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Public Service Commission

May 28, 2010

Mr. Christian W. Marcelli  
Lake Placid Utilities, Inc.  
2180 West State Road 434, Suite 2118  
Longwood, FL 32779

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**Re: Docket No. 090531-WU, Staff Assisted Rate Case for Lake Placid Utilities, Inc. in Highlands County.**

Dear Mr. Marcelli:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Sebring Public Library  
319 West Center Avenue  
Sebring, FL 33870

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6877.

Sincerely,

Lydia Roberts  
Regulatory Analyst

Enclosures  
LR

cc: Division of Economic Regulation (Roberts, Hudson, Maurey, Fletcher, Simpson, Rieger)  
Office of General Counsel (Young)  
Office of Commission Clerk (Docket No. 090531-WU)

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## Public Service Commission

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

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**DATE:** May 24, 2010

**TO:** Andrew Maurey, Chief of Rate Filings, Division of Economic Regulation

**FROM:** Lydia Roberts, Regulatory Analyst, Division of Economic Regulation *LR*  
Robert Simpson, Engineering Specialist, Division of Economic Regulation *RS*  
Sonica Bruce, Regulatory Analyst, Division of Economic Regulation *SB*

**RE:** Docket No. 090531-WS – Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

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**- STAFF REPORT -**

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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**Case Background**

This Staff Report is a **preliminary** analysis of the Utility prepared by the Florida Public Service Commission (Commission) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed July 22, 2010, for the August 3, 2010, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six separate rate case dockets pending before the Commission. These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities Inc. of Longwood
090392-WS	Utilities Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090531-WS. Lake Placid Utilities, Inc. (Lake Placid or Utility), is a Class B utility providing water and wastewater service to approximately 122 water and 192 wastewater customers in Highlands County. Lake Placid is located in the Southwest Florida Water Management District (SWFWMD or District), a critical use area. According to its 2008 annual report, Lake Placid reported revenues of \$52,212 and \$82,100 for water and wastewater, respectively. Lake Placid reported a net operating loss of \$60,639 for water and a net operating loss of \$75,021 for wastewater. The test period for setting rates is the historical twelve-month period ended December 31, 2008.

Lake Placid was granted Certificate Nos. 414-W and 347-S in 1993.<sup>1</sup> The Commission last established rates for Lake Placid in 2006.<sup>2</sup>

On December 8, 2009, Lake Placid filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on January 19, 2010. Staff will conducted a field investigation of the Utility's plant and service area on June 10, 2010. The Commission has jurisdiction in this case pursuant to Section 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

<sup>1</sup> See Order No. PSC-93-1448-FOF-WS, issued on October 4, 1993, in Docket No. 930570-WS, In re: Application for Transfer of Certificates Nos. 414-W and 347-S From Lake Placid Utilities to Lake Placid Utilities, Inc.

<sup>2</sup> See Order No. PSC-07-0287-PAA-WS, issued on April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

**Discussion of Issues**

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

**Preliminary Recommendation:** The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 10, 2010, customer meeting. (Simpson, Rieger, Williams)

**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 and wastewater 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 compliance with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding 3-year period are also considered.

A review of sanitary surveys and compliance inspection reports over the last three years indicates that Lake Placid has generally met all required standards and is current in all of the required chemical analysis for both water and wastewater. One of the blowers at the wastewater treatment plant was out of service and not repairable and the Utility installed a new blower in May, 2010. Therefore, on a preliminary basis staff recommends that the quality of drinking water delivered to the customers, the wastewater effluent quality, and the operating condition of the water and wastewater facilities should be considered satisfactory.

One customer complaint has been filed with the Commission within the last three years. The complaint was related to a billing issue and was subsequently resolved. The staff recommendation regarding customer satisfaction and the overall quality of service will not be finalized until after the June 10, 2010, customer meeting.

**Issue 2:** What are the used and useful percentages for the water treatment plant, the distribution system, the wastewater treatment plant, and the collection system?

**Preliminary Recommendation:** Lake Placid's water treatment plant should be considered 100 percent used and useful. The wastewater treatment plant should be considered 44 percent used and useful. The distribution system and the collection system should be considered 100 percent used and useful. (Simpson, Rieger, Williams)

**Staff Analysis:** In the Utility's last rate case, the Commission made a finding as to the used and usefulness of Lake Placid water and wastewater systems. However, in Order No. PSC-07-0528-AS-WS,<sup>3</sup> a settlement agreement was approved which recognized that the Parties (Lake Placid and the Office of Public Counsel) had agreed to eliminate the language in the Proposed Agency Action (PAA) Order relating to the determination of the used and usefulness of Lake Placid's water and wastewater treatment plants. This was done so that the used and useful determination in the PAA Order would have no precedential value. The Commission allowed the language to be stricken because it was noted that each rate case is decided on its own merits.

### Water Treatment Plant

Pursuant to Rule 25-30.4325, F.A.C., the used and useful calculation of a water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment plant. Because the system has no storage facilities, the calculation is in gallons per minute (gpm). Consideration of growth, fire flow requirements, unaccounted for water, and other factors may also be included.

Lake Placid's water treatment plant has two wells rated at 200 gpm each. The raw water is injected with liquid chlorine, discharged into the hydropneumatic tank, and then pumped into the water distribution system. The Utility's peak day of 55,000 gallons or 38.2 gpm occurred on December 12, 2008. It does not appear that there was a fire, line break, or other unusual occurrence on that day. However, the Utility's records indicate that there is unaccounted for water of 1.079 million gallons for the test year or 14 percent. Therefore, unaccounted for water in excess of 10 percent of average daily flow is 4 percent or 0.58 gpm. The Utility's fire flow requirement is 500 gpm. The projected growth in the service area is 5 equivalent residential connections (ERCs) a year for five years or 3.88 gpm.

The water treatment plant should be considered 100 percent used and useful based on a peak day of 38.2 gpm, excessive unaccounted for water (EUW) of 0.58 gpm, a fire flow allowance of 500 gpm, a growth allowance of 3.88 gpm and firm reliable capacity of 200 gpm. With the last two cases, the Utility's EUW has steadily declined from 47 percent to the current case of 4 percent. Staff believes that the Utility has continually attempted to correct the EUW within the system; therefore, no adjustment to operating expenses should be made.

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<sup>3</sup> See Order No. PSC-07-0528-AS-WS, issued on June 26, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

Wastewater Treatment Plant

Lake Placid's wastewater treatment plant is an extended aeration activated sludge plant with three lift stations located within the service area. The collection system is composed of gravity and force mains. The wastewater treatment plant is permitted by the DEP at 90,000 gallons per day (gpd) based on the annual average daily flow (AADF). Liquid chlorine disinfection is applied prior to the wastewater effluent flowing into the percolation ponds. Rule 25-30.432, F.A.C., provides that the used and useful percentage for the wastewater plant should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, infiltration and inflow, conservation, and other factors.

The customer demand for the test year based on the AADF was 37,282 gpd. Projected growth for the Utility over the next five years is 5 ERCs per year or 4,070 gpd. Lake Placid has excessive infiltration and inflow of 1,776 gpd based on a comparison of the wastewater treated and an allowance for infiltration and inflow based on the size and length of the collection system. Based on this information, the wastewater treatment plant should be considered 44 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and the wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth. Because the Utility's current distribution and collection systems are needed to serve the existing customers and a significant portion of the distribution and collection systems were contributed to the Utility, staff recommends that the water distribution and wastewater collection systems be considered 100 percent used and useful.

**Issue 3:** What is the appropriate average test year rate base for the Utility?

**Preliminary Recommendation:** The appropriate average test year rate base for the Utility is \$192,816 and \$165,845 for water and wastewater, respectively. (Roberts)

**Staff Analysis:** Lake Placid's rate base was last established by Order No. PSC-07-0287-PAA-WS.<sup>4</sup> Staff selected a test year ending December 31, 2008, for this rate case. A summary of each component and the adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded UPIS of \$418,839 for water and \$432,500 for wastewater. Staff has made the following adjustments to UPIS.

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct for errors in trying to adjust per Commission Order. (AF 2)	\$12,544	\$211,944
2. To remove plant that should have been expensed. (AF 4)	(985)	0
3. To capitalize well screens that had been expensed. (AF 9)	415	0
4. To record pro forma plant additions and retirements for blower. (AF 13)	0	5,117
5. To capitalize pressure valve that had been expensed. (AF 8)	150	0
6. To adjust allocated plant for change in ERC's and allocate WW. (AF 16)	(14,373)	10,251
7. To change allocations for vehicles related to Salaries. (AF 17)	(2,205)	(2,205)
<b>Total</b>	<b>(4,454)</b>	<b>225,107</b>

Staff's net adjustments to UPIS are a decrease of \$4,454 for water and an increase of \$225,107 for wastewater. Staff's recommends UPIS balances of \$414,385 for water and \$657,607 for wastewater.

**Land and Land Rights:** Lake Placid recorded a land balances of \$2,791 for water and \$21,665 for wastewater. Pursuant to Audit Finding No. 16, staff has decreased land by \$41 for water and increased wastewater by \$44 to adjust the allocated plant for the change in ERCs. Staff recommends land balances of \$2,750 for water and \$21,709 for wastewater.

**Non-used and Useful Plant:** As discussed in Issue No. 2, Lake Placid's distribution and the collection systems should be considered 100 percent used and useful. The wastewater treatment plant should be considered 44 percent used and useful. As such, wastewater rate base should be reduced by \$15,843 to reflect the 56 percent of the wastewater treatment plant which is non-used and useful.

**Contribution in Aid of Construction (CIAC):** The Utility recorded CIAC of \$171,944 for water and \$266,824 for wastewater. The staff auditor compiled additions to CIAC from January 1, 2006, through December 31, 2008, to determine Lake Placid's CIAC balance for this rate case proceeding. Pursuant to Audit Finding No. 25, staff increased CIAC by \$675 for water to reflect

<sup>4</sup> See Order No. PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County.



CIAC recorded as miscellaneous revenues. Therefore, staff's recommended CIAC is \$172,619 for water and \$266,824 for wastewater.

Accumulated Depreciation: The Utility recorded test year accumulated depreciation balances of \$111,417 and \$274,517 for water and wastewater, respectively. Staff auditors calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff has made the following adjustments to accumulated depreciation.

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$2,565)	(\$92,544)
2. To remove plant that should have been expensed. (AF 4)	99	0
3. To reflect Acc. Dep. on well screens that had been expensed. (AF 9)	(7)	0
4. To record pro forma plant additions and retirements. (AF 13)	0	15,110
5. To record Acc. Dep. on pressure valve. (AF 8)	420	0
6. To adjust for allocated plant for change in ERCs and allocate to WW. (AF 16)	5,127	(3,233)
7. To reflect pro forma change allocations for vehicles related to salaries. (AF 17)	<u>2,448</u>	<u>2,448</u>
<b>Total</b>	<b><u>\$5,522</u></b>	<b><u>(\$78,219)</u></b>

Therefore, this account was decreased by \$5,522 for water and increased by \$78,219 for wastewater to reflect depreciation calculated per staff. These adjustments result in average accumulated depreciation balance for water of \$105,895 and wastewater of \$352,736.

Accumulated Amortization of CIAC: Lake Placid recorded amortization of CIAC of \$50,029 for water and \$118,989 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$867 for water and \$3,136 for wastewater to reflect amortization of CIAC as calculated by staff. In addition, staff has increased CIAC by \$17 for water to correct CIAC recorded as miscellaneous revenues. Staff's net adjustments to this account results in amortization of CIAC balances of \$49,179 for water and \$115,853 for wastewater.

Working Capital Allowance: The Utility recorded working capital allowance of \$6,718 for water and \$7,384 for wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$5,016 for water and \$6,080 for wastewater (based on O&M expense of \$40,130 for water and \$48,636 for wastewater). Working capital has been reduced by \$1,702 and \$1,305 for water and wastewater, respectively.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate average test year rate base is \$192,816 for water and \$165,845 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B. The related adjustments are shown on Schedule 1-C.

**Issue 4:** What is the appropriate return on equity and overall rate of return for this Utility?

**Preliminary Recommendation:** The appropriate return on equity (ROE) is 11.14 percent with an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. The appropriate overall rate of return is 9.93 percent. (Roberts)

**Staff Analysis:** The Utility's capital structure consists of common equity, long-term debt, short-term debt, customer deposits, and accumulated deferred taxes. Because of all the capital improvements for this Utility are funded by its intermediate parent company, the relative percentages of investor sources of capital of UI are used for Lake Placid. The customer deposits and accumulated deferred income taxes are specifically identified for the Utility.

Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS<sup>5</sup> and an equity ratio of 42.53 percent, the appropriate ROE is 11.14 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Based upon the proper components, amounts, and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of 9.93 percent. The ROE and overall rate of return are shown on Schedule No. 2.

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<sup>5</sup> 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.

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**Issue 5:** What are the appropriate amount of test year revenues?

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$52,417 for water and \$80,564 for wastewater. (Bruce, Roberts)

**Staff Analysis:** Pursuant to Audit Finding No. 14, Lake Placid recorded total revenues of \$53,307 for water and \$81,006 for wastewater. The staff auditor increased the test year revenues for water by \$460 and decreased wastewater by \$442 to reflect annualized revenue based on the existing rates. In addition, revenues were decreased by \$1,350 for water to remove CIAC recorded as miscellaneous revenues.

Based on the above, staff recommends test year revenue of \$52,417 for water and \$80,564 for wastewater. Test year revenue is shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

**Issue 6:** What are the appropriate operating expenses?

**Recommendation:** The appropriate amount of operating expenses for the Utility are \$57,558 for water and \$76,360 for wastewater. (Roberts)

**Staff Analysis:** The Utility recorded operating expenses of \$61,889 for water and \$70,455 for wastewater during the test year ended December 31, 2008. Adjustments have been made to reflect unrecorded test year expenses and to adjust annual operating costs. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to Lake Placid's operating expenses. A summary of each component and the adjustments follows:

**Salaries and Wages Employees (601/701)** – Lake Placid recorded \$4,258 for water and \$4,998 for wastewater. Pursuant to Audit Finding No. 17 and the Utility's audit response, staff has increased this expense for both water and wastewater by \$401 to reflect the correct allocation for salaries. Staff recommends employee salaries for water of \$4,659 and \$5,399 for wastewater.

**Salaries and Wages – Officers (603/703)** – The Utility recorded \$787 for water and \$769 for wastewater. Pursuant to Audit Finding No. 17 and the Utility's audit response, staff has decreased this expense for both water and wastewater by \$755 to reflect the correct allocation for salaries. Based on the above, the appropriate officer salaries for water are \$32 and \$14 for wastewater.

**Employee Pensions and Benefits (604/704)** – Lake Placid recorded \$2,560 for water and \$2,453 for wastewater. Pursuant to Audit Finding No. 17 and the Utility's audit response, staff has decreased this expense for both water and wastewater by \$1,154 to reflect the correct allocation for salaries. Staff recommends employee pensions and benefits for water of \$1,406 and for wastewater \$1,299.

**Purchased Power (615/715)** – The Utility recorded \$1,943 for water and \$3,735 for wastewater. The wastewater account has been decreased by \$400 to remove deposits that were expensed. In addition, staff increased this expense for water by \$130 and wastewater by \$210 to reflect a bill that was charged to a different utility. Further, staff increased this expense for wastewater by \$418 to annualize the electric costs for the new lift station. As a result, staff's net adjustment to purchase power are increases of \$130 for water and \$228 for wastewater. Based on the above, the purchased power expense is \$2,073 for water and \$3,963 for wastewater.

**Chemicals (618/718)** – Lake Placid recorded chemical expense of \$773 for water and \$4,668 for wastewater. Staff decreased chemical expense by \$552 for water and \$402 for wastewater to reflect the lower chlorine costs after the test year. Therefore, staff recommends test year chemical expenses by \$221 and \$4,266 for water and wastewater, respectively.

**Materials and Supplies (620/720)** – The Utility recorded \$4,422 for water and \$1,801 for wastewater. Staff decreased this expense for water by \$2,029 to reclassify items that should have been capitalized to plant. In addition, staff increased water and wastewater by \$4 and \$51 respectively, to reflect the change in headquarter allocation per ERC. As a result, staff recommends materials and supplies for water of \$2,397 and for wastewater \$1,852.

Contractual Services – Professional (631/731) – Lake Placid recorded \$19,938 for water and \$23,008 for wastewater. Staff decreased this expense for both water and wastewater by \$2,160 to remove an invoice that was already recorded. In addition, staff decreased this expense for both water and wastewater by \$75 to remove non-utility expense. Further, staff reduced this expense for water by \$16 and wastewater by \$8 to reflect a change in headquarter per ERC. Finally, staff decreased both this expense for water and wastewater by \$357 for lack of support documentation. Staff’s net adjustment represents a decrease of \$2,608 for water and \$2,600 for wastewater. Therefore, staff recommends contractual services – professional of \$17,330 for water and \$20,408 for wastewater.

Contractual Services – Other (636/736) – The Utility recorded \$1,135 for water and \$221 for wastewater. Staff decreased this expense for water by \$803 to remove non-recurring expenses. In addition, staff increased this expense for water by \$426 to reflect the expense of a service agreement. Staff also increased this expense for water by \$43 and wastewater by \$67 to reflect change in headquarter allocation per ERC. Staff’s net adjustment represents a decrease of \$334 for water and an increase of \$67 for wastewater. Therefore, staff recommends contractual services – other of \$801 and \$288 for water and wastewater, respectively.

Transportation Expense (650/750) – Lake Placid recorded \$919 for water and \$894 for wastewater. Staff decreased this expense for both water and wastewater by \$449 to correct the allocation for vehicle expense. Therefore, staff recommends transportation expense by \$470 for water and \$445 for wastewater.

Insurance Expense (655/755) – The Utility recorded \$1,106 for water and \$1,078 for wastewater during the test year. Pursuant to Audit Finding No. 15, staff has increased this expense for water by \$66 and wastewater by \$94 to reflect change in headquarter allocation per ERC. Staff recommends insurance expense of \$1,172 for water and \$1,172 for wastewater.

Regulatory Commission Expense (665,765) – Lake Placid recorded \$13,018 in regulatory commission expense for water and \$12,926 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff has made the following adjustments to regulatory commission expense:

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To remove excess rate case expense. (AF 12)	(\$5,219)	(\$3,008)
2. To remove pro forma rate case amortization. (AF 19)	(6,547)	(8,401)
3. To reflect change in headquarter allocation for ERC change. (AF 15)	(27)	(27)
4. To reflect current rate expense.	<u>5,487</u>	<u>5,487</u>
Total	<u>(\$6,306)</u>	<u>(\$5,949)</u>

Therefore, staff decreased regulatory commission expense by \$6,306 for water and \$5,949 for wastewater. Finally, staff recommends regulatory commission expense of \$6,712 for water and \$6,977 for wastewater.

Bad Debt Expense (670/770) – The Utility recorded \$705 for water and \$10 for wastewater. Pursuant to Audit Finding No. 15, staff has increased this expense for both water and wastewater

by \$10 to reflect a change in headquarter allocation per ERC. Staff recommends bad debt expense for the test year of \$715 for water and \$20 for wastewater.

Miscellaneous Expense (675/775) – Lake Placid recorded \$2,088 for water and \$2,036 for wastewater. Staff recommends this expense be decreased by \$38 for water and increase by \$21 for wastewater to reflect a change in headquarter allocation per ERC. Staff recommends miscellaneous expense for the test year of \$2,050 for water and \$2,057 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be decreased by \$13,614 and \$10,437 for water and wastewater, respectively. Staff recommends O&M expense of \$40,130 for water and \$48,636 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Lake Placid recorded \$10,551 for water and \$12,943 for wastewater during the test year. Staff auditors calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff has made the following adjustments to depreciation expense:

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To correct for rule rates and Comm. Ordered beg. bal. (AF 3)	(\$332)	\$2,441
2. To correct amortization for rule rates. (AF 3)	92	1,693
3. To remove plant additions that should have been expensed. (AF 4)	(56)	0
4. To reflect depreciation on pressure relief valve. (AF 8)	15	0
5. To reflect depreciation on well screens. (AF 9)	14	0
6. To reflect depreciation on pro forma plant.	0	239
7. To depreciation expense allocation change for ERCs. (AF 15)	(420)	(99)
8. To correct vehicle depreciation. (AF 17)	(99)	(99)
9. To record amortization for tap fees not recorded. (AF 25)	(34)	0
Total	<u>(\$820)</u>	<u>\$4,175</u>

Therefore, staff's net adjustments to depreciation expense are a decrease of \$820 for water and an increase of \$4,175 for wastewater. These adjustments result in a net depreciation expense of \$9,731 for water and \$17,118 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded a TOTI balance for water of \$4,385 and \$3,735 for wastewater. Pursuant to Audit Finding No. 5, TOTI should be increased by \$4,278 for water and \$1,190 for wastewater to reflect the appropriate property tax for the Utility. Regulatory assessment fees (RAFs) should be reduced by \$3,830 for water and increased by \$3,660 for wastewater to correct the accrual pursuant to Audit Finding No. 6. In addition, staff increased this expense for water by \$21 and decreased this expense for wastewater by \$20 to reflect taxes related to annualized revenue. Also, staff has increased this expense for water by \$41 and wastewater by \$42 to reflect change in headquarter tax per ERC. Pursuant to Audit Finding No. 17, TOTI should be decreased by \$275 for payroll taxes for both water and wastewater. Finally, as discussed in Issue 7, staff has recommended revenue increases of

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\$24,288 for water and \$12,265 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, the TOTI should be increased by \$1,093 for water and \$552 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment to TOTI is an increase of \$1,328 for water and \$5,149 for wastewater. Staff recommends TOTI for the test year of \$5,713 for water and \$8,884 for wastewater.

Income Tax – Lake Placid recorded negative income tax of \$6,791 water and \$5,296 wastewater. The Utility is an 1120 C corporation and an income tax liability is anticipated in the future. Staff has increased water and wastewater income taxes by \$8,775 and \$7,019, respectively. Therefore, staff recommends income taxes of \$1,984 for water and \$1,723 for wastewater.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$57,558 for water and \$76,360 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule 3-C.

**Issue 7:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$76,705 for water and \$92,829 for wastewater. (Roberts)

**Staff Analysis:** Lake Placid should be allowed an annual increase of \$24,288 (or 46.34 percent) for water and an annual increase in wastewater of \$12,265 (or 15.22 percent). This will allow the Utility the opportunity to recover its expenses and earn a percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$192,816	\$165,845
Rate of Return	9.93%	9.93%
Return on Rate Base	\$19,147	\$16,468
Adjusted O & M Expense	\$40,130	\$48,636
Depreciation expense (Net)	9,731	17,118
Amortization	0	0
Taxes Other Than Income	5,713	8,884
Income Taxes	1,984	1,723
Revenue Requirement	\$76,705	\$92,829
Less Adjusted Test Year Revenues	\$52,417	\$80,564
Annual Increase	\$24,288	\$12,265
Percent Increase/(Decrease)	46.34%	15.22%



**Issue 8:** Should the Utility's current rate structures for the water and wastewater systems be changed, and, if so, what are the appropriate adjustments?

**Recommendation:** No. The Utility's current residential and non-residential water and wastewater systems' rate structure, which consists of a monthly base facility (BFC)/uniform gallonage charge rate structures, should remain unchanged. Furthermore, the bulk wastewater rate should continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80 percent of the number of equivalent residential connections actually connected to the system. Also, the bulk customer's gallonage charge should be set at 80 percent of the general service gallonage charge. Furthermore, a flat rate structure should be implemented for the two unmetered residential wastewater customers. The BFC cost recovery for the water and wastewater systems should be set at 50 percent. (Bruce)

**Staff Analysis:** The Utility's current rate structure for the water systems' residential and non-residential class consists of monthly BFC/gallonage charge rate structure wherein the BFC is \$12.71 and all gallons are charged \$3.67 per kgal.

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

The Utility is located within the SWFWMD. Over the past few years, the District has required whenever possible that an inclining block rate structure be implemented. This type of rate structure sends increasingly strong price signals as customers consume larger quantities of water. However, the Utility falls below the Districts' pumping threshold and is therefore considered non-jurisdictional. Also, based on staff's analysis, the average water consumption per residential customer is approximately 2,097 kgals per month. Therefore, staff believes that an inclining block rate structure is not appropriate at this time. Furthermore, staff recommends 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 8-1 on the following page. Staff also presents two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 8-1

<b>LAKE PLACID UTILITIES, INC.                      STAFF'S RECOMMENDED AND ALTERNATIVE                      WATER RATE STRUCTURES AND RATES</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
Monthly BFC/ uniform kgal charge BFC = 58%		Monthly BFC/ uniform kgal charge BFC = 50%	
BFC	\$12.71	BFC	\$15.76
All kgals	\$3.71	All kgals	\$6.88
<b>Typical Monthly Bills (1)</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$12.71	0	\$15.76
1	\$16.42	1	\$22.64
3	\$23.84	3	\$36.40
5	\$31.26	5	\$50.16
10	\$49.81	10	\$84.56
20	\$86.91	20	\$153.36
<b>Alternative 1</b>		<b>Alternative 2</b>	
Monthly BFC/ uniform kgal charge BFC = 40%		Monthly BFC/ uniform kgal charge BFC = 55%	
BFC	\$12.61	BFC	\$17.33
All kgals	\$8.25	All kgals	\$6.19
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgal)</b>		<b>Cons (kgal)</b>	
0	\$12.61	0	\$17.33
1	\$20.86	1	\$23.52
3	\$37.36	3	\$35.91
5	\$53.86	5	\$48.28
10	\$95.11	10	\$79.23
20	\$177.61	20	\$141.13

The accounting staff's initial BFC cost recovery is 57.79 percent. The Commission typically sets the BFC cost recovery no greater than 40 percent. However, based on the billing analysis, 51 percent of the bills are for consumption at 1 kgal and less. This is an indication that the customer base is very seasonal. Staff believes that the initial BFC allocation should be reduced to 50 percent. In recent cases, when a customer base is seasonal, the Commission

typically set the BFC cost recovery greater than 40 percent.<sup>6</sup> This allows the Utility sufficient cash flow to cover fixed costs and minimize the rate impact while the seasonal customers are out of residence.

Based on the foregoing, staff recommends that the Utility's current residential and non-residential water system rate structure, which consists of a monthly base facility (BFC)/uniform gallonage charge rate structures remain unchanged. Furthermore, staff recommends a BFC cost recovery of 50 percent for the water system.

**Wastewater:** The current residential and non-residential wastewater systems' rate structure consists of a BFC/gallonage charge rate structure with the exception of DeeAnn Estates. These customers are served by a water source other than the Utility. The Utility's current rate structure for the water systems' residential and non-residential class consists of monthly BFC/gallonage charge rate structure wherein the BFC is \$16.66 and all residential gallons are charged \$5.20 per kgal and \$6.24 per kgal for the general service class.

Furthermore, in Order No. PSC-07-0287-PAA-WS the Commission found it necessary to approve a bulk rate/BFC gallonage charge rate structure for DeeAnn Estates. These customers own their lift station. There is a reduced cost to serve the customers because the customers, not the Utility, are paying for the electrical pumping power and maintenance of the lift station. For this reason, staff recommends that the bulk customers' BFC should be based on 80 percent of the number of equivalent residential connections actually connected to the system. Also, the bulk customer's gallonage charge should be set at 80 percent of the general service gallonage charge.

There are two unmetered wastewater residential customers who are not part of DeeAnn Estates and according to representatives of the Utility also are served by a water source other than the Utility. Therefore, on a going forward basis, staff recommends a flat rate structure be implemented for these customers.

The accounting staff's initial BFC cost recovery for the wastewater system is 56.89 percent. Typically, the Commission set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Based on staff's analysis, staff believes it is appropriate to reduce the BFC cost recovery to 50 percent. This will offset the effects of the initial higher BFC to a lower BFC while sending the appropriate price signals. Staff's review of the billing data suggest that the cap should remain at 6 kgal. Furthermore, staff recommends that the general service gallonage charge should be 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 9-2 on the following page. Staff also presents two alternative rate structures to illustrate other recovery

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<sup>6</sup> See Order Nos. PSC-07-0609, issued July 30, 2007, in Docket No. 060246-WS, In Re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.; and PSC-08-0262-PAA-WS, issued in April 28, 2008, in Docket No. 070414-WS, In Re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 9-2

<b>LAKE PLACID UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES</b>			
<b>Current Rate Structure and Rates</b>		<b>Recommended Rate Structure and Rates</b>	
Monthly BFC/ uniform kgals charge BFC =48%		BFC/uniform kgals charge BFC = 50%	
BFC	\$16.66	BFC	\$19.72
All kgals	\$5.20	All kgals	\$6.52
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$16.66	0	\$19.72
1	\$21.86	1	\$26.24
3	\$32.26	3	\$39.28
6	\$47.86	6	\$58.84
8	\$47.86	8	\$58.84
<b>Alternative 1</b>		<b>Alternative 2</b>	
BFC/uniform kgals charge BFC = 40%		BFC/uniform kgals charge BFC =60%	
BFC	\$15.68	BFC	\$23.53
All kgals	\$7.86	All kgals	\$5.26
<b>Typical Monthly Bills</b>		<b>Typical Monthly Bills</b>	
<b>Cons (kgals)</b>		<b>Cons (kgals)</b>	
0	\$15.68	0	\$23.53
1	\$23.54	1	\$28.79
3	\$39.26	3	\$39.31
6	\$62.84	6	\$55.09
8	\$62.84	8	\$55.09

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential are changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should remain set at 6 kgals per month. The general service gallonage charge is 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

**Issue 9:** Is a repression adjustment appropriate in this case, and if so, what is the appropriate adjustment to make for this Utility, what are the corresponding expense adjustments, and what is the final revenue requirements for the respective water system?

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

**Staff Analysis:** Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 2,097 kgals and the customer base is very seasonal. This is an indication that there is virtually no consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should be filed with the Commission, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

**Issue 10:** What are the appropriate rates for this Utility?

**Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue \$76,705 for water and \$92,829 for wastewater, excluding miscellaneous service charges. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Roberts)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$76,705 for the water system and \$92,829 for the wastewater system.

Staff recommends that Utility's current residential and non-residential water and wastewater systems' rate structure, which consists of a monthly base facility (BFC)/uniform gallonage charge rate structures should remain unchanged. Furthermore, the bulk wastewater rate should continue to be based on a BFC/gallonage charge rate structure. The bulk customers' BFC should be based on 80 percent of the number of equivalent residential connections actually connected to the system. Also, the bulk customer's gallonage charge should be set at 80 percent of the general service gallonage charge. Furthermore, the two unmetered residential wastewater customers should be implemented a flat rate structure. The BFC cost recovery for the water and wastewater systems should be set at 50 percent.

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

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

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

**Issue 11:** Should the Utility's request for approval of a Non-Sufficient Funds fee be granted?

**Recommendation:** Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Roberts)

**Staff Analysis:** Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Lake Placid has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Lake Placid should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), the following fees may be assessed:

- 1.) \$25, if the face value does not exceed \$50,
- 2.) \$30, if the face value exceeds \$50 but does not exceed \$300,
- 3.) \$40, if the face value exceeds \$300, or
- 4.) five percent of the face amount of the check, whichever is greater.

Staff recommends that Lake Placid's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065(2) and 832.08(5) F.S. Approval of an NSF fee is consistent with prior Commission decisions.<sup>7</sup> As such, staff recommends that Lake Placid's proposed NSF fee be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

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<sup>7</sup> See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20; and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC; and PSC-94-0036-FOF-TL, issued January 11, 1994, in Docket No. 930901-TL, In re: Request for approval of tariff filing to increase service connection charges and establish a non-sufficient funds check charge by Vista-United Telecommunications.

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

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

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs which is \$7,116 for water and \$7,396 for wastewater. Using Lake Placid's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Lake Placid 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 rate 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 rate 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 rate is approved on a temporary basis, the rate collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rate is 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. (Roberts)

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

The Utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$16,215 for water and \$8,188 for wastewater. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Docket No. 090531-WS

Date: May 24, 2010

<b>LAKE PLACID UTILITIES, INC.</b>		<b>SCHEDULE NO. 1-A</b>	
<b>TEST YEAR ENDED 12/31/2008</b>		<b>DOCKET NO. 090531-WS</b>	
<b>SCHEDULE OF WATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>COMMISSION ADJUST. TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$418,839	(\$4,454)	\$414,385
2. LAND & LAND RIGHTS	2,791	(41)	2,750
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(171,944)	(675)	(172,619)
5. ACCUMULATED DEPRECIATION	(111,417)	5,522	(105,895)
6. AMORTIZATION OF CIAC	50,029	(850)	49,179
7. WORKING CAPITAL ALLOWANCE	<u>6,718</u>	<u>(1,702)</u>	<u>5,016</u>
8. WATER RATE BASE	<u>\$195,016</u>	<u>(\$2,200)</u>	<u>\$192,816</u>

Docket No. 090531-WS

Date: May 24, 2010

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/2008 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 090531-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$432,500	\$225,107	\$657,607
2. LAND & LAND RIGHTS	21,665	44	21,709
3. NON-USED AND USEFUL COMPONENTS	0	(15,843)	(15,843)
4. CIAC	(266,824)	0	(266,824)
5. ACCUMULATED DEPRECIATION	(274,517)	(78,219)	(352,736)
6. AMORTIZATION OF CIAC	118,989	(3,136)	115,853
7. WORKING CAPITAL ALLOWANCE	<u>7,384</u>	<u>(1,305)</u>	<u>6,080</u>
8. WASTEWATER RATE BASE	<u>\$39,196</u>	<u>\$126,649</u>	<u>\$165,845</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>			
1.	To correct for errors in trying to adjust per Commission Order. (AF 2)	\$12,544	\$211,944
2.	To remove plant that should have been expenses. (AF 4)	(985)	0
3.	To capitalize well screens that had been expensed. (AF 9)	415	0
4.	To record pro forma plant additions and retirements. (AF 13)	0	5,117
5.	To capitalize pressure valve that had been expenses. (AF 8)	150	0
6.	To adjust allocated plant for change in ERC's and allocate WW. (AF 16)	(14,373)	10,251
7.	To change allocations for vehicles related to Salaries. (AF 17)	<u>(2,205)</u>	<u>(2,205)</u>
	Total	<u>(\$4,454)</u>	<u>\$225,107</u>
<b><u>LAND</u></b>			
	To adjust allocated plant for change in ERCs and allocate to WW. (AF 16)	<u>(\$41)</u>	<u>\$44</u>
<b><u>NON-USED AND USEFUL PLANT</u></b>			
	To reflect non-used and useful plant.	<u>\$0</u>	<u>(\$15,843)</u>
<b><u>CIAC</u></b>			
	To reflect CIAC recorded as miscellaneous revenues. (AF 25)	<u>(\$675)</u>	<u>\$0</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>			
1.	To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$2,565)	(\$92,544)
2.	To remove plant that should have been expensed. (AF 4)	99	0
3.	To reflect Acc. Dep on well screens that had been expensed. (AF 9)	(7)	0
4.	To record pro forma plant additions and retirements. (AF 13)	0	15,110
5.	To record Acc. Dep on pressure valve. (AF 8)	420	0
6.	To adjust for allocated plant for change in ERCs and allocate to WW. (AF 16)	5,127	(3,233)
7.	To reflect pro forma change allocations for vehicles related to salaries. (AF 17)	<u>2,448</u>	<u>2,448</u>
	Total	<u>\$5,522</u>	<u>(\$78,219)</u>
<b><u>AMORTIZATION OF CIAC</u></b>			
1.	To correct to rule rates and correct G/L to correct balances. (AF 3)	(\$867)	(\$3,136)
2.	To correct CIAC recorded as miscellaneous revenue. (AF 25)	\$17	0
	Total	<u>(\$850)</u>	<u>(\$3,136)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>			
	To reflect 1/8 of test year O & M expenses.	<u>(\$1,702)</u>	<u>(\$1,305)</u>

**LAKE PLACID UTILITIES, INC.**  
**TEST YEAR ENDED 12/31/2008**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 090531-WS**

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$158,054,717	(\$157,909,750)	\$144,967					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$158,054,717	(\$157,909,750)	\$144,967	\$643	\$145,610	40.60%	11.14%	4.52%
6. LONG TERM DEBT	180,000,000	(179,834,905)	165,095	732	165,827	46.24%	10.00%	4.62%
7. SHORT TERM DEBT	<u>32,637,500</u>	<u>(32,607,565)</u>	<u>29,935</u>	<u>133</u>	<u>30,068</u>	<u>8.38%</u>	6.00%	0.50%
TOTAL LONG TERM DEBT	\$212,637,500	(\$212,442,470)	\$195,030	\$865	\$195,895	54.62%		
8. CUSTOMER DEPOSITS	876	0	876	0	876	0.24%	6.00%	0.01%
9. ACCUMULATED DEFERRED TAXES	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>0</u>	<u>16,276</u>	<u>4.54%</u>	6.00%	<u>0.27%</u>
10. TOTAL	<u>\$370,708,493</u>	<u>(\$370,352,220)</u>	<u>\$357,149</u>	<u>\$1,508</u>	<u>\$358,657</u>	<u>100.00%</u>		<u>9.93%</u>
RANGE OF REASONABLENESS						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>10.14%</u>	<u>12.14%</u>	
OVERALL RATE OF RETURN						<u>9.53%</u>	<u>10.34%</u>	

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/2008 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 090531-WS		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$53,307</u>	<u>(\$890)</u>	<u>\$52,417</u>	<u>\$24,288</u> 46.34%	<u>\$76,705</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	53,744	(13,614)	40,130	0	40,130
3. DEPRECIATION (NET)	10,551	(820)	9,731	0	9,731
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	4,385	235	4,620	1,093	5,713
6. INCOME TAXES	<u>(6,791)</u>	<u>8,775</u>	<u>1,984</u>	<u>0</u>	<u>1,984</u>
7. TOTAL OPERATING EXPENSES	<u>\$61,889</u>	<u>(\$5,424)</u>	<u>\$56,465</u>	<u>\$1,093</u>	<u>\$57,558</u>
8. OPERATING INCOME/(LOSS)	<u>(\$8,582)</u>		<u>\$4,048</u>		<u>\$19,147</u>
9. WATER RATE BASE	<u>\$195,016</u>		<u>\$192,816</u>		<u>\$192,816</u>
10. RATE OF RETURN	<u>-4.40%</u>		<u>-2.10%</u>		<u>9.93%</u>

LAKE PLACID UTILITIES, INC. TEST YEAR ENDED 12/31/2008 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 090531-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$81,006</u>	<u>(\$442)</u>	<u>\$80,564</u>	<u>\$12,265</u> 15.22%	<u>\$92,829</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	59,073	(10,437)	48,636	0	48,636
3. DEPRECIATION (NET)	12,943	4,175	17,118	0	17,118
4. AMORTIZATION	0	0	0)	0	0
5. TAXES OTHER THAN INCOME	3,735	4,597	8,332	552	8,884
6. INCOME TAXES	<u>(5,296)</u>	<u>7,019</u>	<u>1,723</u>	<u>0</u>	<u>1,723</u>
7. TOTAL OPERATING EXPENSES	<u>\$70,455</u>	<u>(\$5,354)</u>	<u>\$75,808</u>	<u>\$522</u>	<u>\$76,360</u>
8. OPERATING INCOME/(LOSS)	<u>\$10,551</u>		<u>\$4,755</u>		<u>\$16,468</u>
9. WASTEWATER RATE BASE	<u>\$39,196</u>		<u>\$165,845</u>		<u>\$165,845</u>
10. RATE OF RETURN	<u>26.92%</u>		<u>2.87%</u>		<u>9.93%</u>



LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 3	
	<u>WATER</u>	<u>WASTEWATER</u>	
<b>OPERATING REVENUES</b>			
1. To annualize revenues for most recent rates. (AF 14)	\$460	(\$442)	
2. To remove CIAC from revenue. (AF 25)	<u>(1,350)</u>	<u>0</u>	
Subtotal	<u>(\$890)</u>	<u>(\$442)</u>	
<b>OPERATION AND MAINTENANCE EXPENSES</b>			
1. Salaries and Wages Employees. (601/ 701)			
a. To correct allocation for salaries, payroll taxes and vehicles. (AF 17)	<u>\$401</u>	<u>\$401</u>	
2. Salaries and Wages Officers. (603/ 703)			
a. To correct allocation for salaries, payroll taxes and vehicles. (AF 17)	<u>(\$755)</u>	<u>(\$755)</u>	
3. Employees Pension and Benefits. (604/ 704)			
a. To correct allocation for salaries, payroll taxes and vehicles. (AF 17)	<u>(\$1,154)</u>	<u>(\$1,154)</u>	
4. Purchased Power (615/ 715)			
a. To remove deposits that were expensed.	\$0	(\$400)	
b. To reflect a bill that was charged to different division. (AF7)	130	210	
c. To annualize electric for new lift station. (AF 18)	<u>0</u>	<u>418</u>	
Subtotal	<u>\$130</u>	<u>\$228</u>	
5. Chemicals (618/ 718)			
a. To reflect decrease in chlorine costs after test year. (AF 20)	<u>(\$552)</u>	<u>(\$402)</u>	
6. Materials & Supplies (620/ 720)			
a. To remove pressure relief valve to capitalize in plant. (AF 8)	<u>(\$1,199)</u>	<u>\$0</u>	
b. To remove well screens to capitalize in plant. (AF 9)	<u>(830)</u>	<u>0</u>	
c. To reflect change in headquarter allocation for ERC change. (AF 15)	<u>4</u>	<u>51</u>	
Subtotal	<u>(\$2,025)</u>	<u>\$51</u>	
7. Contractual Services – Professional. (631/ 731)			
a. To remove an invoice recorded twice. (AF 11)	<u>(\$2,160)</u>	<u>(\$2,160)</u>	
b. To remove non-utility expense. (AF 11)	<u>(75)</u>	<u>(75)</u>	
c. To reflect change in headquarter allocation for ERC change. (AF 15)	<u>(16)</u>	<u>(8)</u>	
d. To decrease allocation from headquarters for invoices not found. (AF 22)	<u>(357)</u>	<u>(357)</u>	
Subtotal	<u>(\$2,608)</u>	<u>(\$2,600)</u>	
8. Contractual Services - Other (636/ 736)			
a. To remove non-recurring expense. (AF 10)	<u>(\$803)</u>	<u>\$0</u>	
b. To reflect expense for service agreement. (AF 4)	<u>426</u>	<u>0</u>	

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 3	
		<u>WATER</u>	<u>WASTEWATER</u>
c. To reflect change in headquarter allocation for ERC change. (AF 15)		<u>43</u>	<u>67</u>
Subtotal		<u>(\$334)</u>	<u>(\$67)</u>
9. Transportation Expense (650/ 750)			
a. To correct allocation for salaries, payroll taxes and vehicles. (AF 17)		<u>(\$449)</u>	<u>(\$449)</u>
10. Insurance Expenses (655/ 755)			
a. To reflect change in headquarter allocation for ERC change. (AF 15)		<u>\$66</u>	<u>\$94</u>
11. Regulatory Expense (665/ 765)			
a. To remove excess rate case expense. (AF 12)		<u>(\$5,219)</u>	<u>(\$3,008)</u>
b. To remove pro forma rate case amortization. (AF 19)		<u>(6,547)</u>	<u>(8,401)</u>
c. To reflect change in headquarter allocation for ERC change. (AF 15)		<u>(27)</u>	<u>(27)</u>
d. To reflect current rate expense.		<u>5,487</u>	<u>5,487</u>
Subtotal		<u>(\$6,306)</u>	<u>(\$5,949)</u>
12. Bad Debt Expense (670/770)			
a. To reflect change in headquarter allocation for ERC change. (AF 15)		<u>\$10</u>	<u>\$10</u>
13. Miscellaneous Expense (675/ 775)			
a. To reflect change in headquarter allocation for ERC change. (AF 15)		<u>(\$38)</u>	<u>\$21</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<b><u>(\$13,614)</u></b>	<b><u>(\$10,437)</u></b>
<b>DEPRECIATION EXPENSE</b>			
1. To correct for rule rates and Comm. Ordered beg. bal. (AF 3)		<u>(\$332)</u>	<u>\$2,441</u>
2. To correct amortization for rule rates. (AF 3)		<u>92</u>	<u>1,693</u>
3. To remove plant additions that should have been expensed. (AF 4)		<u>(56)</u>	<u>0</u>
4. To reflect depreciation on pressure relief valve. (AF 8)		<u>15</u>	<u>0</u>
5. To reflect depreciation on well screens. (AF 9)		<u>14</u>	<u>0</u>
6. To reflect depreciation on pro forma plant.		<u>0</u>	<u>239</u>
7. To depreciation expense allocation change for ERCs. (AF 15)		<u>(420)</u>	<u>(99)</u>
8. To correct vehicle depreciation. (AF 17)		<u>(99)</u>	<u>(99)</u>
9. To record amortization for tap fees not recorded. (AF 25)		<u>(34)</u>	<u>0</u>
Total		<u>(\$820)</u>	<u>\$4,175</u>

Docket No. 090531-WS

Date: May 24, 2010

**LAKE PLACID UTILITIES, INC.**  
**TEST YEAR ENDED 12/31/2008**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 090531-WS**  
**PAGE 3 OF 3**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To reflect the appropriate property tax (AF 5)	\$4,278	\$1,190
2. To correct RAFs for accruals (AF 6)	(3,830)	3,660
3. To reflect taxes related to annualized revenue (AF 14)	21	(20)
4. To change in headquarter tax for ERC change (AF 15)	41	42
5. To reduce payroll taxes associated with payroll correction (AF 17)	<u>(275)</u>	<u>(275)</u>
Total	<u>\$235</u>	<u>\$4,597</u>
<b>INCOME TAX</b>		
Income Tax Per Staff	<u>\$8,775</u>	<u>\$7,019</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$4,258	\$401	\$4,659
(603) SALARIES AND WAGES - OFFICERS	787	(755)	32
(604) EMPLOYEE PENSIONS AND BENEFITS	2,560	(1,154)	1,406
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,943	130	2,073
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	773	(552)	221
(620) MATERIALS AND SUPPLIES	4,422	(2,025)	2,397
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	19,938	(2,608)	17,330
(635) CONTRACTUAL SERVICES - TESTING	90	0	90
(636) CONTRACTUAL SERVICES - OTHER	1,135	(334)	801
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	919	(449)	470
(655) INSURANCE EXPENSE	1,106	66	1,172
(665) REGULATORY COMMISSION EXPENSE	13,018	(6,306)	6,712
(670) BAD DEBT EXPENSE	705	10	715
(675) MISCELLANEOUS EXPENSES	<u>2,088</u>	<u>(38)</u>	<u>2,050</u>
	<u>\$53,744</u>	<u>(\$13,614)</u>	<u>\$40,130</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$4,998	\$401	\$5,399
(703) SALARIES AND WAGES - OFFICERS	769	(755)	14
(704) EMPLOYEE PENSIONS AND BENEFITS	2,453	(1,154)	1,299
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	3,735	228	3,963
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	4,668	(402)	4,266
(720) MATERIALS AND SUPPLIES	1,801	51	1,852
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	23,008	(2,600)	20,408
(735) CONTRACTUAL SERVICES - TESTING	475	0	475
(736) CONTRACTUAL SERVICES - OTHER	221	67	\$288
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	894	(449)	445
(755) INSURANCE EXPENSE	1,078	94	1,172
(765) REGULATORY COMMISSION EXPENSES	12,926	(5,949)	6,977
(770) BAD DEBT EXPENSE	10	10	20
(775) MISCELLANEOUS EXPENSES	<u>2,036</u>	<u>21</u>	<u>2,057</u>
	<u>\$59,073</u>	<u>(\$10,437)</u>	<u>\$48,636</u>

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 4-A	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b>Residential, General Service</b>			
<b><u>Multi-Residential and Irrigation</u></b>			
<b><u>Base Facility Charge by Meter Size:</u></b>			
5/8"X3/4"	\$12.71	\$15.76	\$1.44
3/4"	\$19.07	\$23.64	\$2.17
1"	\$31.78	\$39.40	\$3.61
1-1/2"	\$63.54	\$78.80	\$7.22
2"	\$101.67	\$126.08	\$11.55
3"	\$203.33	\$252.16	\$23.11
4"	\$317.21	\$394.00	\$36.10
6"	\$635.42	\$788.00	\$72.20
<b><u>Gallonge Charge</u></b>			
RS Gallonge charge (All gallons)	\$3.67	\$6.88	\$0.29
GS Gallonge charge (All gallons)	\$3.67	\$6.88	\$0.31
MS Gallonge charge (All gallons)	\$3.67	\$6.88	\$0.29
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$23.72	\$51.99	
5,000 Gallons	\$31.06	\$74.51	
10,000 Gallons	\$49.41	\$130.81	

LAKE PLACID UTILITIES, INC.		SCHEDULE NO. 4B	
TEST YEAR ENDED 12/31/2008		DOCKET NO. 090531-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b><u>Residential Service</u></b>			
Base Facility Charge All Meter Sizes	\$16.66	19.72	\$1.55
<b><u>Gallonge Charge</u></b>			
Per 1,000 Gallons (6,000 gallon cap)	\$5.20	\$6.52	\$0.51
<b><u>General Service and Multi-Residential</u></b>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$16.66	\$19.72	\$1.55
3/4"	\$25.00	\$29.58	\$2.33
1"	\$41.66	\$49.30	\$3.88
1-1/2"	\$83.32	\$98.60	\$7.76
2"	\$133.32	\$157.76	\$12.42
3"	\$266.63	\$315.52	\$24.83
4"	\$416.62	\$493.00	\$38.80
6"	\$833.26	\$986.00	\$77.60
GS Gallonge charge (Per 1,000 gallons)	\$6.24	\$7.82	\$0.62
MS Gallonge charge (All gallons)	\$6.24	\$7.82	\$0.62
<b><u>General Service Bulk Rate</u></b>			
DeeAnn Estates HOA	\$567.95	\$672.45	\$52.92
Gallonge Charge per 1,000 gallons	\$4.99	\$5.22	\$0.41
<b><u>Flat rate for unmetered residential customers</u></b>	\$0.00	\$32.11	\$2.53
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$32.26	\$51.94	
5,000 Gallons	\$42.66	\$63.20	
10,000 Gallons	\$47.86	\$68.83	