wastewater. (Roberts)

Staff Analysis: As stated earlier, Damon's rate base was last established by Order No. PSC-03-0845-PAA-WS. Staff selected a test year ending December 31, 2008, for this rate case. Rate base components established in the Utility's last rate case, have been updated through December 31, 2008, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$143,548 for water and \$232,739 for wastewater UPIS for the test year ended December 31, 2008. Staff has made the following adjustments to UPIS.

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To reflect the correct plant additions and retirements to UPIS	(\$366)	(\$570)
2. Remove office furniture reflected in monthly rental agreement	(1,517)	(1,250)
3. To reflect an averaging adjustment	(500)	0
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>

Staff's net adjustments to UPIS are decreases of \$2,383 and \$1,820 for water and wastewater, respectively. Staff's recommended UPIS balance is \$141,165 for water and \$230,919 for wastewater.

Non-used and Useful Plant: As discussed in Issue Nos. 2 and 3 of this recommendation, Damon's water and wastewater treatment plants are built out and are considered 100 percent used and useful. Therefore, no adjustments are necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC for the test year ending December 31, 2008 of \$67,992 for water and \$65,866 for wastewater. The staff auditor compiled additions to CIAC from January 1, 2003 through December 31, 2008 to determine Damon's CIAC balance for this rate case proceeding. Staff has decreased CIAC for averaging adjustments of \$229 and \$69 for water and wastewater, respectively. Staff recommended CIAC is \$67,764 for water and \$65,797 for wastewater.

Accumulated Depreciation: The Utility recorded test year balances for accumulated depreciation of \$86,089 and \$164,303 for water and wastewater, respectively. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, this account has been decreased by \$1,685 for water and \$5,140 for wastewater to reflect the appropriate average depreciation balances. These adjustments result in average accumulated depreciation of \$84,404 for water and \$159,163 for wastewater.

Accumulated Amortization of CIAC: Damon recorded amortization of CIAC of \$42,088 for water and \$36,524 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$669 for water and \$3,722 for wastewater to reflect the appropriate average amortization balances of CIAC. Staff's

adjustments to this account result in amortization of CIAC balances of \$41,419 for water and \$32,802 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$7,147 for water and \$4,034 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year average rate base is \$37,564 for water and \$42,795 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. Rate base adjustments are shown on Schedule 1-C.

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

Recommendation: The appropriate return on equity (ROE) is 9.87 percent with a range of 8.87 percent to 10.87 percent. The appropriate overall rate of return is 9.10 percent. (Roberts)

Staff Analysis: The Utility's capital structure consists of a negative common equity balance of \$25,451, and a loan from Highlands Independent Bank at a stated interest rate of 5.00 percent. Also, pursuant to Audit Finding No. 7, Damon has a loan of \$87,251 from the owner of the Utility. There is no interest on this loan, no loan documents, and Damon is not making any payments on the principal. Because the loan payments are not being paid and it is from a related party, staff believes this loan should be treated as common equity in accordance with Commission practice.³ The Utility's capital structure has been reconciled with staff's recommended rate base.

Damon's last authorized rate of ROE was 11.10 percent.⁴ Staff has updated the ROE for the Utility using the Commission's current leverage graph formula.⁵ Therefore, staff recommends an ROE of 9.87 percent with a range of 8.87 percent to 10.87 percent, and an overall rate of return of 9.10 percent. The ROE and overall rate of return are shown on Schedule No. 2.

³ 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.

⁴ 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.

⁵ 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), F.S.

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

Recommendation: The appropriate test year revenue for this Utility is \$49,364 for water and \$39,157 for wastewater. (Bruce, Roberts)

Staff Analysis: Per Audit Finding No. 4, Damon recorded total revenues of \$50,213 for water and \$39,142 for wastewater for the 12-month period ended December 31, 2008. Staff analyzed the Utility's reported revenues and determined that water revenues were overstated by \$849 and wastewater rates were understated by \$15. Based on the above, staff recommends test year revenue of \$49,364 for water and \$39,157 for wastewater. Test year revenue is shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Issue 7: What are the appropriate operating expenses?

Recommendation: The appropriate amount of operating expenses for the Utility is \$65,589 for water and \$37,996 for wastewater. (Roberts)

Staff Analysis: The Utility recorded operating expenses of \$80,265 for water and \$37,005 for wastewater during the test year ending December 31, 2008. The test year operating and maintenance expense (O&M) have been reviewed through staff's examination of invoices, canceled checks, and other supporting documentation. Staff made several adjustments to Damon's operating expenses, as summarized below:

Salaries and Wages Employees (601,701) – The Utility signed a contract with a related party, River Green South Golf Course (River Green) for the following services: reading meters, reporting flow meters, and grounds keeping. The agreement also includes office work, maintenance, manager salary, employee pensions, transportation expenses, office space rental, and supplies. River Green pays their employees an annual salary of \$24,174 for water and \$7,976 for wastewater.

The staff auditor recommended the Utility's wastewater salaries be reduced by \$614 that were not supported by invoice. Staff asked River Green for the monthly invoices in connection with the duties performed by each employee. River Green could not provide any monthly invoices for the test year; however, it did provide a contract that was signed by both parties. Based on the Utility's last rate case, salaries were \$12,912 for water and \$4,304 for wastewater.⁶ Staff believes that the salaries and wages Damon has requested in their current rate case is excessive. Staff believes that operating circumstances have not changed significantly since the last rate case, nor does staff anticipate a substantial change prospectively. In determining appropriate salaries, staff believes it is appropriate to escalate the above 2002 salaries by the Commission-approved price indexes from 2003 to 2008. This methodology is consistent with the Commission's decisions in two prior SARCs, Sunshine Utilities of Central Florida, Inc. and Betmar Utilities, Inc.⁷

Based on the above, staff recommends a decrease in water and wastewater employee salaries of \$9,073 and \$2,942, respectively.

Salaries and Wages – Officers – (603/703) – Damon recorded \$6,900 for water and \$2,588 for wastewater in this account during the test year. During the last rate case in 2002, the Utility did not record expenses for salaries and wages officers. Damon entered into a contract, January 1, 2008 with River Green for various services which included management. The contract provides for two managers, one receives a salary of \$6,000, and the other receives a salary of \$3,000. This results in total officers' salaries of \$9,000.

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 Damon Utilities, Inc.

⁷ See Order No. PSC-02-0656-PAA-WU, issued May 14, 2002, in Docket No. 992015-WU, In re: Application for limited proceeding to recover costs of water system improvements in Marion County by Sunshine Utilities of Central Florida, Inc.; and PSC-95-0986-FOF-WS, issued August 10, 1995, in Docket No. 941280-WS, In re: Application for rate increase in Pasco County by Betmar Utilities, Inc.

Based on the salaries recorded by the Utility, the total salary expense for this account is \$9,488 which is more than the contracted amount of \$9,000. Staff auditor reviewed Damon's trial balances and determined that the \$488 difference is the result of unsupported expenses of \$300 and \$188 for water and wastewater, respectively. As a result, staff has reduced salaries accordingly. Further, staff was unable to determine Damon's allocation of this expense between the water and wastewater systems. It is Commission practice to allocate common cost based on the number of customers.⁸ Therefore, staff has decreased water by \$870 and increased wastewater by \$871.

Staff recommends salaries and wages - officers of \$5,730 for water and \$3,270 for wastewater.

Employee Pensions and Benefits (604,704) – The Utility recorded pension and benefits of \$6,665 for water and \$2,407 for wastewater. The wastewater account has been decreased by \$185 for lack of support documentation. Therefore, staff recommends \$6,665 for water and \$2,222 for wastewater.

Sludge Removal Expense (711) – Damon recorded \$2,030 in this account. The Utility must regularly pump out and dispose of excess sludge. Based on the staff engineer's review, staff believes that \$2,030 for sludge removal expense is reasonable.

Purchased Power Expense (615,715) – Damon recorded \$3,024 for water and \$3,274 for wastewater. However, the staff auditor determined electric expenses were recorded in the wastewater account and should have been split between both water and wastewater. Therefore, staff has decreased wastewater by \$75 and increased water by \$75. In addition, staff recommends the Utility increase water by \$254 and wastewater by \$360 for 2008 invoices that were paid in 2009 but should have been recorded in 2008.

Fuel for Power Production (616) – Damon recorded \$87 in this account during the test year. Staff believes this amount is appropriate.

Chemicals (618,718) – The Utility recorded chemical expense of \$3,649 for water and \$1,515 for wastewater. Staff decreased wastewater by \$142 for an out of period expense. In addition, staff increased chemical expense for wastewater by \$162 to annualize the increase in chemical rates. Finally, staff increased water by \$378 to include 2008 expenses that were paid in 2009. Therefore, staff recommends an increase in test year chemical expenses of \$378 for water and \$20 for wastewater.

Materials and Supplies (620,720) – Damon recorded \$2,024 for water and \$871 for wastewater. Staff increased water by \$125 to reclassify items previously capitalized to plant. In addition, staff increased water by \$63 to reclassify the painting and cleaning material for the water tank.

⁸ See Order Nos. 17043, issued December 31, 1986, in Docket No. 860325-WS, In re: Request by Southern States Utilities, Inc. for approval of test year ended 12/31/85 for rate increase in Seminole County; and PSC-01-0323-PAA-WU, issued February 5, 2001, in Docket No. 000580-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Alturas Water Works).

Moreover, staff has increased wastewater by \$130 to allocate expenses billed to the wrong account. As a result, staff recommends a increase of \$188 for water and \$130 for wastewater.

Contractual Services - Billing (630,730) – Damon recorded \$1,125 for water and \$536 for wastewater. Staff recommends a reduction of wastewater by \$130 to reclassify an expense billed to the wrong account. In addition, staff has reduced wastewater by \$31 to remove an unsupported expense. Therefore, staff recommends reducing wastewater by \$161.

Contractual Services - Professional (631,731) – The Utility recorded \$10,080 for water and \$505 for wastewater. Staff decreased water by \$170 to reclassify the painting and cleaning of the water tank. In addition, staff has reduced water by \$6,908 to amortize the painting and cleaning over five years. Staff has decreased water by \$213 and increased wastewater by \$213 to reflect the expense for the appropriate system. Therefore, staff recommends decreasing water by \$7,290 and increasing wastewater by \$213.

Contractual Services - Testing (635,735) – Damon recorded \$3,958 for water and \$3,170 for wastewater. Staff decreased water by \$1,264 to amortize testing over five years. Staff made an adjustment to decrease water by \$192 and wastewater by \$243 to remove out of period expenses. In addition, staff increased water by \$212 and wastewater by \$267 for 2008 expenses paid in 2009. Staff increased wastewater by \$168 to annualize the new monthly rate for testing. Staff recommends reducing contractual services - testing water by \$1,244 and increasing wastewater by \$192.

Contractual Services - Other (636,736) – The Utility recorded \$5,409 for water and \$4,712 for wastewater. Staff increased water by \$475 to add invoices that were not recorded in the general ledger. Staff increased water and wastewater by \$328 to add 2008 expenses paid in 2009. In addition, staff increased water and wastewater by \$209 to annualize the new monthly rate for operations. Furthermore, staff believes wastewater expenses that are not supported by invoices should be removed in the amount of \$100. Therefore, staff recommends increasing water and wastewater contractual services – other by \$1,011 and \$436, respectively.

Rents (640,740) – Damon recorded \$3,000 for water and \$2,150 for wastewater. Staff decreased wastewater by \$50 to remove expenses due to lack of support documentation.

Transportation Expense (650,750) – The Utility recorded \$2,138 for water and \$768 for wastewater. Staff decreased wastewater by \$55 to remove expenses due to lack of support documentation.

Insurance Expense (655,755) – Damon recorded \$1,173 for water and \$456 for wastewater. These amounts reflect the policy charges that the Utility has for blanket liability insurance. Staff believes this amount is reasonable.

Regulatory Commission Expense (665,765) – The Utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Damon paid filing fees of \$1,000 for water and \$500 for wastewater. The Utility also paid \$1,000 for a consultant for its rate case. Staff believes this amount is reasonable. Also, Damon is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to

its customers. Staff has estimated noticing expense for wastewater of \$334 postage expense, \$265 printing expense, and \$38 for envelopes. The above results in total rate case expense for the filing fee and noticing of \$2,137 and a four year amortization of \$534. Therefore, staff has increased this account by \$340 for water and \$194 for wastewater.

Miscellaneous Expense – (675,775) – Damon recorded \$194 for water and \$557 for wastewater for the test year. Staff increased water by \$107 to reclassify the painting and cleaning expense of the water tank. Staff recommends miscellaneous expense for the test year of \$301 for water and \$557 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be decreased by \$16,423 for water and \$1,240 for wastewater. Staff's recommended O&M expenses of \$57,176 for water and \$32,274 for wastewater are shown on Schedules 3-D and 3-E for water and wastewater, respectively.

Depreciation Expense (Net of Amortization of CIAC) – Damon recorded depreciation expense of \$5,472 for water and \$4,032 for wastewater during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. and determined depreciation expense to be \$6,071 for water and \$4,044 for wastewater. Therefore, staff has increased this account by \$599 (\$6,071-\$5,472) for water and \$12 (\$4,044-\$4,032) for wastewater to reflect test year depreciation expense. The Utility recorded amortization of CIAC of \$2,508 for water and \$2,736 for wastewater. Staff calculated amortization of CIAC based on composite rates and determined amortization of CIAC of \$2,914 for water and \$1,152 for wastewater. Staff has increased amortization of CIAC by \$406 (\$2,914-\$2,508) for water and decreased wastewater by \$1,584 (\$2,736-\$1,152). Staff recommends net depreciation expense of \$3,157 (\$6,071 - \$2,914) for water and \$2,892 (\$4,044-\$1,152) for wastewater.

Taxes Other Than Income (TOTI) – Damon's records reflect a TOTI balance for water of \$3,702 and \$2,194 for wastewater. Based on staff's recommended test year revenues in Issue 6, regulatory assessment fees (RAFs) should be reduced by \$39 for water and increased by \$1 for wastewater. Based on staff recommended salaries above, staff calculated the appropriate payroll taxes of \$1,594 for water and \$635 for wastewater. Staff recommends increasing TOTI by \$1,555 for water and \$636 for wastewater.

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 \$65,589 for water and \$37,996 for wastewater. Operating expenses are shown on Schedule No. 3. The related adjustments are shown on Schedule Nos. 3-A, 3-B and 3-C.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$69,933 for water and \$42,019 for wastewater. (Roberts)

Staff Analysis: Damon should be allowed an annual increase of \$20,569 (41.67%) for water and an annual increase in wastewater of \$2,862 (7.31%). This will allow the Utility the opportunity to recover its expenses and earn a 9.10% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$37,564	\$42,795
Rate of Return	9.10%	9.10%
Return on Rate Base	\$3,418	\$3,894
Adjusted O&M Expense	\$57,176	\$32,274
Depreciation expense (Net)	\$3,157	\$2,892
Taxes Other Than Income	\$6,183	\$2,959
Income Taxes	\$0	\$0
Revenue Requirement	\$69,933	\$42,019
Less Adjusted Test Year Revenues	\$49,364	\$39,157
Annual Increase	\$20,569	\$2,862
Percent Increase/(Decrease)	41.67%	7.31%

Issue 9: What is the appropriate rate structure for the Utility's water and wastewater system?

Recommendation: The appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class should also be a continuation of the monthly BFC/uniform gallonage charge rate structure. 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 51 percent. The residential wastewater cap should be changed to 6,000 gallons (6 kgal). (Bruce)

Staff Analysis: Damon's current rate structure consists of a monthly BFC/uniform gallonage charge rate structure for the water systems' residential and non-residential class. The monthly BFC is \$8.83 and usage charge is \$1.82 per kgal.

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 water system's residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) setting the BFC between 25 percent and 40 percent whenever possible.

Damon is located in a water use caution area (WUCA) in the Southwest Florida Water Management District. Over the past few years, the District has requested whenever possible that an inclining block rate structure be implemented. Staff evaluated the Utility to determine if an inclining block was appropriate. Based on staff's analysis, the customer base is very seasonal and the monthly overall average consumption is 3.2 kgals. Also, staff's analysis indicates high percentage of bills and gallons captured at 5 kgals and under which indicates little, if any, excessive consumption. Staff believes that an inclining block rate is not appropriate at this time due to the relatively low levels of consumption. Therefore, staff recommends a continuation of the BFC/uniform gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Staff's recommended rate design for the water system is shown on Table 9-1 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 9-1

DAMON UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC = 58%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$8.83	BFC	\$10.48
All kgals	\$1.82	All kgals	\$3.20
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.83	0	\$10.48
1	\$10.65	1	\$13.68
3	\$14.29	3	\$20.08
5	\$17.93	5	\$26.48
10	\$27.03	10	\$42.48
20	\$45.23	20	\$74.48
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 40%		Monthly BFC/ uniform kgal charge BFC = 60%	
BFC	\$8.39	BFC	\$12.58
All kgals	\$3.84	All kgals	\$2.56
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.39	0	\$12.58
1	\$12.23	1	\$15.14
3	\$19.91	3	\$20.26
5	\$27.59	5	\$25.38
10	\$46.79	10	\$38.18
20	\$85.19	20	\$63.78

Furthermore, staff recommends that staff's initial BFC cost recovery of 63.19 percent be reduced to 50 percent. The Commission typically sets the BFC no greater than 40 percent. In this case, however, the customer base is seasonal and setting the BFC cost recovery at 40 percent or lower would jeopardize the Utility's cash flow to recover the fixed costs while seasonal customers are not in residence. Therefore, staff recommends that a 50 percent BFC cost recovery allocation is appropriate. In recent cases, the Commission has approved a BFC allocation greater than 40 percent.⁹

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent.

⁹See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In Re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.; Order No. PSC-08-0812-PAA-WS, issued in December 12, 2008, in Docket No. 070695-WS, In Re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

Wastewater Rates: The Utility's current rate structure consists of a BFC/gallage rate structure for the wastewater systems' residential and non-residential class. The monthly BFC is \$16.59 and the usage charge is \$6.77.

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 6 kgal is appropriate. Therefore, staff recommends that the Utility's current residential monthly wastewater cap of 6 kgal remains unchanged. Also, staff recommends that general service gallage charge is 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 9-2 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 9-2

DAMON UTILITIES, INC.			
STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgal charge BFC =50%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$16.59	BFC	\$17.49
All kgals	\$6.77	All kgals	\$7.47
Typical Monthly Bills (1)		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$16.59	0	\$17.49
1	\$23.36	1	\$24.96
3	\$36.90	3	\$39.90
5	\$50.44	5	\$54.84
6	\$57.21	6	\$62.31
8	\$57.21	8	\$62.31
Alternative 1		Alternative 2	
Monthly BFC/ uniform kgal charge BFC = 60%		Monthly BFC/ uniform kgal charge BFC =70%	
BFC	\$21.14	BFC	\$24.61
All kgals	\$5.92	All kgals	\$4.44
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$21.14	0	\$24.61
1	\$27.06	1	\$29.05
3	\$38.90	3	\$37.93
5	\$50.74	5	\$46.81
6	\$56.66	6	\$51.25
8	\$56.66	8	\$51.25

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential is a continuation of the monthly BFC/uniform gallonage charge rate structure. The billing data indicates that the current wastewater cap of 8 kgals should be changed to 6 kgals per month. The general service gallonage charge should be set at 1.2 times greater than the residential charge, and the BFC allocation for the wastewater BFC cost recovery percentage should be set at 51 percent.

Issue 10: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment?

Recommendation: No, a repression adjustment is not appropriate for this Utility. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports should be prepared by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 3.3 kgals and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 4.3 kgals. This is an indication that there is very little consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports should be filed with the Commission, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 11: What are the appropriate rates for the 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 \$69,933 for water and \$42,019 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, Roberts)

Staff Analysis: The recommended rates should be designed to produce revenues of \$69,933 for the water system and \$42,019 for the wastewater system. There are no miscellaneous service revenues for the water and wastewater systems.

As discussed in Issue 9, the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class should also be a continuation of the monthly BFC/uniform gallonage charge rate structure. 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 51 percent. The residential wastewater cap should be changed to 6 kgals per month.

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

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Damon 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. (Roberts)

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 \$360 for water and \$205 for wastewater. Using Damon'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. Damon also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

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

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, Damon 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., Damon 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. (Roberts)

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 \$15,657 for Damon. 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;
- 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 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 14: 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, Damon 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. (Roberts)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Damon 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 15: Should this docket be closed?

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

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

DAMON UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$143,548	(\$2,383)	\$141,165
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(67,992)	229	(67,764)
5. ACCUMULATED DEPRECIATION	(86,089)	1,685	(84,404)
6. AMORTIZATION OF CIAC	42,088	(669)	41,419
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,147</u>	<u>7,147</u>
8. WATER RATE BASE	<u>\$31,555</u>	<u>\$6,009</u>	<u>\$37,564</u>

DAMON UTILITIES, INC. TEST YEAR ENDING 12/31/08 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 080709-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$232,739	(\$1,820)	\$230,919
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(65,866)	69	(65,797)
5. ACCUMULATED DEPRECIATION	(164,303)	5,140	(159,163)
6. AMORTIZATION OF CIAC	36,524	(3,722)	32,802
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,034</u>	<u>4,034</u>
8. WASTEWATER RATE BASE	<u>\$39,094</u>	<u>\$3,701</u>	<u>\$42,795</u>

DAMON UTILITIES, INC.	SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/08	DOCKET NO. 080709-WS	
ADJUSTMENTS TO RATE BASE	PAGE 1	
	<u>WATER</u>	<u>WASTEWATER</u>
<u>1. UTILITY PLANT IN SERVICE</u>		
a. To reflect the correct plant additions and retirements to UPIS.	(\$366)	(\$570)
b. Remove office furniture reflected in monthly rental agreement.	(1,517)	(1,250)
c. To reflect an averaging adjustment.	<u>(500)</u>	<u>0</u>
Total	<u>(\$2,383)</u>	<u>(\$1,820)</u>
<u>2. CIAC</u>		
To reflect an averaging adjustment.	<u>\$229</u>	<u>\$69</u>
<u>3. ACCUMULATED DEPRECIATION</u>		
a. To reflect accumulated depreciation per Rule 25-30.0140.	\$445	\$3,118
b. To reflect an averaging adjustment.	<u>1,240</u>	<u>2,022</u>
Total	<u>\$1,685</u>	<u>\$5,140</u>
<u>4. AMORTIZATION OF CIAC</u>		
a. To reflect the appropriate amort of CIAC.	\$650	(\$3,145)
b. To reflect an averaging adjustment.	<u>(1,319)</u>	<u>(577)</u>
Total	<u>(\$669)</u>	<u>(\$3,722)</u>
<u>5. WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$7,147</u>	<u>\$4,034</u>

DAMON UTILITIES, INC.						SCHEDULE NO. 2		
TEST YEAR ENDING 12/31/08						DOCKET NO. 080709-WS		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON STOCK	\$0	\$0	\$0	\$0	\$0			
RETAINED EARNINGS	(25,451)	25,451	0	0	0			
PAID IN CAPITAL	87,251	0	87,251	(19,598)	67,653			
TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>			
TOTAL COMMON EQUITY	\$61,800	\$25,451	\$87,251	(\$19,598)	\$67,653	84.19%	9.87%	8.31%
LONG TERM DEBT	16,386	0	16,386	(3,681)	12,705	15.81%	5.00%	0.79%
TOTAL LONG TERM DEBT	16,386	0	16,386	(3,681)	12,705	15.81%		
CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
TOTAL	<u>\$78,186</u>	<u>\$25,451</u>	<u>\$103,637</u>	<u>(\$23,278)</u>	<u>\$80,359</u>	<u>100.00%</u>		<u>9.10%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.87%</u>	<u>10.87%</u>	
OVERALL RATE OF RETURN						<u>8.26%</u>	<u>9.94%</u>	

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 080709-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$50,213</u>	<u>(\$849)</u>	<u>\$49,364</u>	<u>\$20,569</u> 41.67%	<u>\$69,933</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$73,599	(\$16,423)	\$57,176	\$0	\$57,176
3. DEPRECIATION (NET)	2,964	193	3,157	0	3,157
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,702	1,555	5,257	926	6,183
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$80,265</u>	<u>(\$14,676)</u>	<u>\$65,589</u>	<u>\$926</u>	<u>\$66,515</u>
8. OPERATING INCOME/(LOSS)	<u>(\$30,052)</u>		<u>(\$16,225)</u>		<u>\$3,418</u>
9. WATER RATE BASE	<u>\$31,555</u>		<u>\$37,564</u>		<u>\$37,564</u>
10. RATE OF RETURN	<u>-95.24%</u>		<u>-43.19%</u>		<u>9.10%</u>

DAMON UTILITIES, INC.

SCHEDULE NO. 3-B

TEST YEAR ENDING 12/31/08

DOCKET NO. 080709-WS

SCHEDULE OF WASTEWATER OPERATING INCOME

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$39,142</u>	<u>\$15</u>	<u>\$39,157</u>	<u>\$2,862</u> 7.31%	<u>\$42,019</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$33,515</u>	<u>(\$1,240)</u>	<u>\$32,274</u>	<u>\$0</u>	<u>\$32,274</u>
3. DEPRECIATION (NET)	<u>1,296</u>	<u>1,596</u>	<u>2,892</u>	<u>0</u>	<u>2,892</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>2,194</u>	<u>636</u>	<u>2,830</u>	<u>129</u>	<u>2,959</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$37,005</u>	<u>\$992</u>	<u>\$37,996</u>	<u>\$129</u>	<u>\$38,125</u>
8. OPERATING INCOME/(LOSS)	<u>\$2,137</u>		<u>\$1,161</u>		<u>\$3,894</u>
9. WASTEWATER RATE BASE	<u>\$39,094</u>		<u>\$42,795</u>		<u>\$42,795</u>
10. RATE OF RETURN	<u>5.47%</u>		<u>2.71%</u>		<u>9.10%</u>

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
a. To reclassify Wastewater Residential Revenues to General Service.	\$0	(\$175)
b. To reflect correct Wastewater General Service Revenues.	0	175
c. To reflect the appropriate test year revenues.	<u>(849)</u>	<u>15</u>
Subtotal	<u>(\$849)</u>	<u>\$15</u>
OPERATION AND MAINTENANCE EXPENSES		
Salaries and Wages - Employees (601,701)		
a. To remove the difference of the indexed salary expense.	(\$9,073)	(\$2,328)
b. To remove unsupported salary expense.	0	(614)
Subtotal	<u>(\$9,073)</u>	<u>(\$2,942)</u>
Salaries and Wages - Officers (603,703)		
a. To remove unsupported officer expense.	\$0	(\$188)
b. To reflect the appropriate salary for managers.	(300)	0
c. To allocate officer salaries to water and wastewater.	<u>(870)</u>	<u>871</u>
Subtotal	<u>(\$1,170)</u>	<u>\$683</u>
Employee Pensions and Benefits (604,704)		
a. To remove unsupported benefit expense.	\$0	(\$185)
Subtotal	<u>\$0</u>	<u>(\$185)</u>
Purchased Power (615,715)		
a. To allocate expenses related to electric between water and wastewater.	\$75	(\$75)
b. To add 2008 expenses paid in 2009.	254	360
Subtotal	<u>\$329</u>	<u>\$285</u>
Chemicals (618, 718)		
a. To remove out of period expense for Sodium Hypochlorite.	\$0	(\$142)
b. To annualize rates because rates went up.	0	162
c. To add 2008 expenses paid in 2009.	<u>378</u>	<u>0</u>
Subtotal	<u>\$378</u>	<u>\$20</u>
Materials and Supplies (620,720)		
a. To reflect items capitalized.	\$125	\$0
b. To reclassify painting and cleaning.	63	0
c. To reclassify a expense billed to wrong account.	<u>0</u>	<u>130</u>
Subtotal	<u>\$188</u>	<u>\$130</u>
Contractual Services - billing (630, 730)		
a. To reclassify a expense billed to wrong account.	\$0	(\$130)
b. To remove expenses related to 2008 expenses paid in 2009.	<u>0</u>	<u>(31)</u>
Subtotal	<u>\$0</u>	<u>(\$161)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
Contractual Services - Professional (631, 731)		
a. To reclassify painting and cleaning.	(\$170)	\$0
b. To amortize water tank cleaning & painting over 5 years.	(6,908)	0
c. To allocate accounting fees.	(213)	213
Subtotal	<u>(\$7,290)</u>	<u>\$213</u>
Contractual Services - Testing (635, 735)		
a. To amortize non-reoccurring over 5 years.	(\$1,264)	\$0
b. To remove out of period expenses.	(192)	(243)
c. To add 2008 expenses paid in 2009.	212	267
d. To annualize new monthly rate.	0	168
Subtotal	<u>(\$1,244)</u>	<u>\$192</u>
Contractual Services - Other (636,736)		
a. To add invoices that were not recorded in the general ledger.	\$475	\$0
b. To add 2008 expenses paid in 2009.	328	328
c. To annualize new monthly rate.	209	209
d. To remove unsupported expenses.	0	(100)
Subtotal	<u>\$1,011</u>	<u>\$436</u>
Rents (640,740)		
a. To remove unsupported expenses.	<u>\$0</u>	<u>(\$50)</u>
Subtotal	<u>\$0</u>	<u>(\$50)</u>
Transportation Expense (650,750)		
a. To remove unsupported expenses.	<u>\$0</u>	<u>(\$55)</u>
Subtotal	<u>\$0</u>	<u>(\$55)</u>
Insurance Expense (655,755)		
a. To remove non-utility vehicle insurance coverage.	\$0	\$0
b. To allocate insurance for two trucks.	0	0
Subtotal	<u>\$0</u>	<u>\$0</u>
Regulatory Commission Expense (665,765)		
To reflect the 4 year amortization of rate case expense $(\$1,920.48/4)/(63.67\%)(36.33\%)$.	<u>\$340</u>	<u>\$194</u>
Miscellaneous Expense (675,775)		
a. To reclassify expense.	<u>\$107</u>	<u>\$0</u>
Subtotal	<u>\$107</u>	<u>\$0</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$16,423)</u>	<u>(\$1,240)</u>

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
ADJUSTMENTS TO OPERATING INCOME

	<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE		
a. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$599	\$12
b. To reflect the appropriate the appropriate amortization of CIAC.	<u>(406)</u>	<u>1,584</u>
Subtotal	<u>\$193</u>	<u>\$1,596</u>
TAXES OTHER THAN INCOME		
a. To reflect the appropriate RAFs.	(\$39)	\$1
b. To reflect the appropriate payroll taxes.	1,594	635
c. To reflect the appropriate property taxes per annual report.	<u>0</u>	<u>0</u>
Subtotal	<u>\$1,555</u>	<u>\$636</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 3-D		
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$24,174	(\$9,073)	[1]	\$15,101
(603) SALARIES AND WAGES - OFFICERS	6,900	(1,170)	[2]	5,730
(604) EMPLOYEE PENSIONS AND BENEFITS	6,665	0	[3]	6,665
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	3,024	329	[5]	3,353
(616) FUEL FOR POWER PRODUCTION	87	0	[6]	87
(618) CHEMICALS	3,649	378	[7]	4,027
(620) MATERIALS AND SUPPLIES	2,024	188	[8]	2,212
(630) CONTRACTUAL SERVICES - BILLING	1,125	0	[9]	1,125
(631) CONTRACTUAL SERVICES - PROFESSIONAL	10,080	(7,290)		2,790
(635) CONTRACTUAL SERVICES - TESTING	3,958	(1,244)	[10]	2,714
(636) CONTRACTUAL SERVICES - OTHER	5,409	1,011	[11]	6,420
(640) RENTS	3,000	0	[12]	3,000
(650) TRANSPORTATION EXPENSE	2,138	0	[13]	2,138
(655) INSURANCE EXPENSE	1,173	0	[14]	1,173
(665) REGULATORY COMMISSION EXPENSE	0	340	[15]	340
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>194</u>	<u>107</u>	<u>[16]</u>	<u>301</u>
	<u>\$73,599</u>	<u>(\$16,423)</u>		<u>\$57,176</u>

DAMON UTILITIES, INC.		SCHEDULE NO. 3-E		
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$7,976	(\$2,942)	[1]	\$5,034
(703) SALARIES AND WAGES - OFFICERS	2,588	683	[2]	3,270
(704) EMPLOYEE PENSIONS AND BENEFITS	2,407	(185)	[3]	2,222
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	2,030	0	[4]	2,030
(715) PURCHASED POWER	3,274	285	[5]	3,559
(716) FUEL FOR POWER PRODUCTION	0	0	[6]	0
(718) CHEMICALS	1,515	20	[7]	1,535
(720) MATERIALS AND SUPPLIES	871	130	[8]	1,001
(730) CONTRACTUAL SERVICES - BILLING	536	(161)	[9]	375
(731) CONTRACTUAL SERVICES - PROFESSIONAL	505	213		718
(735) CONTRACTUAL SERVICES - TESTING	3,170	192	[10]	3,362
(736) CONTRACTUAL SERVICES - OTHER	4,712	436	[11]	5,149
(740) RENTS	2,150	(50)	[12]	2,100
(750) TRANSPORTATION EXPENSE	768	(55)	[13]	713
(755) INSURANCE EXPENSE	456	0	[14]	456
(765) REGULATORY COMMISSION EXPENSES	0	194	[15]	194
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>557</u>	<u>0</u>	[16]	<u>557</u>
	<u>\$33,515</u>	<u>(\$1,240)</u>		<u>\$32,274</u>

DAMON UTILITIES, INC.
TEST YEAR ENDING 12/31/08
MONTHLY WATER RATES

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
5/8"X3/4"	\$8.83	\$10.48	\$0.05
3/4"	\$13.24	\$15.72	\$0.08
1"	\$22.09	\$26.20	\$0.13
1-1/2"	\$44.15	\$52.40	\$0.27
2"	\$70.84	\$83.84	\$0.43
3"	\$141.31	\$167.68	\$0.86
4"	\$220.78	\$262.00	\$1.35
6"	\$441.55	\$524.00	\$2.70
Gallonage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$3.20	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$8.83	\$10.48	\$0.05
3/4"	\$13.24	\$15.72	\$0.08
1"	\$22.09	\$26.20	\$0.13
1-1/2"	\$44.15	\$52.40	\$0.27
2"	\$70.84	\$83.84	\$0.43
3"	\$141.31	\$167.68	\$0.86
4"	\$220.78	\$262.00	\$1.35
6"	\$441.55	\$524.00	\$2.70
Gallonage Charge (all gallons) Per 1,000 Gallons	\$1.82	\$3.20	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$14.29	\$20.08	
5,000 Gallons	\$17.93	\$26.48	
10,000 Gallons	\$27.03	\$42.48	

DAMON UTILITIES, INC.		SCHEDULE NO. 4-B	
TEST YEAR ENDING 12/31/08		DOCKET NO. 080709-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes			
All Meter Size	\$16.59	\$17.49	\$0.09
Gallonage Charge			
(Per 1,000 Gallons; Maximum 8,000 Gallons)	\$6.77		
(Per 1,000 Gallons; Maximum 6,000 Gallons)		\$7.47	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$16.59	\$17.49	\$0.09
3/4"	\$24.89	\$26.24	\$0.13
1"	\$41.48	\$43.73	\$0.21
1-1/2"	\$82.97	\$87.45	\$0.43
2"	\$132.73	\$139.92	\$0.68
3"	\$265.50	\$279.84	\$1.37
4"	\$414.84	\$437.25	\$2.14
6"	\$829.67	\$874.50	\$4.28
Gallonage Charge (all gallons)	\$8.11	\$8.96	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$36.90	\$39.90	
5,000 Gallons	\$50.44	\$54.84	
10,000 Gallons	\$70.75	\$62.31	