

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: May 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Deason, Bruce, Daniel, Fletcher, Hudson, Maurey, Simpson) *DB*
Office of the General Counsel (Jaeger) *LEB*

Handwritten initials: JC, PD, BF, SH, ALM, and others.

RE: Docket No. 090477-WU – Application for staff-assisted rate case in Polk County by Alturas Utilities, L.L.C.

AGENDA: 06/1/10 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 12, 13, and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 03/15/11 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090477.RCM.DOC

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Case Background

Alturas Utilities, L.L.C. (Alturas or Utility) is a Class C water utility serving approximately 62 water customers in Polk County. Alturas is located in the Southwest Florida Water Management District (SWFWMD). The Utility reported 2008 operating revenues of \$19,488 and an operating loss of \$16,535.

Alturas has been under Commission jurisdiction since March 21, 2005,¹ when it was granted a transfer of a portion of Keen Sales, Rentals and Utilities territory and was issued

¹ See Order No. PSC-05-0309-PAA-WU, issued March 21, 2005, in Docket No. 040160-WU, In re: Application for transfer of portion of Certificate No. 582-W by Keen Sales, Rentals and Utilities, Inc. to Alturas Utilities, L.L.C., in Polk County. (Transfer Order)

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certificate No. 628-W. On December 12, 2009, Alturas applied for a staff-assisted rate case (SARC). The Utility's rate base was last established in 2005.

Staff has audited the Utility's records for compliance with Commission rules and orders, and examined all components necessary for rate setting. A staff engineer has also conducted a field investigation, which included a visual inspection of the water facilities along with the service area. Alturas' operating expenses, maps, files, and rate application were also reviewed to determine the reasonableness of maintenance expenses, regulatory compliance, plant in service, and quality of service. Staff also conducted a customer meeting on April 14, 2010. Staff has selected a historical test year ended October 31, 2009.

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

Discussion of Issues

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

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

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations. These components include the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's current compliance with the Polk County Health Department (PCHD) is also considered.

The PCHD conducted a sanitary survey of Alturas on June 8, 2009. Several deficiencies were identified and subsequently corrected by the Utility. The PCHD indicated that the chemical and bacteriological analyses and the quality of the drinking water delivered to the customers are satisfactory.

The PCHD issued two consent orders for Alturas in 2008, both of which have been closed. The first consent order addressed the Utility's failure to provide a sampling plan for lead and copper and failure to submit results for nitrate and nitrite testing. The second consent order required the Utility to provide an adequate means of protection of the water system from vandalism. The Utility also received three warning letters in 2010. The first warning letter addressed the Utility's failure to pay an annual operating fee, which has been closed. The second warning letter, which is still open, required the Utility to replace or repair the master-flow meter at the well. The third warning letter is a follow up letter addressing the master-flow meter.

A staff field investigation of the Utility's service area was conducted on January 5, 2010. Although the plant appeared to be operating normally, a physical inspection of the water system and a review of the maintenance records indicate that additional repairs are needed. In addition, a review of flow data indicates that the system may have excessive unaccounted for water. The Utility has requested that several pro forma items be considered during this rate case, including the cost to install a new master-flow meter to comply with the PCHD, replace some galvanized piping and valves around the hydropneumatic tank, install a shed for the protection of the well and electrical panel system, and begin a customer meter replacement program. The cost of these plant improvements and repairs are addressed in Issue 3.

A customer meeting was held on April 14, 2010, in Bartow, Florida. A representative of the Utility was present. Two customers attended and both spoke at the meeting. The customers complained about outages that occurred in 2007. Although the outages were resolved, the customers were concerned about the Utility's failure to respond to the Commission on a timely basis. The water outages occurred on October 1, 2007, for a duration of two hours, and on October 4, 2007, for a duration of approximately seven hours. The Utility failed to respond to the Commission within 15 days as required by Rule 25-22.032(6)(b), F.A.C. In its response, the Utility indicated that they had electrical problems at the well site on both days. The Utility made the necessary repair and made some changes in the emergency phone system to improve service reliability. The Utility subsequently hired a new manager in December 2008. The customers commended the new manager

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for improving service reliability and indicated that they did not mind a rate increase for improved service.

In summary, Alturas is current in all of the required chemical and bacteriological analyses and appears to address complaints in a timely and efficient manner. Although the Utility has outstanding warning letters with the PCHD regarding the master-flow meter, the Utility expects to have the meter replaced soon. Therefore, staff recommends that the Utility's overall quality of service be considered satisfactory.

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

Recommendation: Alturas' water treatment plant and distribution system should be considered 100 percent used and useful. (Simpson)

Staff Analysis: Alturas' water system has a 6-inch diameter well rated at 75 gallons per minute (gpm). The raw water is injected with liquid chlorine prior to entering the 3,000-gallon hydropneumatic tank and then it is pumped into the water distribution system. The Utility's peak day of 44,000 gallons occurred on June 22, 2009. It does not appear that there was a line break or other unusual occurrence on that day. The Utility has no fire flow requirements. There was no growth in the service area during the last five years. Pursuant to Rule 25-30.4325(4), F.A.C., a water system served by a single well is considered 100 percent used and useful. Therefore, staff recommends that the Alturas water treatment plant and distribution system be considered 100 percent used and useful.

The Utility's flow data indicates that the system may have excessive unaccounted for water (EUW); however, because the master-flow meter is not working properly, the amount of EUW cannot be accurately determined. Staff recommends that an adjustment for EUW should not be made at this time because the Utility is working to address the problem with the flow meter, and possible leaks in the distribution system.

Issue 3: Should the Commission approve pro forma plant for the Utility?

Recommendation: Yes. The Utility Plant in Service (UPIS) should be increased by \$18,075. Accordingly, the respective amounts of accumulated depreciation and depreciation expense should be increased by \$844. Additionally, the Utility should be required to complete all the pro forma upgrades within twelve months of the issuance date of the Consummating Order. Should the Utility find that it is unable to complete these additions within the specified 12-month period, Alturas should promptly notify staff of any delays and the cause of any delay. If the Utility fails to complete the above plant additions within the specified 12-month period or fails to promptly report any unforeseen delays for these additions, staff will file a subsequent recommendation to lower the Utility's rates. (Deason, Simpson)

Staff Analysis: The Utility requested several pro forma plant additions be included in the rate case. The following is a chart summarizing the pro forma plant, the cost, and staff's recommended treatment.

	<u>Pro forma Plant</u>	<u>Staff Recommended</u>
1.	Master-flow meter	\$875
2.	Shed	2,900
3.	Pipes and valves at the hydropneumatic tank	5,500
4.	Meters, boxes and ¾" curb stops	<u>8,800</u>
	Total	<u>\$18,075</u>

As outlined in Issue 1, the Utility was required by the PCHD to replace or repair the malfunctioning master-flow meter at its well. In addition, the Utility proposed installing a shed to protect the well and electrical panel, replacing some old corroded galvanized pipes and valves around the hydropneumatic tank, and replacing 48 customer meters (eight meters a month for six months). Staff believes that the pro forma additions are reasonable and prudent because they will help extend the life of the plant and facilities and address several other deferred maintenance issues. Staff recommends that the Utility be required to complete all the pro forma upgrades within twelve months of the issuance date of the Consummating Order. Should the Utility find that it is unable to complete these additions within the specified 12-month period, Alturas should promptly notify staff of any delays and the cause of any delay. If the Utility fails to complete the above plant additions within the specified 12-month period or fails to promptly report any unforeseen delays for these additions, staff will file a subsequent recommendation to lower the Utility's rates. Based on staff's recommended amounts, UPIS should be increased by \$18,075. Accordingly, the respective amounts of accumulated depreciation and depreciation expense should be increased by \$844.

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

Recommendation: The appropriate average test year water rate base for the Utility is \$45,477. (Deason)

Staff Analysis: Staff selected a test year ended October 31, 2009, for this rate case. Rate base components have been updated through October 31, 2009, using information obtained from staff's audit report. A summary of each component and the adjustments follow.

UPIS: The Utility recorded \$48,034 for UPIS. Pursuant to the Transfer Order, UPIS for Alturas was \$54,948 as of February 10, 2004, when the company was sold and transferred to the current owners. Staff auditors reviewed the Utility's annual reports, general ledgers, and other documentation for the period February 11, 2004, through October 31, 2009, to verify additions or retirements to UPIS. Staff auditors determined that the Utility neither recorded any additions nor did it use the prescribed balances for UPIS in the Transfer Order. Based on staff's audit, staff has made adjustments to increase UPIS by \$6,914 to reflect corrections to the Utility's balances established in the 2005 Transfer Order and to increase UPIS by \$1,246 to reflect test-year additions. Additionally, as discussed in Issue 3, the Utility has several pro forma plant items. Based on staff's recommended pro forma amounts, staff has made an adjustment to increase UPIS by \$18,075. Therefore, the Utility's balance for UPIS is \$74,269 (\$48,034+\$6,914+\$1,246+\$18,075).

Land & Land Rights: The Utility's records reflect a balance of \$0 in Acct No. 303 – Land and Land Rights. By the Transfer Order, the Commission established a land balance of \$500 as of February 10, 2004. Therefore, Alturas' balance for Acct No. 303 – Land and Land Rights is \$500 as of October 31, 2009.

Non-used and Useful Plant: As discussed earlier in Issue 2, the Utility's water treatment plant should be considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

Contributions in Aid of Construction (CIAC): Alturas recorded a CIAC balance of \$0. Pursuant to the 2005 Transfer Order, the Commission established a CIAC balance of \$18,637. Therefore, the Utility's balance for CIAC is \$18,637 as of October 31, 2009.

Accumulated Depreciation: Alturas recorded a balance for accumulated depreciation of \$47,171. By the Transfer Order, the Commission established an accumulated depreciation balance of \$25,574 as of February 10, 2004. Staff auditors reviewed the Utility's annual reports, general ledgers and other documentation for the period February 11, 2004, through October 31, 2009, to test the Utility's depreciation accruals. Staff auditors determined that the Utility did not use the proper service lives as prescribed by Commission rule to depreciate its UPIS assets. Staff calculated depreciation expense using the depreciation rates prescribed by Rule 25-30.140(1), F.A.C., and compiled accumulated depreciation accruals since the 2005 transfer docket to determine the Utility's accumulated depreciation balance as of October 31, 2009. Based on staff's audit, staff has made adjustments to decrease accumulated depreciation by \$15,404 to reflect corrections to the Utility's balances established in the Transfer Order and to decrease accumulated depreciation by \$332 to reflect the appropriate test year accruals. Additionally, as

discussed in Issue 3, the Utility has several pro forma plant items. Accordingly, staff has made an adjustment to increase accumulated depreciation by \$844. Therefore, the Utility's balance for accumulated depreciation is \$32,279 ($\$47,171 - \$15,404 - \$332 + \844).

Accumulated Amortization of CIAC: Alturas recorded an accumulated amortization of CIAC balance of \$0. Pursuant to the Transfer Order, the Commission established an accumulated amortization of CIAC balance of \$18,637 as of February 10, 2004. Although there is a net zero effect of having balances of \$18,637 for CIAC and accumulated amortization of CIAC, these balances should still be maintained for accounting purposes. These balances represent contributions towards plant assets by the Utility's customers. When those plant assets are replaced and retired, a corresponding retirement to CIAC and accumulated amortization of CIAC would be required. Therefore, the Utility's balance for accumulated amortization of CIAC is \$18,637 as of October 31, 2009.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of a utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the Operation & Maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$2,957 based on O&M expenses of \$23,659. Working capital has been increased by \$2,957 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average water rate base is \$45,447. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule No. 1-B.

Issue 5: What is the appropriate rate of return on equity (ROE) and overall rate of return for this Utility?

Recommendation: The appropriate ROE is 9.67 percent with a range of 8.67 percent to 10.67 percent. The appropriate overall rate of return is 9.64 percent. (Deason)

Staff Analysis: According to staff's audit, Alturas recorded the following items in its capital structure: common equity of \$23,257; retained earnings of \$0; paid-in-capital of \$0; long-term debt of \$0; and customer deposits of \$325. Alturas' capital structure has been reconciled with staff's recommended rate base. Using the Commission leverage formula currently in effect,² staff recommends an ROE of 9.67 percent, with a range of 8.67 percent to 10.67 percent, and an overall rate of return of 9.64 percent. The ROE and overall rate of return are shown on Schedule No. 2.

² See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 6: What is the appropriate amount of test year revenues in this case?

Recommendation: The appropriate amount of test year revenues in this case is \$20,656.
(Deason, Bruce)

Staff Analysis: Alturas reported test year revenues of \$19,488. A revenue test was performed by staff auditors to confirm the revenues reported by the Utility. Staff auditors calculated revenues of \$20,656 for the 12-month period ended October 31, 2009, using the customer consumption information from the Utility's monthly billing registers and its authorized tariff. Therefore, staff has increased test year revenues by \$1,168 (\$20,656-\$19,488). Based on the foregoing, staff recommends that the appropriate amount of test year revenues in this case is \$20,656.

Issue 7: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expense for the Utility is \$27,749. (Deason)

Staff Analysis: Alturas recorded operating expenses of \$42,944 during the test year ended October 31, 2009. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff believes several adjustments to the Utility's operating expenses are necessary, as summarized below:

Salaries and Wages – Officers – (603) – Alturas recorded a balance of \$10,844 in Account No. 603. Pursuant to Audit Finding No. 6, this amount represents the cash disbursements to the Utility's owner for managing and running Utility operations during the 12-month test year ended October 31, 2009. No supporting documentation was provided for the auditors to review. Therefore, staff has removed the entire amount. Staff recommends a salaries and wages - officers expense of \$0.

Purchased Power – (615) – Alturas recorded a balance of \$2,276 in Account No. 615 for the test year. Pursuant to Audit Finding No. 6, staff has made an adjustment to decrease purchased power by \$65 in order to restate the purchased power balance based on the actual purchased power invoices and to remove some late payment charges which should be recorded below-the-line for rate setting purposes.³ Staff recommends purchased power expense of \$2,211 (\$2,276-\$65) for Account No. 615.

Chemicals – (618) – Alturas recorded a balance of \$1,137 in Account No. 618 for the test year. Pursuant to Audit Finding No. 6, staff has made an adjustment to decrease chemicals expense by \$541 in order to restate the chemicals balance based on the actual purchased chemical invoices and to remove some late payment charges which should be recorded below-the-line for rate setting purposes. Staff recommends chemicals expense of \$596 (\$1,137-\$541) for Account No. 618.

Materials & Supplies – (620) – The Utility recorded a balance of \$698 in Account No. 620. Pursuant to Audit Finding No. 6, no supporting documentation was provided for the auditors to review. As such, staff has removed the entire amount. Therefore, staff recommends materials & supplies expense of \$0 for Account No. 620.

Contractual Services – Billing – (630) – Alturas recorded a balance of \$2,900 in Account No. 630. Pursuant to Audit Finding No. 6, this amount represents the service fees charged by the Utility's manager to manage and operate Alturas for its owner. The contract includes services for operations management, billing, customer service, accounts payable, accounts receivable, and regulatory reporting and compliance. These services, previously performed by the Utility's owner, were turned over to the current manager. Staff has removed the owner's charges of \$10,844 for this service from Account No. 603 above. The current contract with the manager is

³ See Order Nos. PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In Re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities; and PSC-96-1083-FOF-SU, issued August 22, 1996, in Docket No. 951591-SU, In Re: Application for staff-assisted rate case in Brevard County by Colony Park Utilities, Inc.

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\$7,200 (\$600x12 months). Therefore, staff has made an adjustment to increase contractual services – billing expense by \$4,300. Staff recommends contractual services - billing expense of \$7,200 (\$2,900+\$4,300).

Staff determined the appropriateness of the contract manager's compensation of \$7,200 by comparing the Utility's salaries with the appropriate average salary levels found in the 2008 Water Utility Compensation Survey (WUCS) published by the American Water Works Association (AWWA). The Commission has previously utilized the AWWA's WUCS to determine appropriate compensation levels.⁴ The chart below shows staff's calculation of the manager's compensation:

<u>Work Performed</u>	<u>2008 AWWA Compensation Survey</u>	<u>Hourly Cost</u>	<u>Hours per year</u>	<u>Cost per year</u>
Management of Water Operations	\$73,464	\$35.32	104	\$3,673
Bookkeeping	\$49,448	\$23.77	52	\$1,236
Customer Service	\$61,267	\$29.46	52	\$1,532
Meter Reading	\$33,843	\$16.27	48	\$781
		Totals:		\$7,222

Based on the above chart, staff believes that the contract manager's compensation of \$7,200 is consistent with the water industry and therefore is appropriate.

Contractual Services – Professional – (631) – Alturas recorded \$5,288 in Account No. 631. Pursuant to Audit Finding No. 6, the Utility pays for a state certified operator to perform the required water testing and monitoring of the water plant and its operation. In July 2009, the fee increased from \$265 per month to \$375 per month for the monthly monitoring and the bacteriological testing of the systems water supply. All other required water testing is billed separately as well as any repairs that are made at the water plant by the operator. Staff has made adjustments to include and annualize six monthly service fees for \$2,250 (\$375x6 months), to annualize two monthly service fees already included for \$220 [(\$375-\$265)x2 months], to remove the November 2009 monthly service fee for \$375 that was included by the Utility but

⁴ See Order Nos. PSC-10-0126-PAA-WU, issued March 3, 2010, in Docket No. 090230-WU, In Re: Application for staff-assisted rate case in St. Johns County by Camachee Island Company, Inc. d/b/a Camachee Cove Yacht Harbor Utility.; PSC-09-0587-PAA-WU, issued August 31, 2009, in Docket No. 080715-WU, In Re: Application for staff-assisted rate case in Lake County by CWS Communities LP.; PSC-08-0640-AS-WU, issued October 3, 2008, in Docket No. 070601-WU, In Re: Application for staff-assisted rate case in Pasco County by Orangeland Water Supply.; and PSC-07-0604-PAA-WU, issued July 30, 2007, in Docket No. 050862-WU, In Re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.

was outside the test year, and to remove \$87 of unsupported costs. Based on these adjustments, staff recommends contractual services – professional of \$7,295 (\$5,288+\$2,250+\$220-\$375-\$87).

Staff compared the operators compensation of \$7,295 with the appropriate average salary levels found in the 2008 WUCS. The chart below shows this calculation:

<u>Work Performed</u>	<u>2008 AWWA Compensation Survey</u>	<u>Hourly Cost</u>	<u>Hours per year</u>	<u>Cost per year</u>
Water Plant Operations	\$43,657	\$20.99	365	\$7,661

Based on the above chart, staff believes that the state licensed operator’s compensation of \$7,295 is consistent with the water industry and therefore is appropriate.

Contractual Services - Other – (636) – Alturas recorded \$4,476 in Account No. 636. Pursuant to Audit Finding No. 6, this account represents the fees paid to a third-party contractor to perform routine maintenance and major repairs to the water plant equipment and distribution system. Staff has made adjustments to reclassify \$1,214 to Account No. 311 for the replacement of the main electrical panel at the water plant and reclassified \$162 to Account No. 334 for the replacement of 10 customer meters. The \$162 was the final installment paid on an invoice totaling \$1,712 for the water meters replaced. Staff has removed \$162 from this account but reclassified \$1,712 to Account No. 334. The difference of \$1,550 was not included in the Utility’s O&M schedule above or as a UPIS addition because it was paid by the Utility’s owner from a related party checking account. Staff also made an adjustment to remove \$1,108 of costs because no supporting documentation was provided. Based on these adjustments, staff recommends contractual services – other expense of \$1,992 (\$4,476-\$1,214-\$162-\$1,108) for Account No. 636.

Rents– (640) – Alturas recorded \$375 in Account No. 640. Pursuant to Audit Finding No. 6, staff has made an adjustment to remove \$375 because no support documentation was provided. Therefore staff recommends rent expense of \$0.

Regulatory Commission Expense – (665) – Alturas recorded \$0 in Account No. 665. Staff has made adjustments to include the costs associated with this rate case in Account No. 665. Staff has included the filing fee of \$200, as well as a consulting fee of \$1,200 which results in an increase of \$350 (\$1,400/4 years). Additionally, staff has included the costs associated with the notices for this rate case which result in an increase of \$24 (\$98/4) to Account No. 665. These adjustments result in a total increase of \$374 (\$350+\$24) to Account No. 675.

Miscellaneous Expense – (675) – The Utility recorded \$6,546 in Account No. 675. Pursuant to Audit Finding No. 6, staff has made adjustments to reduce water meter reading and lawn maintenance costs by \$45 to reflect the annualized amount that was supported by Utility information and to remove bank service fees of \$67 that were for late payment penalties and fees for deposits and non-sufficient funds. In addition, staff has made adjustments to: (1) reduce

license and permit fees by \$298 because no support documentation was provided; (2) remove taxes of \$2,516 that were misclassified to miscellaneous expenses; and (3) remove \$950 in repair and maintenance costs because no support documentation was provided. Based on these adjustments, staff recommends miscellaneous expense of \$2,670 ($\$6,546 - \$45 - \$67 - \$298 - \$2,516 - \950).

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expenses should be decreased by \$12,201, as shown on Schedule No. 3-B. Staff recommends O&M expenses of \$23,659 as shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Alturas recorded \$4,568 for depreciation expense. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year net depreciation expense is \$1,349. Thus, staff has made an adjustment to decrease depreciation expense by \$3,219. Additionally, as discussed in Issue 3, the Utility has pro forma plant items. Based on the pro forma plant, staff has made an adjustment to increase depreciation expense by \$844. Based on these adjustments, staff recommends net depreciation expense of \$2,193 ($\$4,568 - \$3,219 + \844).

Taxes Other Than Income (TOTI) – (408) - The Utility's records reflect a balance of \$2,516 for TOTI for the test year, which represented real estate and personal property taxes and regulatory assessment fees. Pursuant to Audit Finding No. 7, staff has made adjustments to reduce the tangible property tax amount by \$15 to maximize the discount for the early payment of tangible property taxes,⁵ increase real estate taxes by \$107 to reflect taxes paid in 2008 for the real property associated with the water plant, remove the \$928 Polk County utility tax because no support documentation was provided, and to reduce RAFs by \$299 to reflect staff's estimate of RAFs based on staff's calculated test year revenue amount determined in Issue 6. However, based on staff's recommended revenue increase discussed in Issue 8, RAFs should be increased by \$516. Therefore, staff recommends TOTI of \$1,897 ($\$2,516 - \$15 + \$107 - \$928 - \$299 + \516).

Income Tax – Alturas recorded income tax of \$0. The tax liability is passed on to the owner's tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$27,749. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

⁵ See Order Nos. PSC-09-0628-PAA-SU, issued September 17, 2009, in Docket No. 080668-SU, In Re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, The 2nd Inc.; PSC-07-0077-PAA-SU, issued January 29, 2007, in Docket No. 060406-SU, In Re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company; and PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In Re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$32,130. (Deason)

Staff Analysis: The Utility should be allowed an annual increase of \$11,474 (55.55 percent). This will allow Alturas the opportunity to recover its expenses and earn a 9.64 percent return on its investment. The calculation is as follows:

	<u>Water</u>
Adjusted Rate Base	\$45,447
Rate of Return	<u>x .0964</u>
Return on Rate Base	\$4,381
Adjusted O&M expense	23,659
Depreciation expense (Net)	2,193
Amortization	0
Taxes Other Than Income	1,897
Income Taxes	<u>0</u>
Revenue Requirement	\$32,130
Less Test Year Revenues	<u>20,656</u>
Annual Increase	<u>\$11,474</u>
Percent Increase/(Decrease)	<u>55.55%</u>

Issue 9: Should the Utility's current water system rate structure be changed, and, if so, what is the appropriate adjustment?

Recommendation: No. The Utility's current residential and non-residential water systems' rate structure, which consists of a monthly base facility charge (BFC)/uniform gallonage charge rate structure, should remain unchanged. The BFC allocation should be set at 30 percent. (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water systems' residential and non-residential class. The BFC is \$11.00 per month and the monthly usage charge is \$3.25 per kgal. In Order No. PSC-05-0309-PAA-WU, the Utility was ordered to continue its current rates until authorized to change by the Commission in a subsequent proceeding.

Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select rate design parameters that: 1) allow the Utility to recover its revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) set the BFC between 25 percent and 40 percent whenever possible; and 4) implement, where appropriate, water conservation rate structures consistent with the Commission's Memorandum of Understanding (MOU) with the state's five Water Management Districts.

Alturas is located in Polk County in the SWFWMD within the Southern Water Use Caution Area (SWUCA). Over the past few years, the Districts have requested, whenever possible, that an inclining block rate structure be implemented.

Staff found the consumption data to be unreliable. The Utility's monthly operating reports (MORs) indicate total gallons sold during the test year were approximately 10,000 kgals while the billing data provided by the Utility indicate total gallons sold during the test year was approximately 3,500 kgals. After a thorough investigation, staff's engineer discovered that the meters were not working properly. As discussed in Issue 3, staff believes that meter replacement is necessary and is recommending pro forma additions to replace 48 meters and the hydropneumatic tank.

Staff has been in very close contact with the Utility's manager, Mike Smallridge, regarding the meters and he has indicated to staff that recently several of the residential meters have been replaced. Also, he has indicated that several of the general service meters had been replaced last year and is confident that the 414 kgals presented in the billing data is correct. However, at this time, staff is unable to rely on the billing data provided by the Utility for its residential customers.

In the Utility's last rate case, Order No. PSC-01-0323-PAA-WU, found that the overall average consumption per customer was 6.4 kgals. Staff relied on this data to determine the appropriate gallons to set rates on a going forward basis. Staff determined that the appropriate gallons used to set rates for the residential customers are 3,984.53 kgals. This number was derived based on the overall average consumption times the number of customers (6.406x622).

Therefore, staff has determined that the total residential and non-residential gallons for ratesetting purposes are 4,392 kgals.

Due to the fact that the billing data is flawed, staff does not believe that an inclining block rate structure is appropriate at this time. Therefore, staff is recommending a continuation of the monthly BFC/gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Furthermore, staff presented two alternative rate structures to illustrate other recovery methodologies which do not include the effects of a repression adjustment.

TABLE 9-1

ALTURAS UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
<u>Current Rate Structure and Rates</u>		<u>Recommended Rate Structure and Rates</u>	
Monthly BFC/uniform gallonage charge BFC = 41.9%		Monthly BFC/uniform gallonage charge BFC = 30%	
BFC	\$11.00	BFC	\$11.34
All kgals	\$3.25	All kgals	\$5.12
<u>Typical Monthly Bills (1)</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$11.00	0	\$11.25
1	\$14.25	1	\$16.46
3	\$20.75	3	\$26.70
5	\$27.25	5	\$36.94
10	\$43.50	10	\$62.54
20	\$76.00	20	\$113.74
<u>Alternative 1</u>		<u>Alternative 2</u>	
Monthly BFC/uniform gallonage charge BFC = 35%		Monthly BFC/uniform gallonage charge BFC = 40%	
BFC	\$13.23	BFC	\$15.12
All kgals	\$4.75	All kgals	\$4.39
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$13.23	0	\$15.12
1	\$17.98	1	\$19.51
3	\$27.48	3	\$28.29
5	\$36.98	5	\$37.07
10	\$60.73	10	\$59.02
20	\$108.23	20	\$102.92

Staff recommends that the initial BFC cost recovery of 41.86 percent be reduced to 30 percent. Staff's recommended BFC allocation is appropriate because it sends the appropriate pricing signals. Furthermore, the recommended BFC cost recovery will enable customers at nondiscretionary levels of consumption to pay a lower price for their water consumption. The

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Commission has an MOU with the five Water Management Districts to set the BFC such that the utilities recover no more than 40 percent of the revenues to be generated from monthly service.

Based on the foregoing, staff recommends that the Utility's current residential and non-residential water systems' rate structure which consists of a monthly BFC/uniform gallonage charge rate structure should remain unchanged. The BFC allocation should be set at 30 percent.

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Issue 10: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility, what are the appropriate corresponding expense adjustments to make, and what is the final revenue requirement?

Recommendation: No, a repression adjustment is not appropriate at this time. (Bruce)

Staff Analysis: As previously discussed, the billing data provided by the Utility was flawed due to faulty meters. Because detailed billing data is needed to calculate a repression adjustment that differentiates between non-discretionary and discretionary usage, staff could not reliably calculate a repression adjustment in this case.

Issue 11: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water rates are shown on Schedules No. 4. The recommended rates should be designed to produce revenue of \$32,130 for water, excluding miscellaneous service revenues. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Deason)

Staff Analysis: The recommended rates should be designed to produce revenues of \$31,872 for the water system. There are no miscellaneous service revenues for the water system.

As discussed in Issue 9, the Utility's current residential water system rate structure, which consists of a monthly BFC/uniform gallonage charge rate structure, should remain unchanged. The BFC allocation should be set at 30 percent.

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

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

Based on the foregoing, the appropriate rates for monthly service for the water are shown on Schedule No. 4.

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

Recommendation: The water rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Deason)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs. In this instance, this cost is \$396 annually. Using the Utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

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

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

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

The Utility should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$7,660. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 14: Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Alturas should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Deason)

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

Issue 15: Should this docket be closed?

Recommendation: No. The docket should remain open for twelve months after the Consummating Order for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made, and that the pro forma items have been completed. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Jaeger, Deason)

Staff Analysis: The docket should remain open for twelve months after the Consummating Order for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made, and that the pro forma items have been completed. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 10/31/2009		DOCKET NO. 090477-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$48,034	\$26,235	\$74,269
2. LAND & LAND RIGHTS	0	500	500
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(18,637)	(18,637)
5. ACCUMULATED DEPRECIATION	(47,171)	14,892	(32,279)
6. AMORTIZATION OF CIAC	0	18,637	18,637
7. CONSTRUCTION WORK IN PROGRESS	0	0	0
8. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,957</u>	<u>2,957</u>
9. WATER RATE BASE	<u>\$863</u>	<u>\$44,584</u>	<u>\$45,447</u>

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 10/31/2009 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 090477-WU
		<u>WATER</u>
	<u>UTILITY PLANT IN SERVICE</u>	\$6,914
1.	To reflect appropriate UPIS per audit.	1,246
2.	To reflect test year additions.	<u>18,075</u>
3.	To reflect pro forma additions.	<u>\$26,235</u>
	Total	
	<u>LAND AND LAND RIGHTS</u>	
	To reflect the appropriate land balance.	<u>\$500</u>
	<u>CIAC</u>	
	To reflect appropriate CIAC.	<u>(\$18,637)</u>
	<u>ACCUMULATED DEPRECIATION</u>	
1.	To reflect accumulated depreciation per audit.	\$15,404
2.	To reflect test year accruals.	332
3.	To reflect pro forma accumulated depreciation.	(844)
	Total	<u>\$14,892</u>
	<u>AMORTIZATION OF CIAC</u>	
	To reflect appropriate accumulated amortization of CIAC.	<u>\$18,637</u>
	<u>WORKING CAPITAL ALLOWANCE</u>	
	To reflect 1/8 of test year O & M expenses.	<u>\$2,957</u>

ALTURAS UTILITIES, L.L.C.
TEST YEAR ENDED 10/31/2009
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$0	\$0	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. COMMON EQUITY	<u>23,257</u>	<u>0</u>	<u>23,257</u>					
5. TOTAL COMMON EQUITY	\$23,257	\$0	\$23,257	\$21,865	\$45,122	99.15%	9.67%	9.59%
6. LONG TERM DEBT-Note	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8. CUSTOMER DEPOSITS	<u>\$325</u>	<u>\$0</u>	<u>\$325</u>	<u>\$0</u>	<u>\$325</u>	<u>0.85%</u>	6.00%	<u>0.05%</u>
9. TOTAL	<u>\$23,582</u>	<u>\$0</u>	<u>\$23,582</u>	<u>\$21,865</u>	<u>\$45,447</u>	<u>100.00%</u>		<u>9.64%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.67%</u>	<u>10.67%</u>	
OVERALL RATE OF RETURN						<u>8.64%</u>	<u>10.63%</u>	

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 3-A			
TEST YEAR ENDED 10/31/2009		DOCKET NO. 090477-WU			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJ PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$19,488</u>	<u>\$1,168</u>	<u>\$20,656</u>	<u>\$11,474</u> 55.55%	<u>\$32,130</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	35,860	(12,201)	23,659	0	23,659
3. DEPRECIATION (NET)	4,568	(2,375)	2,193	0	2,193
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,516	(1,135)	1,381	516	1,897
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$42,944</u>	<u>(\$15,711)</u>	<u>\$27,233</u>	<u>\$516</u>	<u>\$27,749</u>
8. OPERATING INCOME/(LOSS)	<u>(\$23,456)</u>		<u>(\$6,577)</u>		<u>\$4,381</u>
9. WATER RATE BASE	<u>\$863</u>		<u>\$45,447</u>		<u>\$45,447</u>
10. RATE OF RETURN	<u>-2,717.96%</u>		<u>-14.47%</u>		<u>9.64%</u>

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 10/31/2009 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 090477-WU
		<u>WATER</u>
OPERATING REVENUES		
	To reflect appropriate Test Year Revenues	<u>\$1,168</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Officers (603) To remove Officer salary per audit.	<u>(\$10,844)</u>
2.	Purchased Power (615) To reflect appropriate purchased power.	<u>(\$65)</u>
3.	Chemicals (618) To reflect appropriate chemical expense.	<u>(\$541)</u>
4.	Materials and Supplies (620) To remove unsupported materials and supplies.	<u>\$698</u>
5.	Contractual Services – Billing and Management (630) To reflect appropriate billing and management fees.	<u>\$4,300</u>
6.	Contractual Services - Operator (631) To reflect appropriate amount of operator expenses.	<u>\$2,008</u>
7.	Contractual Services - Other (636) a. To reclassify plant to Acct. No. 311. b. To reclassify plant to Acct. No. 334. c. To remove unsupported contractual services. Subtotal	<u>(\$1,214)</u> <u>(162)</u> <u>(1,108)</u> <u>(\$2,484)</u>
8.	Rent Expense (640) To remove unsupported rent.	<u>(\$375)</u>
9.	Regulatory Commission Expense (665) To reflect App. Amt. of Regulatory Commission Expense.	<u>\$374</u>
10.	Miscellaneous Expense (675) a. To reflect appropriate lawn maintenance. b. To remove bank service fees. c. To remove unsupported license and permit fees. d. To remove taxes. e. To remove unsupported repair and maintenance fees. Subtotal	<u>(\$45)</u> <u>(67)</u> <u>(298)</u> <u>(2,516)</u> <u>(950)</u> <u>(\$3,876)</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$12,201)</u>
DEPRECIATION EXPENSE		
1.	To reflect net depreciation calculated per 25-30.140, F.A.C.	<u>(\$3,219)</u>
2.	To reflect pro forma depreciation expense.	<u>844</u>
	Total	<u>(\$2,375)</u>
TAXES OTHER THAN INCOME		
1.	To reflect appropriate property taxes.	<u>\$92</u>
2.	To remove Polk County Utility tax.	<u>(928)</u>
3.	To reduce RAFs based on audit calculations.	<u>(299)</u>
	Total	<u>(\$1,135)</u>

ALTURAS UTILITIES, L.L.C.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 10/31/2009		DOCKET NO. 090477-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(603) SALARIES AND WAGES - OFFICERS	10,844	(10,844)	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,276	(65)	2,211
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,137	(541)	596
(620) MATERIALS AND SUPPLIES	698	(698)	0
(630) CONTRACTUAL SERVICES - BILLING	2,900	4,300	7,200
(631) CONTRACTUAL SERVICES - PROFESSIONAL	5,288	2,008	7,296
(632) CONTRACTUAL SERVICES - ACCOUNTING	1,320	0	1,320
(635) CONTRACTUAL SERVICES - TESTING	0	0	0
(636) CONTRACTUAL SERVICES - OTHER	4,476	(2,484)	1,992
(640) RENTS	375	(375)	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	374	374
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>6,546</u>	<u>(3,876)</u>	<u>2,670</u>
	<u>\$35,860</u>	<u>(\$12,201)</u>	<u>\$23,659</u>

ALTURAS UTILITIES, L.L.C. TEST YEAR ENDED 10/31/2009 MONTHLY WATER RATES	SCHEDULE NO. 4 DOCKET NO. 090477-WU
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	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$11.00	\$11.34	\$0.14
3/4"	\$16.50	\$17.01	\$0.21
1"	\$27.50	\$28.35	\$0.35
1-1/2"	\$55.00	\$56.70	\$0.69
2"	\$88.00	\$90.72	\$1.11
3"	\$176.00	\$181.44	\$2.21
4"	\$275.00	\$283.50	\$3.46
6"	\$550.00	\$567.00	\$6.91
<u>Residential Gallonage Charge</u>			
Per 1,000 gallons	\$3.25	\$5.12	\$0.06
<u>General Service Gallonage Charge</u>			
Per 1,000 gallons	\$3.25	\$5.12	\$0.06
<u>Typical Residential 5/8" x 3/4" Meter Bill</u>			
<u>Comparison</u>			
3,000 Gallons	\$20.75	\$26.70	
5,000 Gallons	\$27.25	\$36.94	
10,000 Gallons	\$43.50	\$62.54	