STATE OF FLORIDA

OFFICE OF COMMISSION CLERK
ANN COLE
COMMISSION CLERK
(850) 413-6770

Public Service Commission

December 8, 2009

Mr. Matthew Hannam, Vice President
Banco Popular North America
9600 West Bryn Mawr
Rosemont, Illinois 60018

REDACTED

Re: Release of funds in Escrow Account No. (Docket No. 080597-WS, Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.)

Dear Mr. Hannam:

Pursuant to PAA Order No. PSC-09-0623-PAA-WS, issued on September 15, 2009, as consummated by Order No. PSC-09-0699-CO-WS, issued on October 20, 2009, and amended by Order No. PSC-09-0623A-PAA-WS, issued on November 19, 2009, the Commission ordered that the escrow account opened for Southlake Utilities, Inc. may be closed upon verification that the required refunds had been made. Therefore, as the Commission's designated agent in such matters, I request that you release all escrowed funds in Escrow Account No. to the utility and close this escrow account.

I have attached memorandum dated November 20, 2009, as proof of verification conducted by Commission staff, and a copy of the above mentioned orders. Please contact me if you have any questions.

Sincerely,

Kimberly M. Pena for AC

Ann Cole
Commission Clerk

Enclosures (4)

cc: Division of Regulatory Analysis (C. Beard)
Office of General Counsel (M. Brown)
James L. Ade, Esquire
Kim Kitchen, Southlake Utilities, Inc.

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: November 20, 2009

TO: Ann Cole, Commission Clerk - PSC, Office of Commission Clerk

FROM: Catherine S. Beard, Regulatory Analyst II, Division of Regulatory Analysis CSB
Martha C. Brown, Senior Attorney, Office of the General Counsel MCB for MCB

RE: Docket No. 080597-WS - Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

By Order No. PSC-09-0699-CO-WS, issued October 20, 2009, it was ordered that when the tariff filing portion of the Order is final and the tariff and notice actions are complete, this docket may be closed administratively.

The tariff sheets and customer notice have been filed and approved by staff. Therefore, this docket may be closed.

OK to close
12-1-09
MB

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.	DOCKET NO. 080597-WS ORDER NO. PSC-09-0623-PAA-WS ISSUED: September 15, 2009

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING RATE INCREASE
AND
FINAL ORDER APPROVING RATE REDUCTION IN FOUR YEARS AND REQUIRING PROOF OF ADJUSTMENT TO BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the reduction in rates in four years and proof of adjustment of the utility's books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Southlake Utilities, Inc. (Southlake or utility) is a Class B utility providing water and wastewater service to approximately 2,321 water and 2,161 wastewater customers in Lake County. Water and wastewater rates were last established for this utility in 1990[1] in its original certificate filing.

On October 15, 2008, Southlake filed an Application for Rate Increase at issue here. The utility had a few deficiencies in its Minimum Filing Requirements (MFRs). The deficiencies were corrected, and December 15, 2008, was established as the official filing date. The utility requested that the application be processed using our Proposed Agency Action procedure, and requested interim rates. The test year established for interim rates is the historical twelve-month period ended December 31, 2007. The test year established for final rates is the 13-month average period ending December 31, 2008.

[1] See Order Nos. 24564 and 23947, issued May 21, 1991, in Docket No. 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

Southlake requested interim rates for both its water and wastewater systems. By Order No. PSC-09-0116-FOF-WS, issued February 25, 2009, we approved interim rates designed to generate annual water revenues of $1,038,940, an increase of $47,301, or 4.77 percent, and wastewater revenues of $1,034,391, an increase of $238,093 or 29.90 percent.

Southlake requested final rates designed to generate annual water revenues of $1,184,327 and wastewater revenues of $1,293,211. This represents a revenue increase on an annual basis of $183,853 (18 percent) for water and $487,912 (61 percent) for wastewater.

Southlake is located in the Central Florida Coordination Area, encompassing portions of the St. Johns River, Southwest and South Florida Water Management Districts. These water management districts jointly concluded in 2006 that the availability of sustainable quantities of groundwater in central Florida are insufficient to meet future public water supply demands in the region. In addition, these water management districts concluded that alternative water supply sources must be developed to meet increased demands in central Florida beyond 2013. The requirement to develop alternative water supplies was incorporated by rule amendment in February 2008.[2]

Southlake was issued a Consumptive Use Permit (CUP) on July 11, 2006, with an expiration date of January 1, 2009. Southlake was issued a short-term duration permit because staff of the St. Johns River Water Management District (SJRWMD or District) were concerned that withdrawals exclusively from the Upper Floridan Aquifer (UFA) to meet projected future demands had the potential for contributing adverse impacts to water resources and related natural systems. The utility is out of compliance with a number of conditions of its CUP. Southlake and the SJRWMD have met on several occasions to discuss Southlake's noncompliance and possible remedies, but no agreements have been reached. The utility filed its application for permit renewal prior to the expiration date of January 1, 2009. Therefore, the existing permit remains in effect until final action is taken on Southlake's new permit request, which includes a request for an increase in water allocation.

By letter dated June 25, 2009, the utility waived the five-month statutory deadline for the case through August 18, 2009. In our decision below, we address the revenue requirement and rates that we have approved on a prospective basis. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), we determine 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. In making our

[2] Rule 40C-2, F.A.C. Specifics are in the Applicant's Handbook (incorporated by rule), sections 3.1.7, 6.5.4, and 12.10.

determination on quality of service, we considered the utility's compliance with the Florida Department of Environmental Protection (DEP), as well as customer comments or complaints.

Quality of Utility's Product and Operational Condition of Plants

Southlake'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. DEP conducted inspections of the water and wastewater facilities in November 2006 and October 2008. DEP considers the quality of drinking water delivered to the customers and the wastewater effluent quality to be satisfactory.

The utility's CUP issued by the SJRWMD expired on January 1, 2009. SJRWMD is concerned about the impact of water draw down due to the utility's drinking water wells located in the Upper Floridan Aquifer. SJRWMD wants the utility to shift production to the Lower Floridan aquifer. The utility has drilled one deep well into the Lower Floridan aquifer and expensive and extensive drinking water treatment is needed to use the water in the Lower Floridan aquifer. Negotiations are under way. We address SJRWMD's concerns in detail below.

Our staff conducted a field investigation of the utility's service area on February 26, 2009, and found no apparent problems with the operation of either the water or wastewater treatment facilities. The water plant was operating normally and appeared to be well maintained. There was no odor present at the aerators or in the finished water. The wastewater plant was also operating normally and appeared to be well maintained. We find that the quality of product and operational condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

A customer meeting was held on March 30, 2009, in Clermont. Utility representatives, a representative from the Office of Public Counsel, and one customer attended. The customer was concerned about the usage on her bill, which is about 5,000 gallons per month, and whether the fire hydrants in the service area are routinely tested.

A representative of the utility met with the customer at her home on April 1 and determined that both bathroom toilets were leaking. The customer purchased toilet repair kits and no further leakage has been detected. In addition, with respect to the fire hydrants, the utility responded that all system fire hydrants and main line valves are currently tested quarterly by Southlake personnel for operational ability and, beginning in April 2009, will be tested bi-annually.

Our staff also met with three customers prior to the customer meeting who were concerned about hydrogen sulfide (rotten egg smell) in the water, particularly in rental homes. Our staff explained that DEP recommends that if the house is vacant for a period of time, the water should be flushed out of the water lines to remove the odor. The utility agreed to investigate to see if automatic flushers or piping of dead ends is needed. In addition, the utility

contacted each customer to offer training on the proper method for flushing the water lines in the home.

According to the DEP, the finished water test results at the point of entry into the distribution system indicate there is no odor in the finished water. The amount of sulfate is 19 mg/l and is well below the maximum contaminant level for sulfate of 250 mg/l. DEP also indicated that monthly distribution tests show the water system is maintaining a chlorine residual. Further, DEP received no complaints regarding the Southlake water system in 2008 or 2009.

There are no outstanding complaints on the Commission's Complaint Tracking System, and the utility indicated that it did not receive any customer complaints during the test year. Therefore, we find that the utility's attempts to address customer concerns are satisfactory.

Quality of Service Conclusion

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, we find that the utility's overall quality of service is satisfactory.

USED AND USEFUL

Water

The utility has not had a previous rate case before this Commission. In its application, the utility asserts that the Southlake water treatment plant, ground storage facilities, and water distribution system are 100 percent used and useful.

The utility has three wells, which are rated at 701, 1,040, and 2,600 gallons per minute (gpm). The 1,040 gpm well is not interconnected with the other two wells; the water from this well is not chlorinated and is used strictly for landscape irrigation. The SJRWMD limits the amount of water that this well can produce. Pursuant to Rule 25-30.431(4), F.A.C., we find that because this well is not interconnected with the other wells in the system, we will consider it 100 percent used and useful.

The 701 and 2,600 gpm wells pump water to aerators located on top of the ground storage tanks, and liquid chlorine is then pumped into the ground storage tanks. The two ground storage tanks have a usable capacity of 2,500,000 gallons. The single maximum day in the test year of 2,759,000 gallons occurred on October 14, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The utility's records indicate there is no excessive unaccounted for water. The utility's fire flow requirement is 1,500 gpm for 4 hours or 360,000 gallons.

The utility included a growth allowance of 780,260 gallons based on a growth rate of 27.63 percent. Pursuant to Rule 25-30.431(2)(a), F.A.C., growth is limited to 5 percent a year or

25 percent. We find that a growth allowance of 689,750 gallons shall be added to the used and useful calculation based on a growth rate of 25 percent.

The utility calculated the firm reliable capacity of the water system to be 1,673,333 gallons per day (gpd), based on the capacity of the irrigation well and the smaller of the two wells that are interconnected. However, we find that the firm reliable capacity is 672,960 gpd, based on the capacity of the smaller of the two wells operating at 16 hours a day, pursuant to Rule 25-30.4325(6)(b), F.A.C.

We find that, pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful based on a peak day of 2,759,000 gallons, a fire flow allowance of 360,000 gallons, growth of 689,750 gallons, and firm reliable capacity of 672,960 gpd. In addition, because the usable storage capacity is less than the peak day demand, the storage tanks shall be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C. According to the utility, all single family lots are completely built out with no remaining lots available for construction. Future growth will require newly installed main extensions. Therefore, we find that the treatment plant, ground storage tanks, and water distribution system be considered 100 percent used and useful.

Wastewater

In its application, the utility asserts that the Southlake wastewater treatment plant and collection system are 100 percent used and useful because: (1) the system is virtually built out; (2) the treatment plant design criteria builds in a level of excess capacity; (3) the construction was in compliance with a DEP requirement, pursuant to Section 367.081(2)(a)2.C, F.S.; and (4) there is an insignificant cost difference between a 1.15 million gallons per day (mgd) wastewater treatment plant (the permitted capacity) and a .904 mgd wastewater treatment plant (the current demand plus a growth allowance). In support of its position, the utility provided information showing the cost of several other wastewater treatment plants that cost significantly more per gallon of treatment than the Southlake facility. The utility also provided a statement that the cost to construct smaller incremental units would have been considerably more than the actual construction cost.

Southlake's 1994 Annual Report shows that it built its first wastewater treatment plant that year with a capacity of .3 mgd annual average daily flow (AADF). In 2002, the utility expanded the wastewater treatment plant to treat .6 mgd AADF. According to the utility, the service area was growing rapidly in 2002 and 2003, and the projected flow for 2008 was .93 mgd. The existing plant was struggling to consistently meet DEP treatment requirements, and faced potential violations and enforcement action because the plant did not have the DEP redundancy requirement of two units each capable of meeting average annual flow. While the utility could have considered building smaller increments of .3 mgd, the cost for these smaller units would have been considerably more than the cost of the actual construction. Furthermore, smaller plants have operational problems, and the smaller plants would not fit on the 10 acre site without reducing the disposal area. In 2005, Southlake built an additional .9 mgd expansion to the wastewater treatment plant. According to the current DEP permit, which expires on April 15,

2012, the Southlake wastewater treatment plant has a 1.5 mgd AADF design capacity using extended aeration, activated sludge; however, the permitted capacity is limited to 1.15 mgd AADF, the capacity of the rapid infiltrations basins (RIBS).

Pursuant to Rule 25-30.432, F.A.C., the wastewater treatment plant is 76 percent used and useful based on the AADF of 697,482 gpd, a growth allowance of 174,020 gpd, and the permitted capacity of the system of 1,150,000 gpd. We agree that Southlake was able to build the wastewater treatment systems at a lower cost than comparable plants, and the cost of the existing facilities are less than the cost might have been if smaller incremental units had been built as needed. However, we believe that allowing the plant to be considered 100 percent used and useful, instead of 76 percent used and useful, based on the utility's economies of scale argument, would be excessive. The service area is not built out and the remaining capacity will be needed as development in the existing service area continues. We note that, alternatively, used and useful could have been calculated using the 1.5 mgd capacity of the treatment plant by including the additional cost that would be needed to expand the effluent disposal capacity. This calculation would have resulted in a lower used and useful percentage than we approve in this case.

Pursuant to Rule 25-30.432, F.A.C, the wastewater treatment plant shall be considered 76 percent used and useful. The used and useful adjustment shall be made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. The wastewater collection system shall be considered 100 percent used and useful. According to the utility, all single family lots in the development are built out with no remaining lots available for construction, and future development will require newly installed main extensions.

RATE BASE

Audit Adjustments

Based on audit adjustments agreed to by the utility, plant in service shall be increased $114,555 for water and decreased $307,196 for wastewater. Land and Land Rights shall be decreased by $57,386 for water and $207,861 for wastewater. Construction Work in Progress shall be reduced by $58,895 for water. Accumulated Depreciation shall be decreased $31,105 for water and decreased $65,867 for wastewater. In its response to our staff's audit report,[3] Southlake agreed to the audit findings and audit adjustments listed below. The following adjustments shall be made to rate base.

[3] Audit Control No. 09-021-2-1, issued April 2009.

Audit Findings	Water	Wastewater
AF No. 1 – Decrease PIS for Unsupported Plant	($142,789)	($176,812)
AF No. 3 – Transfer PIS from Water to Wastewater	$0	$50,048
AF No. 3 – Transfer PIS from Wastewater to Water	$222,868	($222,868)
AF No. 3 – To Eliminate Duplicate Amount	$0	($15,000)
AF No. 6 – Reclassify Expensed Costs to Capital Costs	$34,476	$57,436
Plant in Service Adjustments	$114,555	($307,196)
Land and Land Rights		
AF No. 2 – Decrease Land	($57,386)	($207,861)
Construction Work in Progress		
AF No. 3 – Transfer Wastewater CWIP to Water PIS	($50,048)	$0
AF No. 3 – Adjust CWIP item to Expense	($8,847)	$0
Construction Work in Progress Adjustments	($58,895)	$0
Accumulated Depreciation		
AF No. 3 – Adjust A/D for CWIP / PIS Reclassification	$2,486	$30,794
AF No. 6 – Increase A/D for Reclassified Capital Costs	($431)	($899)
AF No. 1 – Adjust A/D for Undocumented Plant	$29,050	$35,972
Accumulated Depreciation Adjustments	$31,105	$65,867

Southlake could not provide supporting documentation for $142,789 in water plant and $176,812 in wastewater plant. Therefore, we approve adjustments to remove these amounts and related Accumulated Depreciation of $29,050 for water and $35,972 for wastewater.

Because the majority of plant additions posted in the general ledger Plant in Service accounts are transferred from Construction Work In Progress (CWIP), an analysis of CWIP was performed. We approve the following adjustments: $50,048 to reclassify plant from water CWIP to wastewater Plant in Service; $222,868 to reclassify plant from wastewater to water; $15,000 to remove a duplicate payment made to a vendor for wastewater plant; $2,486 to water and $30,794 to wastewater Accumulated Depreciation to reduce Accumulated Depreciation related to the reclassifications; and $8,847 to remove two water CWIP items which should have been expensed in prior years.

In 2004, the utility sold land with a book value of $20,000. In 2005, the utility had an addition to wastewater land in the amount of $50,585. As shown below, Land shall be decreased

by $57,386 for water and $207,861 for wastewater to reflect land value, as determined by Order No. PSC-00-0917-SC-WS.[4]

	Water	Wastewater
Per Order – 12/31/98	$95,500	$300,000
Land sale - 2004	($20,000)	0
Land Value after sale	$75,900	$300,000
Additions - 2005	0	$50,585
Per utility books	($133,286)	($558,446)
Staff Adjustment	($57,386)	($207,861)

We have also determined that the utility expensed costs that should have been recorded as capital expenditures, and charged to water and wastewater treatment systems. We have made adjustments of $34,476 to water Plant in Service, and $57,436 to wastewater Plant in Service to reclassify expensed plant to Plant in Service, and increased Accumulated Depreciation by $431 for water and $899 for wastewater accordingly.

Additional Plant in Service Adjustments

We find that Plant in Service shall be reduced by an additional $26,869 for water and increased by $263,228 for wastewater. Construction Work in Progress shall be reduced by an additional $134,895 for water. Non-Used and Useful Plant in Service shall be $1,052,860. Accumulated Depreciation shall be increased by an additional $346,922 for water and $348,671 for wastewater. Average Unamortized Project Costs shall be reduced by $117,088 for water and $67,088 for wastewater. We have made adjustments of ($21,224) to water and ($17,106) to wastewater Plant in Service to reconcile the audited test year figures to the utility's filing. We have also made adjustments of ($5,645) to water and $382,800 to wastewater Plant in Service to reflect averaging adjustments.

We directed an analysis of construction work in progress (CWIP) which consisted of: compiling all activity in each CWIP account for water subsequent to December 31, 1997, and wastewater subsequent to December 31, 1995; selecting line items that exceeded a certain threshold; requesting documentation that supports the selected line items; and determining that the documentation received is adequate and supports the sample items. The utility provided insufficient or no documentation for $145,941 in water CWIP and $102,466 in wastewater CWIP. We have therefore decreased water CWIP by $145,941, and wastewater Plant in Service by $102,466. The wastewater CWIP entries were made prior to 2005 and had been moved to wastewater Plant in Service. We also made an adjustment of $11,046 to include test year additions to CWIP.

[4] Issued May 9, 2000, In re: Emergency Petition by D.R. Horton Custom Homes, Inc. to eliminate authority of Southlake Utilities, Inc. to collect service availability charges, and In re: Complaint by D.R. Horton Custom Homes, Inc. against Southlake Utilities, Inc. in lake County regarding collection of certain AFPI charges.

In accordance with our determination that 24 percent of the wastewater treatment plant shall be considered nonused and useful, wastewater Plant in Service shall be decreased by $1,052,860, and related Accumulated Depreciation shall be decreased by $266,100.

We have made adjustments of ($493,910) to water and ($810,595) to wastewater Accumulated Depreciation to reconcile the audited test year figures to the utility's filing. We have also made adjustments of $146,988 to water and $195,824 to wastewater Accumulated Depreciation, to reflect averaging adjustments.

Southlake's MFRs included unamortized project costs of $117,088 ($50,000 for consumptive use permit and $67,088 for rate case expense) for water and $67,088 (rate case expense) for wastewater. Since these unamortized balances are non-annual project costs, we have made adjustments to remove them from rate base. The adjustments made are shown in the chart below.

Commission Adjustments	Water	Wastewater
Plant in Service (PIS)		
To adjust PIS to year-end General Ledger Amount	($21,224)	($17,106)
To reflect PIS averaging adjustment	($5,645)	$382,800
Adjust PIS for Lack of Documentation (AF No. 3)	$0	($102,466)
Additional PIS Adjustments	($26,869)	$263,228
Construction Work In Progress		
Adjust CWIP for Lack of Documentation (AF No. 3)	($145,941)	$0
To include test year additions to CWIP	$11,046	$0
Additional CWIP Adjustments	($134,895)	$0
Non-Used and Useful PIS		
Adjust PIS for Net Nonused and Useful	$0	($1,052,860)
Accumulated Depreciation		
To adjust A/D to staff calculated General Ledger Amount	($493,910)	($810,595)
Adjust A/D on Nonused and Useful PIS	$0	$266,100
To reflect A/D averaging adjustment	$146,988	$195,824
Additional A/D Adjustments	($346,922)	($348,671)
Average Unamortized (non-annual) Project Cost		
Remove Unamortized Project Costs included in MFR's	($117,088)	($67,088)

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operating and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. We have made adjustments to Southlake's O&M expenses. As a result, we find that working capital of $60,965 and $93,214 shall be approved for water and wastewater, respectively. This reflects a decrease of $8,796 to the utility's requested working capital allowance of $69,761 for water and a decrease of $18,470 to Southlake's requested allowance of $111,684 for wastewater. Details of the formula method for working capital are as follows:

Working Capital	Water	Wastewater
O&M	$487,721	$745,712
Working Capital Factor	/8	/8
Working Capital Allowance	$60,965	$93,214
Working Capital Allowance Per Filing	$69,761	$111,684
Adjustment	($8,796)	($18,470)

The appropriate amount of working capital for Southlake Utility shall be $60,965 for water and $93,214 for wastewater.

Contributions in Aid of Construction

We directed performance of an analysis of CIAC for the years 1999 through 2008. Adjustments of ($22,786) to water and ($27,191) to wastewater were made to increase CIAC to the adjusted general ledger amount. We also calculated averaging adjustments of $13,828 for water and $19,666 for wastewater to reflect average balances. We find that test year CIAC shall be $3,955,193 for water and $5,360,474 for wastewater

For Accumulated Amortization of CIAC, we made adjustments of ($18,403) to water and ($99,460) to wastewater to decrease Accumulated Amortization of CIAC to the adjusted general ledger amount. We also calculated averaging adjustments of ($48,194) for water and ($63,475) for wastewater to reflect average balances. We find that test year Accumulated Amortization of CIAC shall be $824,009 for water and $1,401,350 for wastewater.

Rate Base Conclusion

Based on our adjustments addressed above, we find that the appropriate average rate base for the December 31, 2008 test year is $3,312,594 for water and $534,143 for wastewater. Our approved water and wastewater rate bases are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments to rate base are shown on Schedule No. 1-C.

RETURN ON EQUITY (ROE)

The ROE requested in the utility's filing is 9.56 percent for the test year ending December 31, 2008. It appears that the utility used the 2008 leverage formula and incorrectly

included deposits when calculating the equity ratio. Based on our approved 2009 leverage formula and an equity ratio of 100 percent, we find that the appropriate ROE is 9.67 percent for both the water and wastewater rate bases.

Southlake is located in the Central Florida Coordination Area (CFCA), encompassing portions of the St. Johns River, Southwest and South Florida Water Management Districts. These water management districts jointly concluded in 2006 that the availability of sustainable quantities of groundwater in central Florida are insufficient to meet future public water supply demands in the region. In addition, these water management districts concluded that alternative water supply sources must be developed to meet increased demands in central Florida beyond 2013. The requirement to develop alternative water supplies was incorporated by rule amendment in February 2008.[5]

Southlake's noncompliance with SJRWMD's requirements has been ongoing since 2004. In March of 2005, the District issued the utility a Notice of Violation because the utility exceeded its allocated withdrawal in 2004 by 66.5 million gallons (66.5 mgals), or approximately 16 percent. Subsequently, the utility exceeded its allocated withdrawal in 2005 by 239.8 mgals, or approximately 57 percent. These violations resulted in an executed Consent Order between the District and the utility in July 2006. The primary condition of the Consent Order was that the utility not undertake any further withdrawals of water except as authorized by District permit or the Consent Order. Additionally, the Consent Order required the utility to retain a half-time position for a Water Conservation Compliance Coordinator and a full-time position for a Water Conservation field officer.[6]

On July 11, 2006, the District issued Southlake a CUP renewal, with an expiration date of January 1, 2009. District staff were concerned that withdrawals exclusively from the Upper Floridan Aquifer (UFA) to meet projected future demands could have adverse impacts on water resources and related natural systems. Based on the utility's past noncompliance, and the need to reduce or eliminate withdrawals from the UFA as soon as possible, the permit was issued for a short duration (two and one-half years), with an expiration date of January 1, 2009. The District placed 37 conditions in the permit.[7] Substantive conditions in the permit include:

1) timely submission of periodic reports regarding water level data from UFA well C;

2) implementation of the utility's water conservation plan on file with the District;

3) a requirement of alternative distribution lines in new developments to enable reuse;

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[5] Chapter 40C-2, F.A.C. Specifics are incorporated by rule in the Applicant's Handbook (sections 3.1.7, 6.5.4, and 12.10.)

[6] See F.O.R. 2006-57, issued July 12, 2006, In re: Southlake Utilities, 16654 Crossing Blvd., Suite 2, Clermont, FL, 34711, CUP No. 2392.

[7] SJRWMD Consumptive Use Permit no. 2392 (District document no. Permit wC 2392 6.tif).

4) initiation of a PSC rate case for a water conserving rate structure, and keeping the District apprised of increased operating costs and construction programs, and how these will contribute to favorable conditions of the rate case;

5) initiation of upgrades to the wastewater treatment plant and distribution lines by January 1, 2008, unless otherwise agreed to by the District;

6) submission, upon completion, of a report summarizing the testing plan for Lower Floridan Aquifer (LFA) well F, and if blending UFA and LFA water is proposed, a demonstration that UFA withdrawals will not cause environmental harm;

7) a requirement that the three wetlands identified in the permit be monitored;

8) if significant unanticipated impacts to wetlands occurs, the District shall revoke the permit, in whole or in part, until adverse impacts are mitigated;

9) within 18 months of permit issuance, the utility shall identify viable, potential water supply partners regarding development of water supply; and

10) total withdrawals are not to exceed 715.4 mgals in 2006, 919.8 mgals in 2007 and 1,040.25 mgals in 2008.

In April 2007, less than one year after the issuance of its CUP renewal, the District issued the utility a Notice of Violation regarding noncompliance with several of the conditions contained in the CUP.[8] In addition, in January 2009, the District received a report from CH2M Hill which concluded that there appeared to be a drawdown of two feet in the surficial aquifer and three feet in the UFA.

Currently, the utility is in substantial noncompliance with its CUP. Based on information obtained from the District,[9] the utility has committed 22 violations and received 7 citations from July 11, 2006, through January 1, 2009. Issues of noncompliance include or have included:

1) failure to keep the SJRWMD apprised of the status of construction programs and increased operating costs, and how these activities contribute to favorable conditions for initiating a rate case with the Commission to develop a water-conserving rate structure;

2) failure to maintain flow meter accuracy thresholds;

3) failure to submit periodic reports of weekly water level data taken from UFA Well C;

4) failure to conduct hydrologic and photo monitoring of specified wetland areas;

[8] SJRWMD violation notice letter (District document no. VioNtcLttr 2392 6 1247545.tif).
[9] SJRWMD, Comprehensive Compliance Review, August 3, 2009.

5) adversely impacting wetlands, lakes or spring flows; and

6) failure to identify viable, potential water supply partners by January 2008.

Southlake and the SJRWMD have met on several occasions to discuss Southlake's noncompliance and possible remedies, but no agreements have been reached.

We have the authority to reduce a utility's ROE, and in certain situations we have done so. Section 367.111(2), Florida Statutes, provides that:

> If the commission finds that a utility has failed to provide its customers with water or wastewater service that meets the standards promulgated by the Department of Environmental Protection or the water management districts, the commission may reduce the utility's return on equity until the standards are met.

Although it is within our authority to reduce Southlake's water ROE by 100 basis points for non-compliance, we choose not to implement a ROE reduction at this time. We encourage Southlake to work with the SJRWMD to expedite a resolution of any issues of non-compliance. As stated above, we find that the appropriate return on equity (ROE) is 9.67 percent for both the water and wastewater rate bases.

COST OF CAPITAL

As required by Rule 25-30.033(1)(w), F.A.C., the utility included a schedule of its capital structure in its application. The test year amounts for cost of capital were taken directly from Southlake's MFR filing Schedule D-1. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008, and the water and wastewater ROEs approved above we find that the overall weighted average cost of capital for water and wastewater is 9.47 percent. As shown on Schedule No. 2, the utility's capital structure consists of common equity and customer deposits. These rates are the result of the application of our 2009 water and wastewater return on equity leverage graph formula.

NET OPERATING INCOME

We find that adjustments shall be made to reduce water O&M by $137,243, and wastewater O&M by $181,305.

O&M Expense

We analyzed Southlake's O&M expenses for water and wastewater to determine if the amounts recorded in the general ledger were accurately stated, and to determine if a difference exists between O&M expenses reported in the general ledger and O&M expenses reported in the filing. The utility's filing includes O&M expenses based upon projections for the calendar year 2008. Total O&M expenses per the utility filing are $624,964 for water and $927,017 for wastewater. Test year general ledger balances for O&M water and wastewater expenses are

$589,016 and $929,931, respectively, a difference of ($35,948) for water and $2,914 for wastewater. An adjustment of ($35,948) for water and $2,914 for wastewater shall be made to the filing to reconcile it to the test year general ledger amounts.

Rate Case Expense Amortization

Rate case expense shall be recovered over four years for an annual expense of $62,283 with $31,141 allocated to water and $31,141 allocated to wastewater. As explained below, we removed utility rate case expense of $68,307 for water and $67,307 for wastewater included in the test year.

Consumptive Use Permit

In 2008, Southlake began preparation of a CUP required by SJRWMD. As calculated by the utility, anticipated costs total $103,950. Based on the last CUP issued, it appears that Southlake's CUP will be issued by the SJRWMD for a period of three years. Because of Southlake's non-compliance with SJRWMD requirements, it may be some time before the actual CUP is issued. We find that an appropriate amortization period for the CUP shall be five years, based on Rule 25-30.433(8), F.A.C., which states "Non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified." Since we cannot anticipate if or when SJRWMD will issue Southlake its CUP, we approve a five year period for amortization of this permit, with annual amortization of $20,790. Costs incurred and expensed during the test period for the CUP are $11,389. We approve the inclusion of an additional $9,401 in CUP permit costs for the test year.

Purchased Power

The utility's general ledger showed purchased power expense of $66,977 for water and $115,841 for wastewater for the test year. According to the audit report, purchased power expense for the test year of 2008 was $68,692 for water and $117,814 for wastewater. We have made adjustments of $1,715 for water and $1,973 for wastewater purchased power expense to include purchased power expense that was incurred during the test period, but billed after the test period.

Land Lease

According to the audit report, for the test year the utility had a capital lease agreement with Southlake Development, Ltd. A capital lease requires a company to record the plant asset on its books and records, with payments made to the lessor used to reduce the cost of the land lease obligation. Instead, the utility recorded the payments to expense accounts 641 and 741 (Rental of Building - Real Property) in the amounts of $11,778 and $45,299, respectively. As this property is now owned by the utility, we find that these costs shall be removed from O&M expenses.

Contractual Services – Other

Southlake included Contractual Services - Other costs of $8,250 in water and $8,250 in wastewater for the test year that were out-of-period non-recurring expenses. The costs were incurred in connection with an examination by the Internal Revenue Service for the 2005 tax year. We have removed these costs from O&M as out-of-period expenses.

Communication Expense

We have reviewed postage costs included in the utility's communications expense account. Our auditors found support for $1,324 for water and $1,324 for wastewater postage expense. Southlake recorded $1,750 for water and $1,750 for wastewater postage expense. We have made adjustments of ($426) to water and ($426) to wastewater communication expense to reflect the unsupported postage cost.

Reclassification of Capital Costs

We have determined that the utility expensed certain costs that should have been recorded as capital expenditures. We have reclassified the following costs from O&M expenses to rate base:

	Water	Wastewater
Mapping	$34,476	$34,477
Sanitary Lateral Connection	0	$5,700
Lift Station Construction	0	$17,259
Total	$34,476	$57,436

Unsupported Expense

The utility bears the responsibility of maintaining documentation that supports its general ledger amounts. During the audit of O&M expense, Southlake could not provide supporting documentation for certain expense items recorded in the general ledger. Unsupported water expense totaled $20,315 and wastewater expense totaled $38,615. We find that these amounts shall be removed from O&M for the test year.

Based on the above adjustments, and our decision on rate case expense, which we will explain below, we find that O&M expenses shall be reduced by $137,243 for water and $181,305 for wastewater. The following table reflects our O&M expense adjustments for the test year ending December 31, 2008.

Description of O&M Expense	Commission Adjustments to 2008 O&M Water	Wastewater
To adjust filing to 12/31/2008 General Ledger (AF No. 6)	($35,948)	$2,914
To reflect staff calculated Rate Case expense	31,141	31,141
To reflect CUP cost amortized over 3 year period.	9,401	0
To adjust purchased power to test year amount	1,715	1,973
To remove land lease expense (AF No. 6)	(11,778)	(45,299)
To remove out of test year contractual services	(8,250)	(8,250)
To reflect actual test year postage cost	(426)	(426)
To reflect audit finding regarding reclassification of capital costs (AF No. 6)	(34,476)	(57,436)
To reflect audit finding regarding Undocumented Costs (AF No. 6)	(20,315)	(38,615)
To remove test year rate case expense (AF No. 6)	(68,307)	(67,307)
Total	($137,243)	($181,305)

Rate Case Expense

Southlake initially submitted in its MFRs $268,350 in rate case expense, with an annual amortization expense of $67,088. The utility subsequently updated its estimated rate case expenses to $360,353. The breakdown of fees is shown below as reflected in the Utility's MFRs.

	MFR Estimated	Utility Revised Actual
Acctg/Eng- Guastella & Assoc./Printing/Noticing	$158,350	$243,777
Legal- James Ade	77,000	87,851
In house/Administrative - Cagan & Kitchens	10,000	10,000
Accounting – DeNagy/Corbin	15,000	10,725
Filing Fee	8,000	8,000
Total	$268,350	$360,353

Pursuant to Section 367.081(7), F.S., we are directed to determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses for the current rate case. Based on our review, we find that several adjustments are necessary to the revised rate case expense estimate.

The first adjustment is to the hourly rate charged by Guastella Associates, which includes services by Mr. Guastella and Mr. White. In this proceeding, Mr. Guastella and Mr. White charged between $195 - $275 per hour for rate case expense. According to the invoices submitted, 1,142.5 total hours were billed for services provided by Mr. Guastella and Mr. White. We believe the hourly rates of $195 - $275 per hour are high compared to other accounting and rate consultants that practice before us. While Southlake's decision to retain Guastella

Associates for its expertise is reasonable, it does not automatically follow that the customers should have to bear the full costs for its services. We have previously reduced Mr. Guastella's hourly rate and found that an hourly rate of $140 was appropriate.[10] Applying a similar rate reduction in this docket results in a decrease to consulting and accounting fees of $79,380.

The second adjustment involves costs incurred to correct deficiencies in the MFR filing. Based on information obtained from Guastella Associates and Southlake's counsel, Jim Ade, Southlake was billed $7,695 by Guastella Associates and $3,835 by Mr. Ade for correcting the MFR deficiencies and revising the utility's filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[11] Accordingly, we find that $11,530 ($7,695 + $3,835) shall be removed as duplicative and unreasonable rate case expense.

The third adjustment relates to costs incurred meeting with SJRWMD to discuss Southlake's non-compliance with its requirements. These costs would not have been necessary if Southlake had fulfilled the requirements agreed to in its CUP issued three years ago. We find that customers shall not have to pay for Southlake's non-compliance with SJRWMD requirements. Therefore, we have removed $3,221 of Guastella Associates costs and $7,092 of Jim Ade's costs related to meeting with the SJRWMD regarding Southlake's non-compliance with SJRWMD's requirements.

Finally, we find that the estimated cost of $10,000 for in-house rate case expense shall be eliminated. There is no supporting documentation that certain utility staff, who are already paid a salary, worked any overtime. This cost component is duplicative and shall not be allowed.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, we have broad discretion with respect to the allowance of rate case expense. We believe it would be an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

Southlake's' revised rate case expense shall be decreased by $111,222 for MFR deficiencies and for unsupported, unreasonable rate case expense. The appropriate total rate case expense shall be $249,131. A breakdown of rate case expense is as follows:

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[10] See Order Nos. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In Re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc. and PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In Re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.

[11] See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Description	MFR Estimated	Utility Revised Actual & Estimated	Commission Adjustments	Total
Legal Fees	$77,000	$87,851	($10,927)	$76,924
Consultant Fees-G&W/Noticing	158,350	243,777	(90,295)	153,482
Consultant Fees- DeNagy/Corbin	15,000	10,725	0	10,725
In-House Fees-Cagan/Kitchens	10,000	10,000	(10,000)	0
Filing Fee	8,000	8,000	0	8,000
Total Rate Case Expense	$268,350	$360,353	($111,222)	$249,131
Annual Amortization	$67,088	$90,088	($27,806)	$62,283

Southlake's revised estimate of total rate case expense is $360,353, which would be $90,088 amortized over four years. The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S., as mentioned earlier. Based on the data provided by Southlake and the adjustments approved above, we find that annual rate case amortization shall be $62,283, allocated $31,141 for water and $31,141 for wastewater.

Taxes Other than Income

Our staff's Audit Finding No. 7 shows that taxes other than income should be increased by $12,884 for water and $17,114 for wastewater. We have determined that the payroll tax was overstated by $134 and $104, for water and wastewater, respectively. The utility's filing understated the taxes other than income general ledger balance by $17,979 for water and $22,137 for wastewater. In addition, the filing overstated regulatory assessment fees (RAFs) recorded in the general ledger by $4,961 for water and $4,919 for wastewater. Details of these adjustments are as follows:

Taxes Other Than Income

Description	Water	Wastewater	Total
Payroll Taxes – AF No. 7	($134)	($104)	($238)
Property Tax – AF No. 7	$17,979	$22,137	$40,116
RAF – AF No. 7	($4,961)	($4,919)	($9,880)
Total Adjustment	$12,884	$17,114	$29,998

Due to the nonused and useful adjustment for the wastewater plant we approved above, we find it appropriate to decrease property tax expense for the wastewater system by $5,506. Details of this adjustment are as follows:

Non-Used and Useful Adjustment to Property Taxes

Description	Water	Wastewater
Non-used and Useful PIS Adjustment	$0	($1,052,860)
Property Tax Rate 0.523%	0.523%	0.523%
Property Tax Adjustment	$0	($5,506)

Southlake included regulatory assessment fees of $8,273 for water and $21,956 for wastewater for the adjusted test year, based on the utility calculated revenue increase. We have reduced RAFs by $8,273 for water and $21,956 for wastewater for calculation test year revenue. Combining these adjustments, taxes other than income for the 2008 test year shall be increased by $4,611 for water and decreased by $10,348 for wastewater, as shown below.

Adjustments To Taxes Other Than Income	Water	Wastewater
Taxes Other than Income	$12,884	$17,114
Non-Used and Useful Adjustment to Property Taxes	$0	($5,506)
Test year RAFs	($8,273)	($21,956)
	$4,611	($10,348)

Net Depreciation Expense

Southlake's filing included test year depreciation expense of $201,627 for water and $391,647 for wastewater. We have calculated test year depreciation expense to be $293,976 for water and $263,580 for wastewater. We have made adjustments of $92,349 to water and $128,067 to wastewater to reflect test year depreciation.

Audit finding No. 1 determined that $142,789 of water and $176,812 of wastewater plant in service did not have supporting documentation and shall be removed from rate base. Related depreciation for these amounts are $4,469 for water and $5,534 for wastewater, which shall be removed from test year depreciation expense.

Audit finding No. 6 reclassified $34,476 of water and $57,436 of wastewater costs that were expensed by the utility to capital expenditures. The related depreciation expense is $431 for water and $899 for wastewater. Test year depreciation shall be increased by $431 for water and $899 for wastewater.

Audit finding No. 3 reclassified Plant in Service between water and wastewater accounts. We have made adjustments of $1,401 to water depreciation expense and ($9,086) to wastewater depreciation expense to reflect depreciation related to the reclassifications.

In accordance with our determination that 24 percent of the wastewater treatment plant should be considered nonused and useful, we have made an adjustment of ($32,955) to reflect non-used and useful wastewater depreciation expense.

Southlake's filing included $125,541 of water CIAC amortization and $227,098 of wastewater CIAC amortization for the test year. We have calculated test year CIAC

amortization to be $113,913 for water and $150,033 for wastewater. Accordingly, we have made adjustments of $11,628 to water CIAC amortization, and $77,065 to wastewater CIAC amortization to reflect test year CIAC amortization.

We find that based on the above adjustments, net depreciation expense for water shall be increased by $101,340 and net depreciation expense for wastewater shall be increased by $158,456.

Net Operating Income Conclusion

The utility adjusted test year revenues are $1,184,327 for water and $1,293,211 for wastewater. As discussed above, we have made adjustments of ($183,853) for water and ($487,912) for wastewater to remove the utility's requested final revenue increase. we also made adjustments of ($110,257) for water and ($109,236) for wastewater to reflect overstated test year revenues in the utility's filing (see audit finding No. 5). Based on the above adjustments, the Commission adjusted test year operating income shall be $114,065 for water and ($339,644) for wastewater.

PRE-REPRESSION REVENUE REQUIREMENT

We approve the pre-repression revenue requirement shown in the chart below.

	Test Year Revenues	Increase	Revenue Requirement	Increase
Water	$890,217	$208,872	$1,099,089	23.46%
Wastewater	$695,973	$408,587	$1,104,560	58.71%

The computation of the revenue requirement is shown on Schedules No. 3-A and 3-B. This results in a revenue requirement of $1,099,089 which represents an increase of $208,872 or 23.46 percent for water and $1,104,560 which represents an increase of $408,587 or 58.71 percent for wastewater. These pre-repression revenue requirements will allow the utility the opportunity to recover its expenses and earn an overall 9.47 percent return on its investment in water and wastewater rate base.

RATE STRUCTURE

The current rate structure for the utility's water system is the BFC/uniform gallonage charge rate structure, with a monthly BFC for a 5/8" x 3/4" meter of $8.98. Customers are also charged $0.84 for each 1,000 gallons (kgal) used. This rate structure is considered usage-sensitive, because customers are charged for all gallons consumed. The residential customer base is nonseasonal, with an average consumption per customer of 12.4 kgals per month. The current rate structure for the utility's wastewater system is the BFC/gallonage charge rate structure, with a monthly BFC for a 5/8" x 3/4" meter of $9.76. Residential customers are

charged $0.86 for each 1,000 kgal used, with a cap on billed monthly consumption of 10 kgals. General service customers are charged $1.02 per kgal used, with no cap on billed consumption.

We take several things into consideration when designing rates, including the current rate structure, characteristics of the utility's customer base, various conditions of the utility's CUP, current and anticipated climatic conditions in the utility's service area, and the magnitude of the recommended revenue increase. Based on the magnitude of the approved water system revenue increase, coupled with the need to reduce consumption to the extent possible, the rate structure we have approved in this case places the entire revenue requirement increase into the gallonage charge. We considered our approved rate structure, along with two alternatives, as shown on Table RS below. As indicated by the values shown on Table RS, when compared to the current rate structure, Alternatives 1 and 2 both result in price decreases at certain levels of consumption. Therefore, our approved rate structure will be more effective than the alternatives in encouraging water conservation.

TABLE RS

SOUTHLAKE UTILITIES, INC.
COMMISSION APPROVED AND ALTERNATIVE RATE STRUCTURES
FOR THE WATER SYSTEM'S RESIDENTIAL CUSTOMERS
PRE-REPRESSION ANALYSIS

Current Rate Structure and Rates	
BFC/uniform kgal	
BFC	$8.98
All kgals	$0.84

Typical Monthly Bills	
Cons (kgal)	
0	$8.98
5	$13.18
10	$17.38
15	$21.58
20	$25.78
25	$29.98

Approved Rate Structure and Rates	
Three-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10.001-20 Kgals; 20+ Kgals // BFC = 34.85 percent Rate Factors @ 1.0, 1.5 and 2.0	
BFC	$8.98
0-10 Kgals	$0.99
10.001-20 Kgals	$1.48
In Excess of 20 Kgals	$1.97

Typical Monthly Bills	
Cons (kgal)	
0	$8.98
5	$13.93
10	$18.88
15	$26.28
20	$33.68
25	$43.53

Alternative 1 (not approved)

Three-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10.001-20 Kgals; 20+ Kgals // BFC = 30 percent Rate Factors @ 1.0, 1.5 and 2.0

BFC	$7.73
0-10 Kgals	$1.06
10.001-20 Kgals	$1.59
In Excess of 20 Kgals	$2.12

Typical Monthly Bills

Cons (kgal)	
0	$7.73
5	$13.03
10	$18.33
15	$26.28
20	$34.23
25	$44.83

Alternative 2 (not approved)

Three-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10.001-20 Kgals; 20+ Kgals // BFC = 34.85 percent Rate Factors @ 1.0, 2.0 and 3.0

BFC	$8.98
0-10 Kgals	$0.79
10.001-20 Kgals	$1.58
In Excess of 20 Kgals	$2.37

Typical Monthly Bills

Cons (kgal)	
0	$8.98
5	$12.93
10	$16.88
15	$24.78
20	$32.68
25	$44.53

In order to recognize the capital intensive nature of wastewater facilities, we find that the wastewater BFC shall be set to recover 50 percent of the revenue requirement. Both the residential and general service gallonage charge portions of the utility's wastewater rate structure are consistent with our prior practice. A complete discussion of our rate structure methodology is contained in Attachment A.

Based on the foregoing, the information contained on Table RS, and the discussion contained in Attachment A, we find that the appropriate rate structure for the utility's water system is a three-tiered inclining-block rate structure, applicable to residential customers, with usage blocks for monthly consumption of: 1) 0-10 kgals; 2) 10.001-20 kgals; and 3) consumption in excess of 20 kgals. The usage block rate factors shall be 1.0, 1.5, and 2.0, respectively. The BFC/uniform gallonage charge rate structure shall be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system shall be set at 34.9 percent. The appropriate rate structure for the utility's wastewater customers is the BFC/gallonage charge rate structure. Residential wastewater consumption shall be capped for billing purposes at 10 kgal per month. The general service wastewater gallonage charge shall be 1.2 times the corresponding residential gallonage charge. The BFC cost recovery allocation shall be set at 50 percent.

REPRESSION ADJUSTMENTS

We find that repression adjustments to Southlake's water and wastewater systems are appropriate in this case. Residential water consumption shall be reduced by 3.6 percent, resulting in a consumption reduction of approximately 9,205 kgals. Total residential water consumption for rate setting is 245,635 kgals. Total water consumption for rate setting is 530,483 kgals, which represents a 1.7 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are $1,172 in purchased power expense, $482 in chemicals expense and $78 in RAFs. The post-repression revenue requirement for the water system is $1,083,212.

Residential wastewater consumption shall be reduced by 1.3 percent, resulting in a consumption reduction of approximately 1,768.5 kgals. Total residential wastewater consumption for rate setting is 133,132.5 kgals. Total wastewater consumption for rate setting is 355,401.5 kgals, which represents a 0.5 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are $1,063 in sludge removal expense, $583 in purchased power expense, $158 in chemicals expense, and $85 in RAFs. The post-repression revenue requirement for the wastewater system is $1,102,670.

In order to monitor the effects of both the changes in revenues and rate structure, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed, and the revenues billed for each system. In addition, the reports shall be prepared, for both the water and wastewater systems, by customer class and meter size. The reports shall be filed with our 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 Southlake makes adjustments to consumption in any month during the reporting period, it shall file a revised monthly report for that month within 30 days of any revision.

Using our database of utilities that have previously had repression adjustments made, we calculated repression adjustments for this utility based upon the recommended increases in revenue requirements for the test year, using a price elasticity of demand of -0.2 applied to consumption in the second and third usage blocks, as requested by the utility in its filing. Although we typically approve a price elasticity of demand of -0.4, we have used the utility's requested value of -0.2. Otherwise the methodology for calculating repression adjustments is same methodology that we have approved in prior cases.[12]

The filing requirements for these repression reports have traditionally been on a quarterly basis. In the recent Labrador Utilities' case in Docket No. 080249-WS, we approved requiring the reports on a semi-annual, rather than a quarterly, basis.[13] For purposes of consistency and equal treatment among utilities, on a going-forward basis the reporting period shall be on a semi-annual basis. Reporting periods shall not be any longer than semi-annual. As we design more aggressive conservation-oriented rate structures, it is important to obtain information regarding consumption changes on a frequent basis.

Based on the foregoing, repression adjustments to the utility's water and wastewater systems are appropriate. Residential water consumption shall be reduced by 3.6 percent, resulting in a consumption reduction of approximately 9,205 kgals. Total residential water consumption for rate setting is 245,635 kgals. Total water consumption for rate setting is 530,483 kgals, which represents a 1.7 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are $1,172 in purchased power expense, $482

[12] See Order No. PSC-08-0622-PAA-WU, issued September 24, 2008, in Docket No. 060540-WU, In re: Application for increase in water rates in Pasco County by Colonial Manor Utility Company; Order No. PSC-07-0385-SC-WS, issued May 1, 2007, in Docket No. 060575-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc.

[13] Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

in chemicals expense and $78 in RAFs. The post-repression revenue requirement for the water system is $1,083,212.

Residential wastewater consumption shall be reduced by 1.3 percent, resulting in a consumption reduction of approximately 1,768.5 kgals. Total residential wastewater consumption for rate setting is 133,132.5 kgals. Total wastewater consumption for rate setting is 355,401.5 kgals, which represents a 0.5 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are $1,063 in sludge removal expense, $583 in purchased power expense, $158 in chemicals expense, and $85 in RAFs. The post-repression revenue requirement for the wastewater system is $1,102,670.

WATER AND WASTEWATER RATES

Excluding miscellaneous service revenues, the water rates we approve in this case are shown on Schedule No. 4-A, and are designed to produce revenues of $1,083,212. Approximately 34.9 percent (or $378,043) of the water monthly service revenues is recovered through the base facility charges, while approximately 65.1 percent (or $705,170) represents revenue recovery through the consumption charges. Excluding miscellaneous service revenues, the wastewater rates we approve shown on Schedule No. 4-B are designed to produce revenues of $1,102,670. Approximately 50 percent (or $551,335) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 50 percent (or $551,335) represents revenue recovery through the consumption charges. The utility's private fire protection rates are based on 1/12 of the recommended base facility charge for the utility's meter sizes, consistent with Rule 25-30.465, F.A.C.

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

INTERIM REFUND

By Order No. PSC-09-0116-FOF-WS, issued February 25, 2009, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is $1,038,940 for water and $1,034,391 for wastewater, which represents an increase of $47,301 or 4.77 percent for water, and $238,093 or 29.90 percent for wastewater:

Interim versus Final Rate Increase - Refund Calculation	**Water**	**Wastewater**
Total 2007 Test Year Revenues	$991,639	$796,297
Less: Miscellaneous Revenues	18,128	0
Test Year Revenues from Service Rates	$973,511	$796,297
Revenue Increase	$47,301	$238,093
% Service Rate Increase	4.77%	29.90%
2007 Test Year Revenue and Interim Revenue Increase	$1,038,940	$1,034,391
2008 Test Year Revenue Increase %	23.46%	58.71%
2008 Test Year Revenue	$1,099,089	$1,104,560
2008 Test Year Revenue	$1,099,089	$1,104,560
2008 Rate Case Expense Grossed-Up for RAF	($32,608)	($32,608)
2008 Test Year Revenue less Rate Case Expense	$1,066,481	$1,071,952
2007 Test Year Revenue and Interim Revenue Increase	$1,038,940	$1,034,391
Excess of Interim Collected	-0-	-0-
Excess of Interim Collected	-0-	-0-
Months	12	12
Per Month / Collection Period Difference	-0-	-0-
Number of Months Interim Rates Collected (April - Sept 2009)	6	6
Refund Amount ($0 if 2008 Revenue w/o Rate Case Expense > 2007 Revenue)	-0-	-0-

According to Section 367.082, F.S., any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect, shall be removed. Rate case expense is an example of an adjustment that is recovered only after final rates are established.

In this proceeding, the test period for establishing interim rates was December 31, 2007, and the final rates are based on the 12-month period ending December 31, 2008. Southlake's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of the last authorized range for equity earnings.

To determine whether a refund of interim rates is appropriate, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because the item is prospective in nature and did not occur during the interim collection period. Water interim rates produced a revenue deficit of ($27,541) and wastewater interim rates produced a revenue deficit of ($37,561). We have therefore determined that no refund of interim rates is due.

FOUR YEAR RATE REDUCTION TO REMOVE AMORTIZED RATE CASE EXPENSE

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is $31,141 for water and $31,141 for wastewater. The grossed-up amount, factoring in a RAF of 4.5 percent, equals $32,608 for both water and wastewater. The decreased revenue will result in the rate reduction identified on Schedule Nos. 4-A and 4-B. Southlake shall file revised tariff sheets and a proposed customer notice to reflect the rates we have approved. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. Southlake shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

NARUC UNIFORM SYSTEM OF ACCOUNTS

To ensure that the utility adjusts its books in accordance with the Commission decision, Southlake shall 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Southlake Utilities, Inc.'s application for general rate increase in water and wastewater systems in Lake County is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that Southlake Utilities, Inc. is hereby authorized to charge the new rates as set forth in the body of this Order. It is further

ORDERED that in order to monitor the effects of both the changes in revenues and rate structure determined in this case, Southlake Utilities, Inc. shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports shall be prepared, for both the water and wastewater systems, by customer class and meter size. The reports shall be filed with our 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 Southlake makes adjustments to consumption in any month during the reporting period, it shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that Southlake Utilities shall file revised tariff sheets and a proposed customer notice to reflect the rates we have approved. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The utility shall provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the water and wastewater rates shall 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 at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions 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 shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

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

ORDERED that Southlake shall provide proof, within 90 days of the issuance of the final order in this docket, that adjustments to all the applicable NARUC USOA primary accounts have been made to comport with the determinations made herein. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C. is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, in the event that this Order becomes final, this docket shall be closed administratively, and the corporate undertaking shall be released.

By ORDER of the Florida Public Service Commission this 15th day of September, 2009.

ANN COLE
Commission Clerk

(SEAL)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the four year statutory rate reduction and the requirement of proof of adjustment to the utility's books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 6, 2009. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested

person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

SOUTHLAKE UTILITIES, INC.
TEST YEAR ENDED DECEMBER 31, 2008

ATTACHMENT A
PAGE 1

DETERMINATION OF APPROPRIATE RATE STRUCTURES

HISTORY OF CURRENT RATES

(1) The utility's BFC/gallonage charge rates were first established in the Utility's original certificate case in Docket No. 900738-WS.[14] The approved monthly rates for the water system included a BFC for a 5/8" x 3/4" meter of $7.71, with an approved corresponding charge of $8.12 for the wastewater system. The approved gallonage charges were $0.72 per kgal and $0.71 per kgal, respectively. The residential wastewater gallonage charge was capped at 10 kgal of monthly usage.

(2) The utility has received price index rate adjustments as a method of increasing its rates. The instant case represents the utility's first full rate relief proceeding.

PRACTICES WITH THE WATER MANAGEMENT DISTRICTS

(3) We have a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.[15] We follow the WMD guideline whenever possible.[16]

(4) The utility is located in the St. Johns River Water Management District (SJRWMD) in a Water Resource Caution Area. In addition, the utility is located within the Central Florida Coordination Area. This represents an area of the state in which the St. Johns River Water Management District, the Southwest Florida Water Management District and the South Florida Water Management District (hereinafter referred to as the Districts) jointly concluded in 2006 that the availability of sustainable quantities of groundwater in central Florida is insufficient to meet future public water supply demands. In addition, the Districts concluded that alternative water supply sources must be developed to meet increased demands in central Florida beyond 2013. The Districts identified the Central Florida Coordination area as the area for which a coordinated and consistent approach to addressing the identified water supply issues would be developed and implemented.[17]

(5) As discussed in this Order, the utility is not in compliance with its CUP issued by the SJRWMD. Specifically, items of noncompliance include failure of the utility to include well relocation and reuse items as part of the instant proceeding.

WATER CONSERVATION INITIATIVE

(6) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (DEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40 percent of the utility's total revenues.[18]

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[14] See Orders Nos. 23947 and 24564, issued May 21, 1991 in Docket No. 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

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

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

[17] Central Florida Coordination Area Planning Work Group, Final Report, January 2008.

[18] Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

WATER CONSERVATION INITIATIVE (cont.)

(7) Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.[19]

FLORIDA STATUES re: WATER CONSERVATION

(8) Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."

CLIMATIC CONDITIONS

(9) We evaluate available drought information to better design rates that achieve conservation. Based on information from the National Drought Mitigation Center's U.S. Drought Monitor, the utility is not currently located in an abnormally dry area of Florida.[20]

(10) Based on information from the Southeast Regional Climate Center, the utility's service area will experience greater than average temperatures and precipitation through October 2009.[21]

WATER SYSTEM USAGE PATTERNS:

(11) The utility has a nonseasonal residential customer base, but a more seasonal multi-family / general service customer base. The average monthly consumption per residential customer is approximately 12.4 kgal. A review of the utility service area indicates that most of the customers' lawns are well kept. Many homes are well landscaped and well irrigated.

WATER SYSTEM BFC COST RECOVERY:

(12) Our staff performed detailed analyses of Southlake's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; and 2) equitably distribute cost recovery among the utility's customers. Based on a detailed billing analysis of the residential class, only 40 percent of the residential bills and 32 percent of the corresponding consumption has been accounted for at monthly consumption of 5 kgals or less, while 54 percent of the bills and kgals have been accounted for at 10 kgals or less. This is indicative of greater than average consumption.

(13) As discussed in our Order, our approved revenue requirement increase is 19.2 percent. Based on the magnitude of preliminary increase, for conservation purposes, the entire increase was placed into the gallonage charge.

(14) In order to comply with the WMD and WCI guidelines regarding the percentage of BFC cost recovery, we evaluated BFC cost recovery percentages at 34.85 percent and 30 percent. The results are presented in Table RS. When compared to the current rate structure, Alternatives 1 and 2 both result in price decreases at certain levels of consumption. Therefore, our approved rate structure is more effective than the alternatives presented in encouraging water conservation.

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

[20] National Drought Mitigation Center, U.S. Drought Monitor, July 28, 2009.

[21] Southeast Regional Climate Center, July 16, 2009.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

COMMISSION APPROVED RATE STRUCTURE FOR THE WATER SYSTEM:	The appropriate rate structures for the utility's water system are a three-tiered inclining-block rate structure applicable to residential customers. The appropriate usage blocks are for monthly consumption of: 1) 0-10,000 gallons (10 kgals); 2) 10,001-20 kgals; and 3) consumption in excess of 20 kgals. The base facility charge (BFC)/uniform gallonage charge shall be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system shall be set at 34.9 percent.

WASTEWATER SYSTEM:

(15) Based on the initial accounting allocation, approximately 33 percent of the utility's costs were recovered in the BFC. We find that no less than 50 percent of the revenue requirement recovery shall be in the BFC. This is to recognize the capital intensive nature of wastewater treatment facilities.

(16) For billing purposes, residential usage charges shall be capped at 10 kgals of monthly usage. The general service gallonage charge shall be set at 1.2 times greater than the residential gallonage charge rate. Our findings herein are consistent with past Commission practice.

COMMISSION APPROVED RATE STRUCTURE FOR WASTEWATER SYSTEM:	The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The BFC cost recovery allocation shall be set at 50 percent. For billing purposes, residential usage charges shall be capped at 10 kgals of monthly usage. The general service gallonage charge rate shall be 1.2 times greater than the corresponding residential rate with no cap on billed monthly usage.

Southlake Utilities, Inc.
Schedule of Water Rate Base
Test Year Ended 12/31/08

Schedule No. 1-A
Docket No. 080597-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Approved Test Year
1	Plant in Service	$7,078,292	($33,425)	$7,044,867	$87,686	$7,132,553
2	Land and Land Rights	133,286	0	133,286	(57,386)	$75,900
3	Non-used and Useful Components	0	0	0	$0	0
4	Accumulated Depreciation	(1,071,790)	100,814	(970,976)	(315,817)	(1,286,793)
5	CIAC	(3,952,991)	6,756	(3,946,235)	(8,958)	(3,955,193)
6	Amortization of CIAC	953,376	(62,770)	890,606	(66,597)	824,009
7	Construction Work in Progress	778,064	0	778,064	(193,790)	584,274
8	Advances for Construction	(123,121)	0	(123,121)	0	(123,121)
9	Working Capital Allowance	69,761	0	69,761	(8,796)	60,965
10	Avg Unamortized Project Costs.	117,088	0	117,088	(117,088)	0
11	**Rate Base**	$3,981,965	$11,375	$3,993,340	($680,746)	$3,312,594

Southlake Utilities, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/08

Schedule No. 1-B
Docket No. 080597-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Approved Test Year
1	Plant in Service	$7,342,299	($27,498)	$7,314,801	($43,968)	$7,270,833
2	Land and Land Rights	558,446	0	558,446	(207,861)	350,585
3	Non-used and Useful (NUU) Plant	0	0	0	(1,052,860)	(1,052,860)
4	Accumulated Depreciation	(1,721,598)	131,790	(1,589,808)	(282,804)	(1,872,612)
5	CIAC	(5,364,589)	11,640	(5,352,949)	(7,525)	(5,360,474)
6	Amortization of CIAC	1,677,834	(113,549)	1,564,285	(162,935)	1,401,350
7	Advances for Construction	(295,893)	0	(295,893)	0	(295,893)
8	Construction Work in Progress	0	0	0	0	0
9	Working Capital Allowance	111,684	0	111,684	(18,470)	93,214
10	Avg Unamortized Project Costs.	67,088	0	67,088	(67,088)	0
11	**Rate Base**	$2,375,271	$2,383	$2,377,654	($1,843,511)	$534,143

Southlake Utilities, Inc.
Commission Adjustments to Rate Base
Test Year Ended 12/31/08

Schedule No. 1-C
Docket No. 080597-WS

	Explanation	Water	Wastewater
	Plant In Service		
1	To adjust filing to Commission calculated general ledger amount.	($21,224)	($17,106)
2	To remove undocumented plant in service (AF No. 1).	(142,789)	(176,812)
3	To reclassify capital costs (AF No. 6).	34,476	57,436
4	To adjust PIS for lack of documentation (AF No. 3).	0	(102,466)
5	To eliminate duplicate amount (AF No. 3).	0	(15,000)
6	To reflect averaging adjustment.	(5,645)	382,800
7	To transfer PIS from wastewater to water (AF No. 3).	222,868	(222,868)
8	To transfer from water CWIP to wastewater PIS (AF No. 3).	0	50,048
	Total	$87,686	($43,968)
	Land and Land Rights		
1	To adjust land values. (AF No. 2).	($57,386)	($207,861)
	Construction Work in Progress		
1	To adjust CWIP for lack of documentation (AF No. 3).	(145,941)	0
2	To include test year additions to CWIP.	11,046	0
3	To transfer from water CWIP to wastewater PIS (AF No. 3).	(50,048)	0
4	To adjust from CWIP to expense (AF No. 3).	(8,847)	0
		($193,790)	$0
	Non-used and Useful		
1	To reflect non-used and useful adjustment.	$0	($1,052,860)
	Accumulated Depreciation		
1	To adjust filing to Commission calculated general ledger amount.	($493,910)	($810,595)
2	To remove related A/D for undocumented PIS (AF No. 1).	$29,050	$35,972
3	To adjust related A/D for reclassification from capital costs (AF No. 6).	(431)	(899)
4	To reflect averaging adjustment.	146,988	195,824
5	To adjust A/D for reclassification of CWIP/PIS (AF No. 3).	2,486	30,794
6	To reflect A/D non-used and useful adjustment.	0	266,100
	Total	($315,817)	($282,804)
	CIAC		
1	To adjust filing to Commission calculated general ledger amount (AF No. 4).	($22,786)	($27,191)
2	To reflect averaging adjustment.	13,828	19,666
		($8,958)	($7,525)
	Accumulated Amortization of CIAC		
1	To adjust filing to Commission calculated general ledger amount.	($18,403)	($99,460)
2	To reflect averaging adjustment.	(48,194)	(63,475)
		($66,597)	($162,935)
	Working Capital Allowance		
1	To reflect the appropriate working capital allowance.	($8,796)	($18,470)
	Avg. Unamortized Project Costs		
1	To remove unamortized project costs (Rate Case Expense & CUP).	($117,088)	($67,088)

Southlake Utilities, Inc.
Capital Structure - Average Balance
Test Year Ended 12/31/08

Schedule No. 2
Docket No. 080597-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility (Year End)									
1	Long-term Debt	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
2	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	6,159,377	0	6,159,377	0	6,159,377	96.68%	9.56%	9.24%
5	Customer Deposits	211,614	0	211,614	0	211,614	3.32%	6.00%	0.20%
6	Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
7	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
8	**Total Capital**	$6,370,991	$0	$6,370,991	$0	$6,370,991	100.00%		9.44%
Per Commission (Simple Average)									
9	Long-term Debt	$0	$0	$0	$0	$0	0.00%	0.00%	0.00%
10	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
11	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12	Common Equity	6,159,377	(90,070)	6,069,307	(2,434,419)	3,634,888	94.49%	9.67%	9.13%
13	Customer Deposits	211,614	235	211,849	0	211,849	5.51%	6.00%	0.33%
14	Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
15	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
16	**Total Capital**	$6,370,991	($89,835)	$6,281,156	($2,434,419)	$3,846,737	100.00%		9.47%

	LOW	HIGH
RETURN ON EQUITY	8.67%	10.67%
OVERALL RATE OF RETURN	8.52%	10.41%

Southlake Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/08

Schedule No. 3-A
Docket No. 080597-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Approved Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$1,000,474	$183,853	$1,184,327	($294,110)	$890,217	$208,872 23.46%	$1,099,089
	Operating Expenses							
2	Operation & Maintenance	$624,964	$0	$624,964	($137,243)	$487,721		$487,721
3	Depreciation	201,627	0	201,627	89,712	291,339		291,339
4	Amortization	(125,541)	0	(125,541)	11,628	(113,913)		(113,913)
5	Taxes Other Than Income	98,121	8,273	106,394	$4,611	111,005	$9,399	120,404
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	799,171	8,273	807,444	(31,293)	776,151	$9,399	785,551
8	**Operating Income**	$201,303	$175,580	$376,883	($262,817)	$114,066	$199,473	$313,539
9	**Rate Base**	$3,981,965		$3,993,340		$3,312,594		$3,312,594
10	**Rate of Return**	5.06%		9.44%		3.44%		9.47%

Southlake Utilities, Inc. Water Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-A Docket No. 080597-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.98	$9.42	$8.82	$8.98	$0.27
1"	$22.45	$23.54	$22.05	$22.45	$0.67
1-1/2"	$44.90	$47.08	$44.11	$44.90	$1.33
2"	$71.85	$75.34	$70.58	$71.84	$2.13
3"	$143.70	$150.68	$141.17	$143.68	$4.26
4"	$224.51	$235.42	$220.55	$224.50	$6.66
6"	$449.03	$470.85	$441.11	$449.00	$13.32
Gallonage Charge, per 1,000 Gallons 0-10	$0.84	$0.88	$0.92	$1.01	$0.03
10,001 to 20,000 gals.	$0.84	$0.88	$1.37	$1.52	$0.05
Over 20,000 gals.	$0.84	$0.88	$1.83	$2.02	$0.06
Multi-Residential and General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.98	$9.42	$8.82	$8.98	$0.27
1"	$22.45	$23.54	$22.05	$22.45	$0.67
1-1/2"	$44.90	$47.08	$44.11	$44.90	$1.33
2"	$71.85	$75.34	$70.58	$71.84	$2.13
3"	$143.70	$150.68	$141.17	$143.68	$4.26
4"	$224.51	$235.42	$220.55	$224.50	$6.66
6"	$449.03	$470.85	$441.11	$449.00	$13.32
Gallonage Charge	$0.84	$0.88	$1.05	$1.33	$0.04
Fire Protection					
1-1/2"	$14.98	$14.98	$14.56	$3.74	$0.11
2"	$23.75	$23.75	$23.29	$5.99	$0.18
3"	$74.83	$74.83	$46.58	$11.97	$0.36
4"	$149.67	$149.67	$72.78	$18.71	$0.56
6"	$149.67	$149.67	$145.56	$37.42	$1.11
8"	$149.67	$149.67	$232.89	$59.87	$1.78
10"	$149.67	$149.67	$334.78	$82.32	$2.44
		Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$11.50	$12.06	$11.58	$12.01	
5,000 Gallons	$13.18	$13.82	$13.42	$14.03	
10,000 Gallons	$17.38	$18.22	$18.02	$19.08	

Southlake Utilities, Inc. Commission Adjustments to Operating Income Test Year Ended 12/31/08		Schedule 3-C Docket No. 080597-WS	
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase.	($183,853)	($487,912)
2	To reflect actual test year revenues (AF No. 5).	(110,257)	(109,326)
	Total	($294,110)	($597,238)
	Operation and Maintenance Expense		
1	To adjust filing to 12/31/2008 actual general ledger (AF No. 6).	($35,948)	$2,914
2	To reflect Commission calculated test year Rate Case expense.	31,141	31,141
3	To reflect consumptive use permit amortized over 5 years.	9,401	0
4	To reflect test year purchased power.	1,715	1,973
5	To remove land lease expense (AF No. 6).	(11,778)	(45,299)
6	To adjust contractual services - other.	(8,250)	(8,250)
7	To adjust communication expense.	(426)	(426)
8	To reflect audit finding regarding reclassification of Capital Costs (AF No. 6).	(34,476)	(57,436)
9	To reflect audit finding regarding Undocumented Costs (AF No. 6).	(20,315)	(38,615)
10	To remove utility test year Rate Case expense (AF No. 6).	(68,307)	(67,307)
	Total	($137,243)	($181,305)
	Depreciation Expense		
1	To adjust filing to Commission calculated depeciation expense.	$92,349	$128,067
2	To reflect audit finding No.1.	($4,469)	($5,534)
3	To reflect audit finding No.6 - reclassify capital costs.	431	899
4	To adjust depreciation expense on reclassified plant in service (AF No. 3).	1,401	(9,086)
5	To adjust for non-used and useful depreciation expense.	0	(32,955)
	Total	$89,712	$81,391
	CIAC Amortization Expense		
1	To adjust filing to Commission calculated amortization expense.	$11,628	$77,065
	Taxes Other Than Income		
1	RAFs on requested final revenue increase.	($8,273)	($21,956)
2	To Reflect Audit Finding No.7 - Adjust TOTI.	12,884	17,114
3	To adjust property tax for non-used and useful PIS.	0	(5,506)
	Total	$4,611	($10,348)

Southlake Utilities, Inc.
Water Monthly Service Rates
Test Year Ended 12/31/08

Schedule No. 4-A
Docket No. 080597-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.98	$9.42	$8.82	$8.98	$0.27
1"	$22.45	$23.54	$22.05	$22.45	$0.67
1-1/2"	$44.90	$47.08	$44.11	$44.90	$1.33
2"	$71.85	$75.34	$70.58	$71.84	$2.13
3"	$143.70	$150.68	$141.17	$143.68	$4.26
4"	$224.51	$235.42	$220.55	$224.50	$6.66
6"	$449.03	$470.85	$441.11	$449.00	$13.32
Gallonage Charge. per 1,000 Gallons 0-10	$0.84	$0.88	$0.92	$1.01	$0.03
10,001 to 20,000 gals.	$0.84	$0.88	$1.37	$1.52	$0.05
Over 20,000 gals.	$0.84	$0.88	$1.83	$2.02	$0.06
Multi-Residential and General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.98	$9.42	$8.82	$8.98	$0.27
1"	$22.45	$23.54	$22.05	$22.45	$0.67
1-1/2"	$44.90	$47.08	$44.11	$44.90	$1.33
2"	$71.85	$75.34	$70.58	$71.84	$2.13
3"	$143.70	$150.68	$141.17	$143.68	$4.26
4"	$224.51	$235.42	$220.55	$224.50	$6.66
6"	$449.03	$470.85	$441.11	$449.00	$13.32
Gallonage Charge	$0.84	$0.88	$1.05	$1.33	$0.04
Fire Protection					
1-1/2"	$14.98	$14.98	$14.56	$3.74	$0.11
2"	$23.75	$23.75	$23.29	$5.99	$0.18
3"	$74.83	$74.83	$46.58	$11.97	$0.36
4"	$149.67	$149.67	$72.78	$18.71	$0.56
6"	$149.67	$149.67	$145.56	$37.42	$1.11
8"	$149.67	$149.67	$232.89	$59.87	$1.78
10"	$149.67	$149.67	$334.78	$82.32	$2.44
		Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$11.50	$12.06	$11.58	$12.01	
5,000 Gallons	$13.18	$13.82	$13.42	$14.03	
10,000 Gallons	$17.38	$18.22	$18.02	$19.08	

Southlake Utilities, Inc.
Wastewater Monthly Service Rates
Test Year Ended 12/31/08

Schedule No. 4-B
Docket No. 080597-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$9.76	$12.68	$10.02	$14.83	$0.44
Gallonage Charge - Per 1,000 gallons (10,000 gallon cap)	$0.86	$1.12	$1.76	$1.38	$0.04
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$9.76	$12.68	$10.02	$14.83	$0.44
1"	$24.41	$31.71	$25.06	$37.08	$1.09
1-1/2"	$48.80	$63.39	$50.10	$74.15	$2.19
2"	$78.08	$101.43	$80.16	$118.64	$3.50
3"	$156.18	$202.88	$160.34	$237.28	$7.00
4"	$224.02	$291.00	$229.99	$370.75	$10.95
6"	$448.02	$581.98	$501.03	$741.50	$21.89
Gallonage Charge, per 1,000 Gallons	$1.02	$1.32	$2.11	$1.66	$0.05
		Typical Residential Bills 5/8" x 3/4" Meter			
3,000 Gallons	$12.34	$16.04	$15.30	$18.97	
5,000 Gallons	$14.06	$18.28	$18.82	$21.73	
10,000 Gallons (Wastewater Gallonage Cap - 10,000 Gallons)	$18.36	$23.88	$27.62	$28.63	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.	DOCKET NO. 080597-WS ORDER NO. PSC-09-0699-CO-WS ISSUED: October 20, 2009

CONSUMMATING ORDER

BY THE COMMISSION:

By Order No. PSC-09-0623-PAA-WS, issued September 15, 2009, this Commission proposed to take certain action, subject to a Petition for Formal Proceeding as provided in Rule 25-22.029, Florida Administrative Code. No response has been filed to the order, in regard to the above mentioned docket. It is, therefore,

ORDERED by the Florida Public Service Commission that Order No. PSC-09-0623-PAA-WS has become effective and final. It is further

ORDERED that this docket should remain open.

By ORDER of the Florida Public Service Commission this 20th day of October, 2009.

Ann Cole

ANN COLE
Commission Clerk

(SEAL)

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.	DOCKET NO. 080597-WS ORDER NO. PSC-09-0623A-PAA-WS ISSUED: November 19, 2009

AMENDATORY ORDER

BY THE COMMISSION:

On September 15, 2009, the Commission issued Order No. PSC-09-0623-PAA-WS approving a rate increase for Southlake Utilities, Inc. No interested persons protested the Order, and it was made final by Consummating Order No. PSC-09-0699-CO-WS on October 20, 2009. Order No PSC-09-0623-PAA-WS contains two errors, however, that need to be corrected. First, the Attachments to the Order, which were incorporated by reference into the Order, did not include Schedule No. 3-B. Instead, the Order included Schedule No. 4-A twice. Second, the last ordering paragraph of the Order stated that the utility's corporate undertaking would be released when the revised tariff sheets and customer notice were filed and verified by staff. That ordering paragraph should have stated that the utility's escrow agreement would be released once those actions were complete.

Order No. PSC-09-0623-PAA-WS is hereby amended to insert Schedule No. 3-B, attached hereto, into the Attachments to the Order, and remove one copy of Schedule No. 4-A. Order No. PSC-09-0623-PAA-WS is also amended to replace "corporate undertaking" with "escrow account" in the last ordering paragraph.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Order No. PSC-09-0623-PAA-WS is amended as described above. It is further

ORDERED Order No. PSC-09-0623-PAA-WS shall otherwise remain in full force and effect.

By ORDER of the Florida Public Service Commission this 19th day of November, 2009.

ANN COLE
Commission Clerk

By: _____
Dorothy E. Menasco
Chief Deputy Commission Clerk

(SEAL)

MCB

Southlake Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/08

Schedule No. 3-B
Docket No. 080597-WS

1	**Operating Revenues:**	$805,299	$487,912	$1,293,211	($597,238)	$695,973	$408,587 58.71%	$1,104,560
	Operating Expenses							
2	Operation & Maintenance	$834,446	$92,571	$927,017	($181,305)	$745,712		$745,712
3	Depreciation	263,580	0	263,580	81,391	344,971		344,971
4	Amortization	(227,098)	0	(227,098)	$77,065	(150,033)		(150,033)
5	Taxes Other Than Income	80,427	24,888	105,315	(10,348)	94,967	18,386	113,353
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	951,355	117,459	1,068,814	(33,197)	1,035,617	18,386	1,054,003
8	**Operating Income**	($146,056)	$370,453	$224,397	($564,041)	($339,644)	$390,201	$50,557
9	**Rate Base**	$2,375,271		$2,377,654		$534,143		$534,143
10	**Rate of Return**	-6.15%		9.44%		-63.59%		9.47%