

State of Florida



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# Public Service Commission

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CLERK

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

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**DATE:** September 24, 2009  
**TO:** Shannon Hudson, Regulatory Analyst IV, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*  
**RE:** Docket No.: 090244-WU  
Company Name; TLP Water, Inc.  
Company Code: WU924  
Audit Purpose: Staff Assisted Rate Case  
Audit Control No: 09-188-1-1

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Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)  
Division of Regulatory Compliance (Salak, Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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STATE OF FLORIDA



**FLORIDA PUBLIC SERVICE COMMISSION**

**DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING**

**Tallahassee District Office**

**TLP WATER, INC.**

**STAFF-ASSISTED RATE CASE**

**TEST YEAR ENDED JUNE 30, 2009**

**DOCKET NO. 080499-WU  
AUDIT CONTROL NO. 09-188-1-1**

A handwritten signature in black ink, appearing to read "Charleston J. Winston", written over a horizontal line.

**Charleston J. Winston, Audit Manager**

A handwritten signature in black ink, appearing to read "Lynn M. Deamer", written over a horizontal line.

**Lynn M. Deamer, District Audit Supervisor**

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**September 23, 2009**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have applied the procedures described later in this report to prepare the accompanying schedules of Rate Base, Net Operating Income and Capital Structure as of June 30, 2009, for TLP Water, Inc. The attached schedules were prepared by the audit staff as part of our work in Docket No. 080499-WU.

This review was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

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## OBJECTIVES AND PROCEDURES

### GENERAL

#### Utility Books and Records

*Objective:* To determine that the utility maintains its accounts and records in conformity with the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts. (USOA)

*Procedures:* We reviewed the utility's accounting system and found it not to be in compliance with the above. Audit Finding No. 1 discusses our findings and recommendations.

### RATE BASE

#### Utility Plant in Service (UPIS)

*Objective:* To determine that property exists and is owned by the utility. To determine that additions to UPIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the NARUC USOA. To verify that the proper retirements of UPIS were made when a replacement item was put in service.

*Procedures:* Due to the lack of books and records we determined the UPIS balance for the test year ended June 30, 2009 could not be established. We compiled UPIS additions per the utility's records to assist in determining the UPIS for this proceeding. We toured the utility plant site to observe whether asset additions were completed and to ascertain if asset retirements were needed. Audit Finding No. 2 discusses our findings and recommended UPIS additions as of June 30, 2009.

#### Land

*Objective:* To determine that utility land is recorded at original cost and is owned or secured under a long-term lease.

*Procedures:* We reviewed the utility's long-term lease. We reviewed the records of the Lake County Property Appraiser's and Tax Collector's Offices to determine ownership of the land.

#### Contributions-in-Aid-of-Construction (CIAC)

*Objective:* To determine that additions to CIAC are properly recorded in compliance with Commission rules and the NARUC USOA. To verify and insure that all donated property is properly accounted for and recorded as CIAC.

*Procedures:* We reviewed the records of the utility for CIAC additions. We reviewed the utility's Federal Income Tax returns for 2007 and 2008 for unrecorded cash and property contributions. Due to the lack of books and records we determined that CIAC for the test year ended June 30, 2009 could not be established.

### Accumulated Depreciation

*Objective:* To determine that accruals to accumulated depreciation are properly recorded in compliance with Commission rules and the NARUC USOA. To verify that depreciation expense accruals are calculated using the Commission's authorized rates and that retirements are properly recorded.

*Procedures:* We reviewed the utility's books and records for accumulated depreciation. Accumulated depreciation could not be established due to inadequate books and records of the utility. We calculated accumulated depreciation on plant additions that could be verified. Audit Finding No. 2 discusses our findings and recommended balance for accumulated depreciation for the verified plant additions as of June 30, 2009.

### Accumulated Amortization of CIAC

*Objective:* To determine that accruals to accumulated amortization of CIAC are properly recorded in compliance with Commission rules and the NARUC USOA.

*Procedures:* We were unable to determine any CIAC due to inadequate books and records of the utility; therefore there was no accumulated amortization of CIAC to determine.

### Working Capital

*Objective:* To determine that the utility's working capital balance is properly calculated in compliance with Commission rules.

*Procedures:* We calculated the utility's working capital balance as of June 30, 2009 using one-eighth of operation and maintenance expense pursuant to Commission Rule 25-30.433(2), Florida Administrative Code.

## NET OPERATING INCOME

### Revenues

*Objective:* To determine that revenues are properly recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

*Procedures:* We compiled utility revenues for the 12-month period ending June 30, 2009 from the utility's records. We tested the reasonableness of the recorded revenues. Audit Finding No. 4 discusses our findings and recommended revenues for the 12-month period ending June 30, 2009.

### Operation and Maintenance Expense

*Objective:* To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and are reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled operation and maintenance expense items from the utility's

expense ledger and vendor invoice file. We reviewed the utility invoices for proper amount, period, classification, NARUC account and recurring nature. Audit Finding No. 5 discusses our findings and recommended operation and maintenance expense balance for the 12-month period ending June 30, 2009.

#### Taxes-Other-Than-Income (TOTI)

*Objective:* To determine that TOTI expense is properly recorded in compliance with Commission rules and was reasonable and prudent for ongoing utility operations.

*Procedures:* We compiled TOTI expenses from the utility's expense ledger and vendor invoice file. We reviewed the utility invoices for proper amount, period, classification, NARUC account and recurring nature. Audit staff recalculated Regulatory Assessment Fees applicable to the test year revenues.

#### Depreciation Expense

*Objective:* To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of utility plant in service assets and the amortization of utility contributions-in-aid-of-construction assets from ongoing utility operations.

*Procedures:* Depreciation expense could not be determined because the UPIS and CIAC balances for the test year ended June 30, 2009 could not be established due to the lack of records.

### CAPITAL STRUCTURE

#### General

*Objective:* To determine that the components of the utility's capital structure and the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules.

*Procedures:* We reviewed the utility's 2007 and 2008 Federal Income Tax returns and annual report for the capital structure components. The utility's debt was traced to the debt agreements. The Capital Structure could not be determined for the test year ended June 30, 2009 due to the lack of records.

**AUDIT FINDING NO. 1**

**SUBJECT: BOOKS AND RECORDS**

**AUDIT ANALYSIS:** TLP Water, Inc.'s books and records are not maintained in accordance with The National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA).

NARUC, Class C, Accounting Instruction, states,

All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

Commission Rule 25-30.115, Florida Administrative Code, (F.A.C.), requires Florida utilities to maintain their books and records in conformity with the NARUC USOA.

TLP Water, Inc. does not have adequate records to establish rate base. An original cost study will be required to established rate base as of June 30, 2009. The plant in service that could be verified is shown in Audit Finding No. 2

The Commission should require the utility to maintain its books and records in compliance with the NARUC USOA, Commission orders, and Commission rules.

**AUDIT FINDING NO. 2**

**SUBJECT: UTILITY PLANT IN SERVICE AND ASSOCIATED ACCUMULATED DEPRECIATION**

**AUDIT ANALYSIS:** The utility does not maintain general ledgers for plant in service and therefore did not record any plant in service and accumulated depreciation as of June 30, 2009.

A balance per audit could not be established for plant, accumulated depreciation and depreciation expense. Therefore, the balance per utility and per audit have been excluded until such time that an Original Cost Study is conducted.

The Verifiable Plant in Service and Associated Accumulated Depreciation schedule on page 7 reflects the plant additions and accumulated depreciation that we could determine and should be considered when an original cost amount is derived.

The Disallowed Plant in Service schedule on page 8 should not be considered until the utility can produce adequate documentation for the amounts.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

The utility does not maintain a general ledger for plant in service.

**VERIFIABLE PLANT IN SERVICE AND ASSOCIATED ACCUMULATED DEPRECIATION**

Account Number	Vendor	Description	Date	Cost	FPSC RULE RATE	Accumulated
						Depreciation as of 6/30/09
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Nov-06	\$ 1,672	2.50%	\$ 125
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Nov-06	\$ 2,805	2.50%	\$ 210
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jan-07	\$ 1,886	2.50%	\$ 94
301	Lewis, Longman & Walker	Legal Fees for Incorporation	May-07	\$ 166	2.50%	\$ 8
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jul-07	\$ 3,396	2.50%	\$ 170
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jul-07	\$ 785	2.50%	\$ 39
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jul-07	\$ 3,562	2.50%	\$ 178
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Aug-07	\$ 4,374	2.50%	\$ 219
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Sep-07	\$ 4,569	2.50%	\$ 228
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Sep-07	\$ 737	2.50%	\$ 37
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Sep-07	\$ 500	2.50%	\$ 25
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Nov-07	\$ 4,641	2.50%	\$ 232
301	Florida Department of State	Incorporation	Mar-09	\$ 70	2.50%	\$ 1
304	Home Depot	Water Plant Fencing	Aug-06	\$ 25	3.70%	\$ 3
304	Home Depot	Water Plant Electrical	Aug-06	\$ 95	3.70%	\$ 11
304	Home Depot	Water Plant Electrical	Aug-06	\$ 240	3.70%	\$ 27
304	Home Depot	Water Plant Fencing	Aug-06	\$ 1,309	3.70%	\$ 145
304	This Handyman Can Inc	Landscaping	Aug-06	\$ 800	3.70%	\$ 89
304	This Handyman Can Inc.	Fence	Oct-06	\$ 800	3.70%	\$ 89
304	Home Depot	Tank Building	Oct-06	\$ 1,569	3.70%	\$ 174
304	Home Depot	Shingles	Oct-06	\$ 60	3.70%	\$ 7
304	Home Depot	Shingles	Oct-06	\$ 116	3.70%	\$ 13
304	Wicks Consulting	Design of Water Plant	Feb-08	\$ 1,342	3.70%	\$ 50
304	Wicks Consulting	Design of Water Plant	Feb-08	\$ 3,000	3.70%	\$ 111
305	Quality Water Treatment	Water Tank	Mar-06	\$ 21,000	2.50%	\$ 1,575
305	Jeff Farmer	Plant Tank	Jun-06	\$ 400	2.50%	\$ 30
305	Quality Water Treatment	Water Tank	Oct-06	\$ 19,154	2.50%	\$ 1,437
305	This Handyman Can Inc.	Tank Building	Oct-06	\$ 1,355	2.50%	\$ 102
305	This Handyman Can Inc.	Tank Building	Oct-06	\$ 1,500	2.50%	\$ 113
305	Jeff Farmer	Roof Of Plant	Mar-07	\$ 519	2.50%	\$ 26
305	Jeff Farmer	Plant Tank	Mar-07	\$ 59	2.50%	\$ 3
311	This Handyman Can Inc.	Pump	Oct-06	\$ 800	5.88%	\$ 141
311	This Handyman Can Inc.	Pumping House	Oct-06	\$ 300	5.88%	\$ 53
311	This Handyman Can Inc.	Pump	Oct-06	\$ 350	5.88%	\$ 62
330	Quality Water Treatment	Water Storage Tank	Dec-06	\$ 678	3.03%	\$ 62
331	Nation's Rent	Water Lines Installation	Aug-06	\$ 5	2.63%	\$ 0
331	Nation's Rent	Water Lines Installation	Aug-06	\$ 46	2.63%	\$ 4
331	Ferguson Plumbing	Water Lines Installation	Apr-07	\$ 302	2.63%	\$ 16
331	Ferguson Plumbing	Water Lines Installation	Apr-07	\$ 305	2.63%	\$ 16
331	Grand Rental Station	Water Lines Installation	May-07	\$ 151	2.63%	\$ 8
331	Grand Rental Station	Water Lines Installation	May-07	\$ 126	2.63%	\$ 7
331	Pelican Plumbing	PVC Pipes	May-07	\$ 1,026	2.63%	\$ 54
331	Jeff Farmer	Water Lines Installation	May-07	\$ 562	2.63%	\$ 30
331	Jeff Farmer	Water Lines Installation	May-07	\$ 700	2.63%	\$ 37
331	Pelican Plumbing	Water Pipe Installation	Feb-08	\$ 565	2.63%	\$ 15
331	Pelican Plumbing	Water Pipe Installation	May-08	\$ 1,100	2.63%	\$ 29
343	Home Depot	Misc Tools	Oct-06	\$ 109	6.67%	\$ 22
343	Home Depot	Misc Tools	Oct-06	\$ 298	6.67%	\$ 60
348	Home Depot	Eyewash	Jan-07	\$ 200	10.00%	\$ 40
Total:				\$ 90,127		\$ 6,224

**DISALLOWED PLANT IN SERVICE**

<b>Account Number</b>	<b>Vendor</b>	<b>Description</b>	<b>Date</b>	<b>Cost</b>	<b>Reason</b>
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Apr-06	\$ 578	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Apr-06	\$ 2,500	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	May-06	\$ 950	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jun-06	\$ 1,289	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jun-06	\$ 1,289	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jul-06	\$ 1,904	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Aug-06	\$ 1,000	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Aug-06	\$ 441	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Sep-06	\$ 85	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Oct-06	\$ 886	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Dec-06	\$ 1,133	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Aug-07	\$ 812	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Sep-07	\$ 762	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Oct-07	\$ 571	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Dec-07	\$ 745	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Jan-08	\$ 2,000	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Mar-08	\$ 726	No support
301	Lewis, Longman & Walker	Legal Fees for Incorporation	Mar-08	\$ 277	No support
303	Allan Holtz	Tax Sale Certificate - Reclaim Lot #9 for New Water Plant	Sep-05	\$ 830	Leased
303	County Clerk Office	Titles Fees - Reclaim Lot #9 for New Water Plant	Jun-06	\$ 3	Leased
303	County Clerk Office	Titles Fees - Reclaim Lot #9 for New Water Plant	Jun-06	\$ 3	Leased
303	County Clerk Office	Titles Fees - Reclaim Lot #9 for New Water Plant	Jun-06	\$ 43	Leased
303	Lake County Tax Collector	Past Due Taxes - Reclaim Lot #9 for New Water Plant	Jun-06	\$ 864	Leased
303	Potter, Clement, Lowry & Duncan Attorney	Legal Fees - Reclaim Lot #9 for New Water Plant	Nov-06	\$ 3,337	Leased
331	Ferguson Enterprises, Inc.	Water Lines	May-07	\$ 1,309	No Support
331	Pelican Plumbing	Water Lines Installation	May-07	\$ 4,160	No support
331	Pelican Plumbing	Water Lines Installation	May-07	\$ 5,020	No support
331	Pelican Plumbing	Water Lines Installation	Jun-07	\$ 3,000	No support
331	Pelican Plumbing	Water Lines Installation	Jun-07	\$ 315	No support
331	Pelican Plumbing	Water Lines Installation	Jun-07	\$ 825	No support
331	Pelican Plumbing	Water Lines Installation	Aug-07	\$ 112	No support
331	Pelican Plumbing	Water Lines Installation	Aug-07	\$ 111	No support
331	Pelican Plumbing	Water Lines Installation	Aug-07	\$ 1,150	No support
<b>Total:</b>				<b>\$ 39,030</b>	

**AUDIT FINDING NO. 3**

**SUBJECT: LAND**

**AUDIT ANALYSIS:** The utility established a lease agreement with the owner of the land, Three Lakes Park Co-op, Inc., on January 1, 2008. The lease agreement is for a period of 30 years, January 1, 2008 through January 1, 2038. The amount of the lease is \$160 per month.

Per Commission Rule 25-30.433(10) "A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease. The Commission may consider a written easement or other cost-effective alternative."

The utility should be required to obtain a 99-year lease agreement with Three Lakes Park Co-op, Inc.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

None.

**AUDIT FINDING NO. 4**

**SUBJECT: REVENUES**

**AUDIT ANALYSIS:** The utility recorded revenue of \$14,776 in its cash receipts for the 12 month period ending June 30, 2009. This amount is the actual revenues received by the utility.

The utility has 53 customers that are billed at a flat rate of \$39 per month. The revenues that should have been received for the 12 month period ending June 30, 2009 are \$24,804 (53 x 39 x 12). The revenues should be increased by \$10,028 (\$24,804 – 14,776).

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

The utility does not maintain a general ledger.

**AUDIT FINDING NO. 5**

**SUBJECT: OPERATION AND MAINTENANCE EXPENSES**

**AUDIT ANALYSIS:**

The utility recorded \$8,861 of legal fees for the 12 months ended June 30, 2009. According to the invoices, this was for costs associated with the current Staff Assisted Rate Case Docket with this Commission, the certification docket filed with this Commission, a litigation issue and communications with the Department of Environmental Compliance. The invoices did not specify the amounts associated with each.

**EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:**

This information is provided for the analyst's use.

EXHIBIT I

**TLP WATER, INC.  
DOCKET NO. 080499-WU  
STAFF-ASSISTED RATE CASE  
RATE BASE  
AS OF JUNE 30, 2009**

DESCRIPTION	(A) COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AMOUNT PER AUDIT
UTILITY PLANT IN SERVICE	\$ -	\$ -	(A)	\$ -
LAND	\$ -	\$ -	3	\$ -
CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	\$ -		(A)	\$ -
ACCUMULATED DEPRECIATION	\$ -	\$ -	(A)	\$ -
ACCUMULATED AMORTIZATION OF CIAC	\$ -		(A)	\$ -
WORKING CAPITAL ALLOWANCE	\$ -	\$ 4,012	(B)	\$ 4,012
<b>TOTAL:</b>	<b>\$ -</b>	<b>\$ 4,012</b>		<b>\$ 4,012</b>

(A) Rate Base will be established using an Original Cost Study - See Audit Findings Nos. 1 and 2

(B) Working Capital Allowance was established using one-eighth of O and M. See Exhibit II

**TLP WATER, INC  
DOCKET NO. 080499-WU  
STAFF-ASSISTED RATE CASE  
NET OPERATING INCOME  
FOR THE PERIOD ENDING JUNE 30, 2009**

DESCRIPTION	COMPANY AMOUNT	AUDIT ADJUSTMENT	AUDIT FINDING	AUDIT AMOUNT
OPERATING REVENUES	\$ 14,776	\$ 10,028	4	\$ 24,804
<b>EXPENSES:</b>				
O AND M EXPENSES	\$ 32,094	\$ -	5	\$ 32,094
DEPRECIATION EXPENSE	\$ -	\$ -	(A)	\$ -
CIAC AMORTIZATION EXPENSE	\$ -	\$ -	(A)	\$ -
TAXES OTHER THAN INCOME	\$ -	\$ 1,116	(B)	\$ 1,116
INCOME TAX EXPENSE	\$ -	\$ -	(C)	\$ -
TOTAL EXPENSES:	\$ 32,094	\$ 1,116		\$ 33,210
<hr/>				
NET OPERATING INCOME (LOSS)	\$ (17,318)	\$ 8,912		\$ (8,406)

(A) Audit Findings Nos. 1 and 2

(B) Regulatory Assessment Fee is calculated based on audit determined revenues.

(C) Per the the amounts above and its 2008 Federal Income Tax Return the company has a negative taxable income.

Working Capital equals one-eighth of O & M Expenses:  $\$32,094 / 8 = \$4012$

EXHIBIT III

**TLP WATER, INC.  
DOCKET NO. 080499-WU  
CAPITAL STRUCTURE  
STAFF-ASSISTED RATE CASE  
AS OF JUNE 30, 2009**

DESCRIPTION	COMPANY AMOUNT	RATIO	COST	WEIGHTED COST
COMMON EQUITY (A)	\$ -	0.00%		0.00%
LONG-TERM DEBT	\$ 136,866	100.00%	12.00%	12.00%
<b>TOTAL CAPITAL:</b>	<b>\$ 136,866</b>	<b>100.00%</b>		<b>12.00%</b>

(A) Per the utility's 2008 Commission Annual Report it has not issued any common stock.

The utility does not collect a customer deposit for service connections