

RECEIVED-FPSC

State of Florida



Public Service Commission

11 JUL 14 AM 8:52

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMAKER DRIVE, SUITE 1100
TALLAHASSEE, FLORIDA 32399-0850
COMMISSION CLERK

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

DATE: July 14, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Smith, Bruce, Fletcher, Hudson, Maurey, Simpson) *AS AB BS SH ALM*
Office of the General Counsel (Harris) *ZH AT*

RE: Docket No. 100359-WS – Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated.

AGENDA: 07/26/11 – Regular Agenda – Proposed Agency Action Except For Issues 12, 13 and 14 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: 01/19/12 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100359.RCM.DOC

DOCUMENT NUMBER-DATE

04836 JUL 14 =

FPSC-COMMISSION CLERK

Case Background

Tymber Creek Utilities, Inc. (Tymber Creek or Utility) is a Class C utility serving approximately 449 water customers and 420 wastewater customers in Volusia County. According to the Utility's 2009 Annual Report, total gross revenues were \$115,459 and \$204,257 for water and wastewater, respectively, and operating expenses were \$121,835 for water and \$175,488 for wastewater.

Tymber Creek was granted water Certificate No. 303-W and wastewater Certificate No. 252-S, on April 6, 1978. The Utility's last water rate case was in Docket No. 950647-WS, which resulted in Order No. PSC-97-0096-FOF-WS,¹ and the Utility's last wastewater rate case was in Docket No. 040300-SU, which resulted in Order No. PSC-04-1264-PAA-SU.² On July 22, 2010, the Commission received Tymber Creek's application for a SARC.

Staff issued a staff report dated February 9, 2011, and a customer meeting was originally scheduled for February 23, 2011. However, the Utility failed to send out the notices for the customer meeting. As a result, the rescheduled customer meeting was held on April 6, 2011.

The Utility has requested pro forma plant and expense items. Staff believes the pro forma items are reasonable and prudent. However, staff believes the pro forma items should not be included in rates until completion. Therefore, staff is recommending a two-phase rate approach, whereby Phase II rates could only be implemented once the pro forma plant and expense items are complete.

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

¹ See Order No. PSC-97-0096-FOF-WS, issued January 27, 1997, in Docket No. 950647-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Inc.

² See Order No. PSC-04-1264-PAA-SU, issued December 21, 2004, in Docket No. 040300-SU, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities.

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	2
1	Quality of Service (Simpson)	4
2	Used and Useful (Simpson).....	7
3	Rate Base (Smith).....	8
4	Return on Equity (Smith)	11
5	Test Year Revenue (Smith, Bruce).....	13
6	Operating Expense (Smith, Harris)	14
7	Revenue Requirement (Smith)	23
8	Rate Structure (Bruce).....	24
9	Repression (Bruce).....	29
10	Rates (Bruce).....	31
11	Pro Forma Adjustments (Smith).....	32
12	Four-Year Rate Reduction (Smith)	35
13	Temporary Rates (Smith)	36
14	Proof of Adjustments (Smith)	39
15	Close Docket (Harris).....	40
	Schedule No. 1-A Water Rate Base	41
	Schedule No. 1-B Wastewater Rate Base.....	42
	Schedule No. 1-C Wastewater Rate Base.....	43
	Schedule No. 2 Capital Structure	45
	Schedule No. 3-A Water NOI	46
	Schedule No. 3-B Wastewater NOI.....	47
	Schedule No. 3-C Adjustments to NOI.....	48
	Schedule No. 3-D Water O&M Expense	51
	Schedule No. 3-E Wastewater O&M Expense.....	52
	Schedule No. 4-A Water Rates.....	53
	Schedule No. 4-B Wastewater Rates.....	54
	Schedule No. 5-A Wastewater Rate Base (Phase II).....	55
	Schedule No. 5-B Adjustments to Rate Base (Phase II)	56
	Schedule No. 6 Capital Structure (Phase II).....	57
	Schedule No. 7-A Wastewater NOI (Phase II).....	58
	Schedule No. 7-B Adjustments to NOI (Phase II)	59
	Schedule No. 7-C Wastewater O&M Expense (Phase II).....	60
	Schedule No. 8 Wastewater Rates (Phase II)	61

Discussion of Issues

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

Recommendation: Yes. The quality of service for the Utility is 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 and wastewater operations. These components are 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 and the Utility's compliance with the Florida Department of Environmental Protection (DEP) is also considered.

Quality of the Utility's Product and Operating Condition of the Plant and Facilities

Staff conducted a field investigation of the service area on October 7, 2010. In addition, staff reviewed Tymber Creek's DEP sanitary surveys, compliance inspection reports, and wastewater operating permit correspondence over the last three years. The Utility purchases bulk water from the City of Ormond Beach. In the Utility's last rate case, the Commission found that the quality of wastewater service was satisfactory; however, the order identified several DEP compliance issues that the Utility was working to correct.

On January 27, 2009, DEP issued a noncompliance letter as a result of three separate occurrences of sewage spills at a lift station. In addition, on December 3, 2009, DEP issued a noncompliance letter noting deficiencies related to leaks in the filter tanks, failure to report spills or discharges, and failure to meet total suspended solids standards. On August 16, 2010, DEP issued a renewed operating permit for the wastewater treatment plant (WWTP) requiring the Utility to perform tests on the collection system, make improvements to the treatment plant and collection system, and provide an engineering report summarizing the results of the tests and improvements.

The Utility had an engineering study performed and a capital improvement plan report prepared to address the requirements of the DEP permit. The report contains a description of proposed system improvements, including leakage tests of force main and repairs of the collection system, installation of an automatic dialer at the main lift station, replacement of filter media, installation of a backup surge pump, replacement of blowers and motor assembly, replacement of two pumps at one of the lift stations, and additional sludge removal. The proposed system improvements are addressed in Issue 11.

It should be noted that subsequent to the issuance of the permit, the Homeowners' Association (HOA) opposed the renewal of the permit on grounds that the Utility had not adequately addressed the problems in the collection system. Tymber Creek provided a copy of its capital improvement plan report to the HOA. Staff met with representative of the Utility, the HOA, and the DEP to discuss the status of the negotiations regarding the capital improvement plan and other issues related to the rate case. The Utility and the HOA have continued their

negotiations; the DEP is monitoring the progress of the negotiations and the renewal of the operating permit has been held in abeyance. According to DEP, a report is due on August 1 regarding the status of the settlement negotiations between the Utility and HOA.

The Company has installed a new pump to address the lift station sewage spills and made repairs to the surge tank and aeration tank blowers to improve system performance. It appears that the Utility is making every effort to work with DEP and the HOA to resolve the concerns related to the operation of the WWTP and the collection system. The Utility has already implemented portions of the capital improvement plan and is working with the DEP and the HOA to resolve the outstanding customer concerns. Staff recommends that the quality of the Utility's treated wastewater and the operating condition of the plant and facilities be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on April 6, 2011, in Ormond Beach, Florida. Representatives from the Utility and DEP, as well as a Commissioner were present. Three customers attended and all spoke. The customers were concerned about the rates. Two of the customers raised concerns about odors from the WWTP. Staff explained the rate making process to the customers and asked DEP to follow up on the complaints regarding odors.

At staff's request, a DEP staff member visited the WWTP and the main lift station on April 22, 2011, and found no detectable odors. The DEP staff member also spoke to a customer living adjacent to the plant who stated that odors from the plant are a frequent occurrence and have been for years, although the problem has not been reported to the DEP.

The Utility has proposed several system improvements, discussed in Issue 11, which are expected to minimize or resolve any apparent odor issue, including improvements to the lift stations, additional sludge hauling, and replacement of filter media in the wastewater treatment plant. These system improvements are a part of the negotiations between the Utility and the HOA with respect to the DEP operating permit renewal. DEP is monitoring the Utility's negotiations with the HOA in an effort to resolve the outstanding concerns related to the operating permit renewal. Staff reviewed the Commission's Consumer Activity Tracking System for the past three years and found one customer complaint regarding a billing issue which was resolved and closed. Therefore, staff recommends that the Utility's attempts to address customer concerns appears to be satisfactory.

Summary

Staff believes that the Utility is working closely with the DEP and the HOA to resolve concerns related to the operation of the Utility's WWTP and lift stations and renewal of the WWTP operating permit. Staff believes that the upgrades to the wastewater system, including testing and repairs to the collection system, replacement of filter media, and additional sludge removal will address these issues; the DEP will continue to monitor the progress of the negotiations between the Utility and the HOA, as well as the renewal of the operating permit. Further, it appears that the Utility addresses customer complaints in a timely manner. Therefore,

Docket No. 100359-WS

Date: July 14, 2011

staff recommends that the overall quality of service provided by Tymber Creek be considered satisfactory.

Issue 2: What are the used and useful percentages for Tymber Creek?

Recommendation: The water distribution system, the wastewater treatment plant, and the wastewater collection system should be considered 100 percent used and useful. A 2 percent adjustment should be made to purchased water to reflect excessive unaccounted for water in the distribution system. (Simpson)

Staff Analysis: The Utility's records for the test year ended June 30, 2010 were used in analyzing the used and usefulness of the water and wastewater facilities.

Wastewater Treatment Plant

The Tymber Creek WWTP, which uses extended aeration treatment, has a permitted capacity of 131,000 gallons per day (gpd) based on the system's annual average daily flow. Rule 25-30.432, F.A.C., provides that the wastewater plant used and useful (U&U) calculation should be 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, and other factors.

Customer demand for the test year, based on the system's annual average daily flow, was 75,967 gpd. The system does not appear to have excessive infiltration and inflow. There has been minimal growth in the last five years. Therefore, the WWTP is approximately 58 percent U&U based on the current customer demand. In the last rate case, the WWTP was found to be 61 percent U&U. A review of the Utility's records and a field investigation of the service area show that the system is close to build out, there has been no significant growth in the last five years, and the average annual daily flow has decreased since the last rate case. Therefore, staff recommends that the WWTP be considered 100 percent U&U.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are based on the number of customers connected to the systems divided by the number of lots the lines are designed to serve. Consideration is also given to growth. Tymber Creek's system has had no significant growth in the last five years and there are approximately six vacant lots in the service area. It appears that the system is close to built out, therefore, the water distribution and wastewater collection system should be considered a 100 percent U&U.

Excessive Unaccounted for Water (EUW)

The amount of water purchased exceeds the amount of water sold and used for flushing by approximately 12 percent. Pursuant to Rule 25-30.4325, F.A.C., unaccounted for water in excess of 10 percent of the amount produced (or purchased) is considered excessive. Therefore, approximately 2 percent of the water purchased by Tymber Creek is EUW. Accordingly, an adjustment should be made to reduce purchased water expense by 2 percent.

Issue 3: What is the appropriate average test year rate base for Tymber Creek?

Recommendation: The appropriate average test year rate base for Tymber Creek is \$72,440 for water and \$188,278 for wastewater. (Smith)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital.

Staff selected a test year ended June 30, 2010, for this rate case. A summary of each component and the adjustments follows:

Utility Plant in Service: The Utility recorded \$204,914 and \$704,807 in UPIS for water and wastewater, respectively. Staff recommends the following adjustments to reflect the appropriate plant additions and retirements to water and wastewater UPIS amounts.

Table 3-1

<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 309.	(\$33,103)	\$0
2. To reflect cost to connect to the city water system (Acct. No. 309).	18,025	0
3. To reflect gate valves (Acct. No. 309).	707	0
4. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 310.	15,165	0
5. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 331.	58,234	0
6. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 333.	(13,917)	0
7. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 334.	(17,756)	0
8. To reflect meters and meter installations (Acct. No. 334).	13,065	0
9. To reflect plant retirements from Acct. No. 334.	(9,799)	0
10. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 335.	4,755	0
11. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 340.	3,423	0
12. To reflect Utility billing software (Acct. No. 340).	993	0
13. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 345.	373	0
14. To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 348.	(660)	0
15. To reflect lift station repairs (Acct. No. 360).	0	15,055
16. To reflect plant retirements from Acct. No. 360.	0	(3,747)
17. To reflect the ending balance approved in the last order for Acct. No 361.	0	(4,961)
18. To reflect PVC replacement, roadway repairs, dewatering and mobilization (Acct. No. 361).	0	22,150
19. To reflect plant retirements from Acct. No. 361.	0	(24,157)
20. To reflect the appropriate total cost for the electronics flow meter (Acct. No. 370).	0	853
21. To reflect the ending balance approved in the last order for Acct. No. 370.	0	(5,755)
22. To reflect cost for pump assembly, aluminum flow baffle, and monitor well (\$1,983 + \$343 + \$1,580).	0	3,906
23. To reflect plant retirements from Acct. No. 370.	0	(2,930)
24. To reflect the ending balance approved in the last order for Acct. No. 380.	0	(13,841)
25. To reflect blower package (\$8,689) and blower repairs (\$2,393 + \$6,358) (Acct. No. 380).	0	17,440
26. To replace drop pipes and surge tank (Acct. No. 380).	0	396
27. To reflect chlorinator and pole for lift station (Acct. No. 380).	0	505
28. To reflect plant retirements from Acct. No. 380.	0	(13,756)
29. To reflect the ending balance approved in the last order for Acct. No. 382.	0	(908)
30. Repair broken discharge line (Acct. No. 382).	0	1,448
31. Re-route sludge waste lines (Acct. No. 382).	0	312
32. To reflect plant retirements from Acct. No. 382.	0	(1,320)
33. To reflect Utility billing software (Acct. No. 390).	0	450
34. Plant items completed outside the test year.	0	5,000
35. Averaging Adjustment	(305)	(1,085)
Total	<u>\$39,200</u>	<u>(\$4,944)</u>

Staff's net adjustments to UPIS are an increase of \$39,200 for water and a decrease of \$4,944 for wastewater. Staff recommends UPIS balances of \$244,114 for water and \$699,863 for wastewater.

Non-Used and Useful Plant: As discussed in Issue 2 of this recommendation, Tymber Creek's water distribution system, wastewater treatment plant, and the wastewater collection system are 100 percent U&U. Therefore, a non-U&U adjustment is not necessary.

Contribution in Aid of Construction: The Utility recorded \$155,793 and \$380,306 in this account for water and wastewater, respectively. Staff has compiled CIAC additions for the period August 31, 1995, through June 30, 2010, to determine the Utility's CIAC balance as of June 30, 2010. Staff used information from the Utility's 1995-2010 annual reports, customer service connection records, and the Utility's authorized service availability tariff to determine the number of new customers connected since the Utility's last rate case. Pursuant to Audit Finding 4, Tymber Creek included an unsupported amount of \$2,410 for water. Therefore, staff has made an adjustment to decrease this account by \$2,410 for water. Staff recommends CIAC of \$153,383 for water and \$380,306 for wastewater.

Accumulated Depreciation: Tymber Creek recorded a balance for accumulated depreciation of \$122,996 for water and \$517,943 for wastewater. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff has increased this account by \$39,902 for water and \$31,528 for wastewater to reflect depreciation calculated by staff. Staff has decreased this account by \$2,801 and \$10,454 to reflect an averaging adjustment for water and wastewater, respectively. The aforementioned adjustments result in average accumulated depreciation of \$160,097 for water and \$539,017 for wastewater.

Amortization of CIAC: The Utility recorded \$140,026 and \$380,306 for amortization of CIAC for water and wastewater, respectively. Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect amortization of CIAC as calculated by staff, this account has been decreased by \$12,735 for water. Staff has decreased this account by \$2,224 for water to reflect an averaging adjustment. Staff's net adjustments to CIAC result in Amortization of CIAC of \$125,067 for water and \$380,306 for wastewater.

Working Capital Allowance: Tymber Creek recorded a working capital allowance of \$15,176 for water and \$21,119 for wastewater. Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$15,609 (based on water O&M of \$124,870) and \$22,908 (based on wastewater O&M of \$183,268) for water and wastewater, respectively. Thus, working capital has been increased by \$433 for water and \$1,789 for wastewater to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year average rate base is \$72,440 for water and \$188,278 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B, and staff's adjustments are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for Tymber Creek?

Recommendation: The appropriate return on equity (ROE) is 9.27 percent with a range of 8.27 percent to 10.27 percent. The appropriate overall rate of return is 7.77 percent. (Smith)

Staff Analysis: According to Audit Finding 10, and supporting documentation provided by the Utility, Tymber Creek’s capital structure consists of the following components:

Table 4-1

<u>Account Description</u>	<u>Balance</u>
Common Stock	\$100
Retained Earnings	79,288
Long-Term Debt – Officer Loans	78,920
Long-Term Debt – Shirah Builders, Inc.	44,227
Long-Term Debt – Shareholder Loans	72,187
Long-Term Debt – Sun Trust	33,502
Customer Deposits	<u>10,260</u>
Total	<u>\$318,484</u>

The Utility’s trial balance as of June 30, 2010, had outstanding loans from Utility officers totaling \$78,920 and outstanding loans from shareholders totaling \$72,187. There is no stated interest rate on the loans and no loan documents. Accordingly, staff recommends these loans be treated as common equity in accordance with Commission practice.³ Staff has increased the balance of paid in capital by \$151,107 (\$78,920 + \$72,187) and decreased long-term debt by the same amount. The Utility’s long-term debt balance also includes a revolving credit line with Sun Trust Bank in the amount of \$35,000 with an outstanding balance of \$33,502 and an annual interest rate of 3.25 percent. Proceeds from the credit line were used for the expansion of the wastewater plant. Based on bank statements as of June 30, 2010, the credit line has an outstanding loan balance of \$33,488. Staff recommends decreasing this account by \$14 to reflect the balance of \$33,488.

³ See Order Nos. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; PSC-09-0618-PAA-WS, issued September 11, 2009, in Docket No. 080709-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

The Utility's capital structure has been reconciled with staff's recommended rate base. Consistent with the Commission-approved leverage formula currently in effect, the appropriate ROE is 9.27 percent.⁴ Staff recommends an ROE of 9.27 percent with a range of 8.27 percent to 10.27 percent, and an overall rate of return of 7.77 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order No. PSC-10-0401-PAA-WS, issued June 18, 2010, in Docket No. 100006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

Docket No. 100359-WS

Date: July 14, 2011

Issue 5: What is the appropriate amount of test year revenue in this case?

Recommendation: The appropriate test year revenue for this Utility is \$113,580 for water and \$196,667 for wastewater. (Bruce, Smith)

Staff Analysis: Tymber Creek recorded total revenues of \$116,474 for water and \$189,599 for wastewater for the 12-month period ended June 30, 2010. Staff analyzed the Utility's reported revenues, and based on the billing determinants, staff recommends test year revenue of \$113,580 for water and \$196,667 for wastewater. Therefore, staff has decreased water revenue by \$2,894 and increased wastewater revenue by \$7,068. Test year revenue amounts are shown on Schedule Nos. 3-A and 3-B.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expense for Tymber Creek is \$137,487 for water and \$232,057 for wastewater. (Smith)

Staff Analysis: Tymber Creek recorded operating expense of \$129,139 for water and \$200,887 for wastewater, for the test year ended June 30, 2010. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) – Tymber Creek recorded \$7,000 and \$21,042 in this account for water and wastewater, respectively. There is one full-time employee who works in the office. The Utility allocated 25 percent of the employee's salary to water and 75 percent to wastewater. Tymber Creek is a water reseller and does not have a water treatment plant. Therefore, the Utility's allocation methodology is based on the number of direct labor hours. Staff believes this allocation methodology is reasonable. Accordingly, staff has increased this expense for water by \$11, and decreased this expense for wastewater by \$11, to reflect the appropriate allocation to water and wastewater. Staff recommends salaries and wages – employees expense of \$7,011 for water and \$21,032 for wastewater.

Salaries and Wages - Officers (603/703) – The Utility recorded \$9,461 in this account for both water and wastewater. This amount includes the weekly salary of two officers, who are each paid the same amount. Staff has calculated \$4,873 for each officer. This results in an annual expense of \$9,746 for both officers combined. Therefore, staff has increased this account by \$285 for water and \$285 for wastewater. In addition, the Utility's officers occasionally provided direct labor on an as needed basis totaling \$925 for water and \$563 for wastewater. Pursuant to the National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA), Account No. 603 – Salaries and wages – officers shall include, "the compensation (salaries, bonuses and other consideration for services) paid or accrued to officers, directors or majority stockholders of the utility company." Therefore, staff has increased this account by \$925 for water and \$563 for wastewater to reflect labor costs. Staff recommends salaries and wages – officers expense of \$10,671 for water and \$10,309 for wastewater.

Employee Pensions and Benefits (604/704) – Tymber Creek recorded \$4,676 and \$5,715 in this account for water and wastewater, respectively. As stated above, the Utility has 1 full-time employee whose salary is allocated 25 percent to water and 75 percent to wastewater. For consistency purposes, staff believes the same methodology should be applied to employee pensions and benefits expense. Accordingly, staff has decreased this account by \$2,078 for water and increased this account by \$2,078 for wastewater. Staff recommends employee pensions and benefits expense of \$2,598 for water and \$7,793 for wastewater.

Purchased Water (610) – Tymber Creek recorded \$63,587 for purchased water. The Utility purchases bulk water from the City of Ormond Beach. On September 22, 2010, the City of Ormond Beach informed the Utility that there would be an increase in the bulk water rate charge, effective January 1, 2011. Staff has increased this account by \$2,521 to reflect the annualized increase in bulk water rates. Based on the above adjustment, staff's calculated purchased water

expense is \$66,108. As discussed in Issue 2, staff has decreased this account by \$1,322 ($\$66,108 \times 2$ percent) for excessive unaccounted for water. Staff recommends purchased water expense of \$64,786 ($\$63,587 + \$2,521 - \$1,322$).

Sludge Removal Expense (711) – The Utility recorded \$34,163 in this account. Staff has increased this account by \$2,065 to reflect an invoice for three loads of sludge that were not included in the test year. Staff recommends sludge removal expense of \$36,228.

Chemicals (718) – Tymber Creek recorded \$6,155 in this account. Staff has increased this account by \$110 for an invoice that was not included in the test year. Staff recommends chemicals expense of \$6,265.

Materials and Supplies (620/720) – The Utility recorded \$867 for water and \$901 for wastewater in this account. Based on invoices for materials and supplies, staff calculated \$1,507 and \$2,014 for water and wastewater, respectively. Therefore, staff has increased this account by \$640 for water and \$1,113 for wastewater. Staff recommends materials and supplies expense of \$1,507 for water and \$2,014 for wastewater.

Contractual Services – Professional (631/731) – Tymber Creek recorded \$5,588 in this account for both water and wastewater. Based on audited amounts, staff has decreased this account by \$28 for water and increased this account by \$1,565 for wastewater. Staff recommends contractual services – professional expense of \$5,560 ($\$5,588 - \28) for water and \$7,153 ($\$5,588 + \$1,565$) for wastewater.

Contractual Services – Testing (635/735) – The Utility recorded \$7,808 for water and \$38,451 for wastewater in this account. Staff has decreased this account by \$40 for water to reflect the audited amount. Tymber Creek recorded \$13,155 for effluent testing. The monthly cost of effluent testing is \$1,750. Staff has annualized the total cost of effluent testing and increased this account by \$7,845 ($\$1,750 \times 12$ months - $\$13,155$) for wastewater. Further, staff has reduced the amount reported for wastewater by \$25,296 to reclassify costs that should have been included in contractual services – other. On June 17, 2010, the Utility received a notice from the Volusia County Health Department stating that the rate for testing coliform drinking water analysis would be increased from \$20 to \$25. Tymber Creek normally has two coliform drinking water analysis tests performed per month. Staff has made an adjustment to increase this account by \$120 for water ($\50×12 months - $\$40 \times 12$ months). After the completion of the audit report, the Utility provided staff with invoices for bi-monthly phosphorus tests required by DEP. The cost of the bi-monthly phosphorus test is \$40. Staff has increased this account by \$960 ($\80×12 months) for wastewater. According to the staff engineer, Tymber Creek also incurred an expense of \$300 for dye testing. Staff has amortized this amount over 5 years which results in an increase of \$60 for wastewater. Staff recommends contractual services – testing expense of \$7,888 ($\$7,808 - \$40 + \120) for water and \$22,020 ($\$38,451 + \$7,845 - \$25,296 + \$960 + \60) for wastewater.

Contractual Services – Other (636/736) – Tymber Creek recorded \$12,425 for water and \$8,791 for wastewater in this account. As mentioned above, the Utility misclassified \$25,296 in contractual services – testing that should have been recorded in this account for wastewater. Staff has increased this account by \$25,296 to reclassify these costs. The Utility provided staff

with additional invoices for leak repairs totaling \$1,026. Staff has increased this account by \$726 for water and \$300 for wastewater to reflect the respective invoices. The Utility provided staff with an invoice for chlorine tank repairs of \$5,000. Staff has amortized the \$5,000 over 5 years which resulted in an increase of \$1,000 for wastewater. The Utility also provided staff with an invoice for videography of wastewater lines of \$5,000. Likewise, staff has amortized this amount over five years which resulted in an increase of \$1,000 for wastewater. The Utility requested a \$25 increase in the \$175 monthly fee for its meter reader. Staff believes this amount is reasonable. Accordingly, staff has increased this account by \$300 for water (\$25 x 12 months). The Utility requested a \$100 increase in the monthly fee for its water operator due to increased DEP monitoring requirements. The water operator's current monthly fee is \$500. Staff has increased this account by \$1,200 (\$100 x 12 months) for water to reflect the increased fee for the water operator. Finally, staff has amortized the cost of a \$1,300 fence installation over 5 years which resulted in an increase of \$260 for wastewater. The net effect of staff's recommended adjustments to this account results in an increase of \$2,226 (\$726 + \$300 + \$1,200) for water and \$28,156 (\$25,296 + \$300 + \$1,000 + \$1,000 + \$300 + \$260) for wastewater. Staff recommends contractual services – other expense of \$14,651 for water and \$36,947 for wastewater.

Rent Expense (640/740) – The Utility recorded \$3,662 for water and \$17,082 for wastewater in this account. Based on the audit report, the rent account includes \$7,324 for office rent. Tymber Creek allocated \$3,662 for both water and wastewater for office rent. Staff recommends that the appropriate allocation of expenses is a 25 percent allocation to water and a 75 percent allocation to wastewater. This results in office rent of \$1,831 for water and \$5,493 for wastewater. Accordingly, staff has decreased the amount reported for office rent by \$1,831 for water and increased the amount for wastewater by \$1,831.

Tymber Creek's percolation ponds are located on 3.6 acres of land (the land) owned by J. Stanley Shirah, the Utility's owner. The original cost of the land was established as \$49,432 by Order No. 24206.⁵ According to Order No. 24206, Tymber Creek represented that it would purchase the 3.6 acres and construct four additional percolation ponds. Mr. Shirah purchased the land in question in 1973 for approximately \$2,000 per acre. In 1990, a percolation pond was constructed on the land, and the land was devoted to public use. The Utility proposed to use a value of \$96,000 for the land. However, the Commission noted that it is reasonable to adjust the value of land purchased by a utility from a related party when the requested value is significantly greater than the original purchase price. In the 1990 case, the Commission adjusted the value of the land by applying a land-value index derived from the change in assessed property values in Volusia County from 1973 to 1991. Based on the application of this index, the Commission found that the appropriate value of the land was \$49,432 at the time it was devoted to public service. Because it was represented by Mr. Shirah that the Utility would own the land under the percolation ponds, this amount was included in rate base. Thus, there was no rent expense for land in the 1990 case.

In 2004, Tymber Creek filed an application for a rate increase for its wastewater system. The application was assigned Docket No. 040300-SU. At that time, Tymber Creek requested

⁵ See Order No. 24206, issued March 7, 1991, in Docket No. 900501-WS, In re: Application for a staff-assisted rate case in Volusia County by Tymber Creek Utilities

rent expense for the land in the amount of \$540 per month or \$6,480 annually. In the 2004 rate proceeding, it was determined that Mr. Shirah had not sold the land to the Utility as represented in the 1990 case. The Commission removed the amount of \$49,432 from rate base and calculated the appropriate rent expense for the land. In the 2004 case, the Commission established that the appropriate rent amount for the land shall be the annual rate of return times the original cost of the land at the time it was devoted to public service. Using the approved rate of return of 8.78 percent and the value of the land of \$49,432, the Commission recognized a rent expense for the land of \$362 per month or \$4,340 annually.⁶

In the instant docket, the Utility requested rent expense for the land in the amount of \$3,700 per month or \$44,400 annually. In staff's preliminary report which was prepared for Tymber Creek's customer meeting, staff recommended an annual rent expense for the land of \$3,841. Staff determined the recommended rent expense for the land by multiplying the original cost of the land at the time it was placed into service by staff's recommended overall rate of return of 7.77 percent. Tymber Creek disagreed with staff's preliminary recommendation from the staff report and filed additional documentation to support its requested rent expense for land.

By letter dated March 16, 2011, Tymber Creek stated its position regarding its preferred treatment of the land. A copy of an appraisal prepared by Richard Dreggors from Calhoun, Dreggors, and Associates, Inc. (CDA) was included with the Utility's letter. The appraisal valued the land upon which the percolation ponds were built at \$175,000 per acre. Mr. Dreggors identified three different approaches to value the land, 1) cost approach 2) sales comparison approach, and 3) income capitalization approach. The cost approach is "an indication of value which combines the value of the land under the highest and best use, plus the depreciated replacement or reproduction cost of improvements." The sales comparison approach "is a method of estimating value whereby the subject property is compared with similar properties that have sold recently." The income capitalization approach is when, "the projected or current rental income for the property is shown with deductions for vacancy and collection losses and expenses." Mr. Dreggors chose the sales comparison approach and estimated the value of the land as if the land were vacant. Accordingly, Mr. Dreggors provided four separate sales transactions of vacant land in Volusia County. Table 6-1 summarizes the results of those sales.

⁶ See Order No. PSC-04-1264-PAA-SU, issued December 21, 2004, in Docket No. 040300-SU, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, p.10.

Table 6-1

Sale No.	Location	Sale Date	Sale Price	Land Size (in acres)	Future Land Use	Price /Acre
VR-103	NE Corner of Clyde Morris Blvd. & Strickland Range Rd.; Daytona Beach, Volusia Co.	11/27/07	\$3,684,117	23.24	Office Transitional	\$158,525
VR-105	SE Corner of Clyde Morris Blvd. & Big Tree Rd.; Daytona Beach, Volusia Co.	5/15/07	\$3,541,250	14.16	L2 Residential & Low Intensity Commercial	\$250,088
VR-110	North Side of Museum Blvd., about 280' W of Nova Rd. (SR 5A); Daytona Beach, Volusia Co.	11/10/06	\$525,000	3.23	L1 Residential	\$162,539
177	SW Corner of Business Center Dr. & Southland Rd.; Ormond Beach, Volusia Co.	10/2/06	\$730,000	2.85	Industrial/Utilities	\$256,140

Based on the above, Mr. Dreggor concluded that the 3.6 acres of land was valued at \$175,000 per acre, for a total land value of \$630,000. Tymber Creek also submitted a lease agreement between the Utility and Mr. Shirah calling for payments of \$3,700 per month for the land. In addition, the Utility's letter indicated that the staff's preliminary report did not include the land for the original wastewater treatment facility (WWTF), two lift stations, and one percolation pond. However, staff notes that there is \$4,524 recorded in rate base for the land associated with the original WWTF as shown on Schedule No. 1-B.

On May 11, 2011, staff received a second filing of additional information related to the rent issue in the instant docket. The Utility presented a Stipulated Order of Taking from Volusia County dated December 29, 2009, wherein Volusia County condemned the 6 acres of land adjacent to the 3.6 acres of land at issue in this case. The price of the 6 acres of land was \$798,000 or \$133,000 per acre. Tymber Creek provided the information to further support its claim that the land in question should be valued much greater than the amount the Commission had previously established.

On May 13, 2011, staff received a third filing of additional information related to this rent issue. Tymber Creek explained that the reason the Utility did not purchase the land as discussed in Order No. 24206 was because Mr. Shirah, "was not willing to sell for below market value of the land that the Commission computed." In Docket No. 900501-WS, the Utility submitted an appraisal which purported to show the value of the land at that time was \$26,971 to \$32,988 per acre. Further, Tymber Creek stated, "the utility feels that the Commission (sic) reliance upon the fact of land being placed into public service is relative to booking an asset of the utility, not a lease. This land has never been dedicated to the concept of long-term use as percolation ponds." In addition, the Utility explained the use of the land on which the percolation ponds are located had been a provisional solution to comply with increased DEP requirements. As such, the Utility now claims the land had not been dedicated to public use. However, going forward from the instant docket, the Utility would be willing to dedicate the land to public use if a fair valuation of the land is reflected in rates. As part of this submission, Tymber Creek also included prior land leases. Table 6-2 illustrates those leases.

Table 6-2

Date	Amount
1/1/03	\$540/month
1/3/05	\$540/month
6/1/07	\$540/month
11/27/10	\$3,700/month

Staff has researched the Commission's treatment of rent expense and land leases when the land is owned by a related party. Pursuant to 25-30.433(10), F.A.C,

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

The purpose of this rule is to preserve continued service to the customers. In Tymber Creek's case, the Utility represented to the Commission in Docket No. 900501-WS that it would be purchasing the land. The Commission determined the value of the land to be \$49,432 and included it in the Utility's rate base. However, Mr. Shirah did not sell the land to the Utility because he did not agree with the value determined by the Commission. Apparently, he chose to lease the land to the Utility instead. Tymber Creek has had various land leases over the years. Staff believes that the current year-to-year lease arrangement puts the wastewater operations in jeopardy of losing its primary means of disposal at the end of any given year, which would jeopardize the Utility's ability to function.

Tymber Creek's position is that, although the percolation ponds were built on the land in the early 1990's, the land was on a temporary lease from Mr. Shirah and was never intended to be a permanent commitment. The Utility asserts that the land on which the percolation ponds are located has not been dedicated to public service. Moreover, the Utility contends that dedication to public service will be established when the Commission approves a fair valuation.

Pursuant to Order No. PSC-96-0663-FOF-WS involving Rotonda West Utility Corporation, the Commission found that the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) requires that land be recorded at the original cost when first dedicated to public use.⁷ By Order No. PSC-00-2054-PAA-WS, the Commission found that the dedication of land to public service begins when the ponds are built, if not before, when the planning of the construction took place.⁸ Costs were expended to clear the land, build the ponds, and connect the ponds to the wastewater treatment plant. Further, the Commission found that temporary arrangements would be imprudent because it might require the whole process to be repeated at a later time.

⁷ See Order No. PSC-96-0663-FOF-WS, issued May 13, 1996, in Docket No. 950336-WS, In re: Application for rate increase in Charlotte County by Rotonda West Utility Corporation.

⁸ See Order No. PSC-00-2054-PAA-WS, issued in October 27, 2000, in Docket No. 990939-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

The Utility's percolation ponds have been on Mr. Shirah's property for over 20 years. Mr. Shirah's lease to the Utility specifies that, "on the first day of each year the monthly rent shall increase five percent (5%) above previous years' rent or sixteen percent (16%) of ad valorem assessed value or ten percent (10%) of appraised value whichever is greater." Tymber Creek provided copies of lease agreements dating back to 2007. The Utility has not provided any lease agreement documentation prior to 2007. In Table 6-2 above, the lease amount increased 685 percent between 2007 and 2010. Pursuant to Order No. PSC-00-2054-PAA-WS involving Indiantown Company, the Commission determined that a lease rate should not be escalated for future years. The Order also indicated that Commission rules require that only the original cost of land when first devoted to public service should be included in setting rates. Further, if the lease is allowed to escalate for the benefit of the lessor, it would effectively allow the market value of land in rates.

By rule, the Commission adheres to the value of the land at the time it was dedicated to public service. Staff believes the land was dedicated to public service in 1991 when the percolation ponds were constructed. Pursuant to Order No. 24206, the Commission has determined the value of the land to be \$49,432 at the time it was dedicated to public service. Based on Commission practice, the appropriate rent amount should be determined by multiplying the annual rate of return, based on the Utility's current capital structure, by the original cost of the land in service.⁹

Tymber Creek recorded \$13,420 in this account for wastewater for land rent. Based on the analysis above, land rent should be based on the utility's current cost of capital, times the original cost of the land in service. This is the same methodology approved by the Commission in the Utility's last rate case.¹⁰ The original cost of the land in service is \$49,432, and based on the Utility's current capital structure, the overall rate of return is 7.77 percent. Accordingly, the appropriate annual rent expense for land is \$3,841 ($\$49,432 \times 7.77$ percent). Staff has decreased this account for wastewater by \$9,579 ($\$13,420 - \$3,841$) to reflect the appropriate amount of rent expense for land.

Pursuant to Rule 12A-1.070(19)(a), F.A.C., the lease or rental of real property or a license fee arrangement to use or occupy real property between related "persons" in the capacity of lessor/lessee is subject to tax. The current sales tax, as of April 22, 2011, is 6.5 percent for Volusia County. Based on staff's recommended rent expense, the sales tax on rent is \$119 ($\$1,831 \times 6.5$ percent) for water and \$607 ($\$9,334 \times 6.5$ percent) for wastewater. Staff has increased this account by \$119 for water and \$607 for wastewater to reflect the appropriate sales tax.

⁹ See Order Nos. PSC-07-0668-PAA-WS, issued August 20, 2007, in Docket No. 060747-WS, In re: Application for staff-assisted rate case in Highlands County by Mink Associates II, LLC d/b/a Crystal Lake Club Utilities; PSC-04-1264-PAA-SU, issued December 21, 2004, in Docket No. 040300-SU, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities.; PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff assisted rate case in Marion County by East Marion Sanitary Systems, Inc.; and PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System.

¹⁰ See Order No. PSC-04-1264-PAA-SU, at p. 10.

After the completion of the audit, the Utility submitted an invoice for rental of excavation equipment of \$405. Staff has increased this account by \$405 for water to reflect this amount.

Staff recommends rent expense of \$2,355 for water ($\$3,662 - \$1,831 + \$405 + \119) and \$9,941 ($\$17,082 + \$1,831 - \$9,579 + \607) for wastewater.

Transportation Expenses (650) – Tymber Creek recorded \$260 for water in this account. The Utility's records substantiated a transportation expense of \$182 for water. Accordingly, staff has decreased this account by \$78. Staff recommends transportation expense of \$182 for water.

Insurance Expenses (655/755) – The Utility recorded \$100 for water and \$2,300 for wastewater in this account. Staff has allocated 50 percent to each system and increased water by \$1,100 and decreased wastewater by \$1,100 for this account. Staff recommends insurance expense of \$1,200 for water and \$1,200 for wastewater.

Regulatory Commission Expense (665/765) – Tymber Creek recorded \$0 for both water and wastewater in this account. By Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$765 for postage expense, \$695 for printing expense, and \$87 for envelopes. The above results in \$1,547 for postage, mailing notices, and envelopes. The Utility paid a \$2,000 rate case filing fee. The Utility also incurred consultant fees totaling \$1,834 for water and \$4,253 for wastewater for the instant docket. The total rate case expense is \$3,608 for water and \$6,026 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$902 and \$1,507 for water and wastewater, respectively.

Miscellaneous Expense (675/775) – The Utility recorded \$3,937 for water and \$6,080 for wastewater in this account. Staff has decreased this account by \$71 for water to disallow late charges for telephone service. Staff has decreased this account by \$346 for water and \$2,663 for wastewater to remove the remaining unsupported balance. Staff recommends miscellaneous expense of \$3,520 ($\$3,937 - \$71 - \346) for water and \$3,417 ($\$6,080 - \$2,663$) for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$3,459 for water and an increase of \$10,096 for wastewater. Staff's recommended O&M expense is \$124,870 for water and \$183,268 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Related Amortization of CIAC) – Tymber Creek recorded \$684 for water and \$14,196 for wastewater in this account. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation is \$5,238 and \$28,056 for water and wastewater, respectively. Thus, staff has made an adjustment to increase the amount reported for water by \$4,554, and to increase the amount reported for wastewater by \$13,860. Staff has decreased amortization of CIAC by \$2,326 for water based on composite rates. This results in a net depreciation expense of \$2,912 ($\$684 + \$4,554 - \$2,326$) for water and \$28,056 ($\$14,196 + \$13,860$) for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$7,044 for water and \$13,519 for wastewater in this account for TOTI. Tymber Creek did not record any amount for payroll tax for either water or wastewater. Staff has calculated payroll tax of \$1,416 for water and \$2,510 for wastewater. Accordingly, staff has increased this account by \$1,416 for water and \$2,510 for wastewater to reflect staff's calculated payroll tax. The amounts included in this account for property taxes are \$1,848 and \$4,620 for water and wastewater, respectively. Staff reviewed the Volusia County non-ad valorem and ad valorem tax assessment notices, and the appropriate amount of property taxes is \$1,848 for water and \$5,122 for wastewater. Therefore, staff increased this account by \$502 for wastewater. The Utility recorded RAFs of \$5,196 for water and \$8,899 for wastewater. Based on staff's recommended test year revenues, the Utility's RAFs should be \$5,111 for water and \$8,850 for wastewater. Therefore, staff has decreased this account by \$85 and \$49 for water and wastewater, respectively, to reflect the appropriate RAFs. In addition, the Utility submitted an invoice totaling \$2,000 for fees required by the Volusia County Health Department. As such, staff has increased taxes other than income by \$2,000. As discussed in Issue 7, revenues have been increased by \$29,535 for water and \$50,020 for wastewater to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn the recommended return on investment. As a result, TOTI should be increased by \$1,329 for water and \$2,251 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff recommends TOTI of \$9,704 ($\$7,044 + \$1,416 - \$85 + \$1,329$) for water and \$20,733 ($\$13,519 + \$2,510 + \$502 - \$49 + \$2,000 + \$2,251$) for wastewater.

Income Tax – The Utility did not have any income tax expense for the test year. Tymber Creek is an S Corporation. The tax liability is passed on to the owners' personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to Tymber Creek's recorded test year operating expenses result in staff's recommended operating expenses of \$137,487 for water and \$232,057 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$143,115 for water and \$246,687 for wastewater. (Smith)

Staff Analysis: Tymber Creek should be allowed an annual increase of \$29,535 (26.00 percent) for water and an annual increase of \$50,020 (25.43 percent) for wastewater. This will allow the Utility the opportunity to recover its expenses and earn a 7.77 percent return on its investment. The calculation is as follows:

Table 7-1

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$72,440	\$188,278
Rate of Return	x .0777	x .0777
Return on Rate Base	\$5,629	\$14,629
Adjusted O&M expense	124,870	183,268
Depreciation expense (Net)	2,912	28,056
Amortization	0	0
Taxes Other Than Income	9,704	20,733
Income Taxes	0	0
Revenue Requirement	\$143,115	\$246,686
Less Test Year Revenues	113,580	196,667
Annual Increase	\$29,535	\$50,020
Percent Increase/(Decrease)	26.00%	25.43%

Issue 8: What is the appropriate rate structure for Tymber Creek?

Recommendation: The appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgal in the first usage block and all usage in excess of 10 kgal in the second usage block. As discussed in Issue 9, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 6 kgal per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-6 kgal; b) 6-10 kgal; and c) all usage in excess of 10 kgal and usage block rate factors of .87, 1.0, and 1.5 respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 35 percent. Furthermore, the appropriate rate structure for the wastewater residential class and non-residential class is a continuation of the traditional BFC/gallonage charge rate structure. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. (Bruce)

Staff Analysis: The Utility's current water and wastewater system rate structures for the residential and non-residential classes consist of a monthly base facility charge (BFC) and a uniform gallonage charge. The current BFC for the water customers is \$9.75 and the gallonage charge is \$2.56 per 1,000 gallons.

Water Rates: 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) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) implements, where appropriate, water conserving rate structures consistent with the Commission's goals and practices.

Tymber Creek is located in Volusia County within the St. Johns River Water Management District (SJRWMD). The Utility provides wastewater service to its customers. However, the Utility purchases bulk water from the City of Ormond Beach and resells these services to the customers of the Utility. Therefore, the Utility is considered non-jurisdictional by SJRWMD.

Based on staff's analysis of the billing data, the overall average consumption is 4.8 kgal per month. This does not indicate high overall average consumption. However, the billing data indicates that 8 percent of the customers consume over 10 kgal of water per month. Furthermore, the appropriate threshold for a customer's discretionary usage is 6.0 kgal per month. This number is derived based on the average number persons per household, gallons per day per person, and the number of days per month ($4 \times .050 \times 30$). For this reason, staff recommends that a three-tier inclining block rate structure with usage blocks set at 0-6 kgal; 6-10 kgal; and usage in excess of 10 kgal be implemented. Implementing this rate structure is done in an effort to restrict recovery due to repression being applied to non-discretionary usage below 6 kgal in the first block, while targeting consumption in the second block and customers who consume well over 10 kgal in the third block.

Staff's recommended rate design for the water system is shown on Table 8-1. Also, staff has presented two alternate rate structures to illustrate other recovery methodologies.

Table 8-1

TYMBER CREEK UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES					
Current Rate Structure and Rates			Recommended Rate Structure and Rates		
BFC/Uniform gallonage charge Rate structure BFC = 44%			3-Tier Inclining Block Rate Structure Rate Factors .87, 1.00 and 1.50 BFC = 35%		
BFC	\$9.75		BFC	\$9.41	
Gallonage Charge	\$2.56		1 st tier (no repression)	0-6 kgals	\$3.57
			2 nd tier (discretionary)	6-10 kgal	\$4.12
			3 rd tier (discretionary)	10+	\$6.18
Typical Monthly Bills (1)			Typical Monthly Bills		
Cons (kgals)			Cons (kgals)		
0	\$9.75		0	\$9.41	
1	\$12.31		1	\$12.98	
3	\$17.43		3	\$20.12	
5	\$22.55		5	\$27.26	
10	\$35.35		10	\$47.31	
20	\$60.95		20	\$109.11	
Alternative 1			Alternative 2		
2-Tier Inclining Block Rate Structure Rate Factors .91 and 1.00 BFC = 35%			3- Tier Inclining Block Rate Structure Rate Factors .87, 1.00 and 1.50 BFC =40%		
BFC	\$9.44		BFC	\$10.79	
1 st tier (no repression)	0-6 kgal	\$3.79	1 st tier (no repression)	0-6 kgals	\$3.29
2 nd tier	6+	\$4.15	2 nd tier (discretionary)	6-10 kgal	\$3.72
			3 rd tier (discretionary)	10+	\$5.58
Typical Monthly Bills			Typical Monthly Bills		
Cons (kgals)			Cons (kgals)		
0	\$9.44		0	\$10.79	
1	\$13.23		1	\$14.08	
3	\$20.81		3	\$20.66	
5	\$28.39		5	\$27.24	
10	\$48.78		10	\$45.41	
20	\$90.28		20	\$101.21	

Staff's initial BFC cost recovery is 32.24 percent. This BFC allocation falls within the guidelines of setting the BFC allocation no greater than 40 percent. However, staff recommends that the initial BFC cost recovery of 32.24 percent be increased to 35 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 while targeting customers who use a greater volume of water.

Moreover, staff recommends that the rate structure for the water system's non-residential class should remain unchanged and therefore continue the BFC/uniform gallonage charge rate structure. This rate structure has been the Commission's choice for non-residential customer classes.¹¹

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgal in the first usage block and all usage in excess of 10 kgal in the second usage block. As discussed in Issue 9, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 6 kgal per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-6 kgal; b) 6-10 kgal; and c) all usage in excess of 10 kgal and usage block rate factors of .87, 1.0, and 1.5 respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 35 percent.

Wastewater Rates: The Utility's current rate structure consists of a BFC/gallonage charge rate structure for the wastewater systems' residential and non-residential classes. The monthly BFC is \$15.89 and the usage charge is \$5.78.

The BFC cost recovery for the wastewater system is 47.79 percent. This BFC cost recovery falls below the Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Therefore, staff believes it is appropriate to increase the initial BFC cost recovery to 50 percent.

The Utility's current wastewater gallonage cap is set at 10 kgal. It is Commission practice to set the residential wastewater gallonage cap at a consumption level equal to 80 percent of the total number of residential gallons sold.¹² Staff's review of the wastewater billing

¹¹ See Order Nos. PSC-08-0812-PAA-WS, in Docket No. 070695-WS, In Re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.; PSC-09-0647-PAA-WS, 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.

¹² See Order Nos. 12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida.; PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

data captures 80 percent of the residential gallons sold at 8 kgal. Therefore, the Utility's wastewater cap should be set at 8 kgal. Furthermore, staff recommends that the general service gallonage charge be 1.2 times greater than the residential charge.

As discussed in Issue 11, staff recommends a Phase II revenue requirement associated with pro forma plant improvements. Staff recommends that the BFC allocation for Phase II rates be set at 50 percent to comply with Commission's practice of setting the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants.

Staff's recommended rate design for the wastewater system is shown below on Table 8-2 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies.

Table 8-2

TYMBER CREEK UTILITIES, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
<u>Current Rate Structure and Rates</u>		<u>Recommended Rate Structure and Rates</u>	
Monthly BFC/ uniform kgals charge BFC =41%		BFC/uniform kgals charge BFC = 50%	
BFC	\$15.89	BFC	\$24.10
All kgals	\$5.78	All kgals	\$6.36
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$15.89	0	\$24.10
1	\$21.67	1	\$30.46
3	\$33.23	3	\$43.18
6	\$50.57	6	\$62.26
8	\$62.13	8	\$74.98
<u>Alternative 1</u>		<u>Alternative 2</u>	
BFC/uniform kgals charge BFC = 60%		BFC/uniform kgals charge BFC =70%	
BFC	\$28.69	BFC	\$33.74
All kgals	\$5.14	All kgals	\$3.80
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgals)</u>		<u>Cons (kgals)</u>	
0	\$28.69	0	\$33.74
1	\$33.83	1	\$37.54
3	\$44.11	3	\$45.14
6	\$59.53	6	\$56.54
8	\$69.81	8	\$64.14

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater system's residential and non-residential class is a continuation of the monthly BFC/uniform gallonage charge rate structure. The current wastewater gallonage cap of 10 kgals should be changed to 8 kgals per month. The general service gallonage charge should be 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?

Recommendation: Yes, a repression adjustment is appropriate for this Utility. Test year residential kgals sold for water should be reduced by 4.6 percent, resulting in a consumption reduction of 1,115 kgals. Purchased water expense should be reduced by \$2,945 and regulatory assessment fees (RAFs) should be reduced by \$139. The final post-repression revenue requirement for the water system should be \$140,031. For the wastewater system, test year kgals sold should be reduced by 5.4 percent, resulting in a consumption reduction of 1,064 kgals. Sludge removal expense should be reduced by \$1,956, purchased power should be reduced by \$809, and RAFs should be reduced by \$124. The final post-repression revenue requirement for the wastewater system should be \$243,797.

In order to monitor the effect of the changes to rate structure and rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, 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: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed the overall average consumption is 4.8 kgals per month. This does not indicate a high overall average level of consumption. However, the billing data indicates that 8 percent of the customers consume over 10 kgals of water per month. Furthermore, in Issue 8, staff recommended that the threshold for the customer's essential usage be 6 kgals per month. Therefore, staff's recommended repression adjustment only applies to water consumption above 6 kgals per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.¹³ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 6 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 6 kgals per month).

¹³ See Order Nos. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc.; PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

Therefore, based on this methodology, the test year residential consumption for this Utility should be reduced by 1,115 kgals. Purchased water expense should be reduced by \$2,945 and regulatory assessment fees (RAFs) should be reduced by \$139. The final post-repression revenue requirement for the water system should be \$140,031. For the wastewater system, test year kgals should be reduced by 1,064 kgals. Sludge removal expense should be reduced by \$1,956, purchased power should be reduced by \$809, and RAFs should be reduced by \$124. The final post-repression revenue requirement for the wastewater system should be \$243,797.

In order to monitor the effect of the changes to rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, 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.

Issue 10: What are the appropriate rates for Tymber Creek?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue \$140,031 for water and \$243,797 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)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce of revenue \$140,031 for the water system and \$243,797 for the wastewater system.

As discussed in Issue 8, staff recommends a three-tier inclining block rate structure for the water system's residential class. Staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgal in the first usage block and all usage in excess of 10 kgal in the second usage block. As discussed in Issue 9, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 6 kgal per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-6 kgal; b) 6-10 kgal; and c) all usage in excess of 10 kgal and usage block rate factors of 1.0, 1.0, and 1.5 respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 35 percent. Furthermore, the appropriate rate structure for the wastewater residential class and non-residential class is a continuation of the traditional BFC/gallonage charge rate structure. The BFC cost recovery percentage for the wastewater system should be set at 50 percent.

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 within 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 Commission approve the Phase II revenue requirement associated with pro forma wastewater plant and expenses for Tymber Creek, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and when should the resulting rates be implemented?

Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma wastewater plant and expense items. The appropriate return on equity should be 9.27 percent with a range of 8.27 to 10.27 percent. The appropriate overall rate of return is 7.77 percent. The Utility's Phase II revenue requirement remains unchanged for water and should be \$297,116 for wastewater, which equates to an increase of 20.44 percent over the Phase I wastewater revenue requirement of \$246,687. Tymber Creek should complete the pro forma plant and expense items within 12 months of the issuance of the instant docket's consummating order. The Utility should be allowed to implement the resulting rates once the pro forma items have been completed and documentation provided showing that all improvements have been made to the system.

The Utility should be required to submit a copy of the final invoices and cancelled checks for all pro forma plant and expense items. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. Tymber Creek should provide proof of the date notice was given within 10 days after the date of the notice. The resulting rates are shown on Schedule No. 8. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission. (Smith)

Staff Analysis: Tymber Creek requested recognition of additional pro forma plant and expense items that it intends to complete. The improvements address issues related to the Utility's collection system, lift stations, and wastewater treatment plant (WWTP). As discussed in Issue 1, the Utility is making every effort to work with DEP and the HOA to resolve the concerns related to the operation of the WWTP and the collection system. The Utility has already implemented portions of the capital improvement plan and is working with the DEP and the HOA to resolve the outstanding customer concerns. The following is a chart summarizing the pro forma items, the cost, and staff's recommended treatment:

Table 11-1

Pro Forma Items	Staff Recommended	
	Capitalize	Expense
1. Install automatic dialer at main lift station	\$3,300	
2. Replace monitoring well covers and bollards	3,603	
3. Install backup surge pumps, blower and motor assembly	5,675	
4. Replace two pumps at Inglewood lift station	14,400	
5. Replace filter media	5,865	
6. Install two monitoring and alarm systems	3,155	
7. Perform leakage tests of force main		\$400 ¹⁴
8. Additional sludge hauling		25,200
9. Repair of collection system		15,014 ¹⁵
10. Engineering reports to summarize results		2,000
11. Maintenance cost on the monitoring systems		695
Total	\$35,998	\$43,309

Staff is recommending a Phase II revenue requirement associated with the pro forma wastewater plant and expense items for the following reasons. First, it assures that the appropriate pro forma plant and expense items are completed prior to the Utility's recovery in rates. Second, addressing the pro forma plant and expense items in the instant docket saves additional rate case expense to the customer because the Utility would not need to file another rate case or limited proceeding to seek recovery for the additional items. The Commission has approved a Phase-In approach in Docket Nos. 080668-SU, 090072-WU and 090414-WU.¹⁶

The Utility's Phase II revenue requirement is \$297,116 for wastewater. Tymber Creek should complete the pro forma items within 12 months of the issuance of the instant docket's consummating order. Phase II rate base is shown on Schedule No. 5-A and staff's adjustments are shown on Schedule No. 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule No. 7-A, and staff's adjustments are shown on Schedule No. 7-B. The resulting rates are shown on Schedule No. 8.

The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing improvements made to the system. The Utility should be required to submit a copy of the final invoices and cancelled checks for all plant and expense items. Once verified, the 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. The rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. Tymber Creek should provide proof of the date

¹⁴ Perform leakage tests of force main is amortized over 5 years = \$2,000/5 = \$400.

¹⁵ Reflects five-year average.

¹⁶ 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-09-0716-PAA-WU, issued October 28, 2009, in Docket No. 090072-WU In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc.; and PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

Docket No. 100359-WS

Date: July 14, 2011

notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission.

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

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. Tymber Creek 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. (Smith)

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 rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reduction is \$954 for water and \$1,593 for wastewater. Using Tymber Creek'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. Tymber Creek 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. Tymber Creek 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. 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. (Smith)

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. Tymber Creek 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Tymber Creek 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 \$53,125. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Tymber Creek 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 Tymber Creek 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 Tymber Creek;
- 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 Tymber Creek, 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.

Tymber Creek 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

Docket No. 100359-WS

Date: July 14, 2011

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. 100359-WS

Date: July 14, 2011

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 applicable National Association of Regulatory 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, Tymber Creek should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Smith)

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

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order should be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. Also, the docket should remain open to allow staff to verify that the pro forma items have been completed and the Phase II rates properly implemented. Once these actions are complete, this docket should be closed administratively. (Harris)

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

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 1-A	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$204,914	\$39,200	\$244,114
2. LAND & LAND RIGHTS	1,131	0	1,131
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(155,793)	2,410	(153,383)
5. ACCUMULATED DEPRECIATION	(122,996)	(37,101)	(160,097)
6. AMORTIZATION OF CIAC	140,026	(14,959)	125,067
7. WORKING CAPITAL ALLOWANCE	<u>15,176</u>	<u>433</u>	<u>15,609</u>
8. WATER RATE BASE	<u>\$82,458</u>	<u>(\$10,018)</u>	<u>\$72,440</u>

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 1-B	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$704,807	(\$4,944)	\$699,863
2. LAND & LAND RIGHTS	4,524	0	4,524
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(380,306)	0	(380,306)
5. ACCUMULATED DEPRECIATION	(517,943)	(21,074)	(539,017)
6. AMORTIZATION OF CIAC	380,306	0	380,306
7. WORKING CAPITAL ALLOWANCE	<u>21,119</u>	<u>1,789</u>	<u>22,908</u>
8. WASTEWATER RATE BASE	<u>\$212,507</u>	<u>(\$24,229)</u>	<u>\$188,278</u>

TYMBER CREEK UTILITIES, INCORPORATED
TEST YEAR ENDED 06/30/10
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 100359-WS
PAGE 1 OF 2

<u>UTILITY PLANT IN SERVICE</u>		<u>WATER</u>	<u>WASTEWATER</u>
1.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 309.	(\$33,103)	\$0
2.	To reflect cost to connect to the city water system (Acct. No. 309).	18,025	0
3.	To reflect gate valves (Acct. No. 309).	707	0
4.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 310.	15,165	0
5.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 331.	58,234	0
6.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 333.	(13,917)	0
7.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 334.	(17,756)	0
8.	To reflect meters and meter installations (Acct. No. 334).	13,065	0
9.	To reflect plant retirements from Acct. No. 334.	(9,799)	0
10.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 335.	4,755	0
11.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 340.	3,423	0
12.	To reflect Utility billing software (Acct. No. 340).	993	0
13.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 345.	373	0
14.	To reflect the ending balance approved in Dkt. #950647-WS for Acct. No. 348.	(660)	0
15.	To reflect lift station repairs (Acct. No. 360).	0	15,055
16.	To reflect plant retirements from Acct. No. 360.	0	(3,747)
17.	To reflect the ending balance approved in the last order for Acct. No 361.	0	(4,961)
18.	To reflect PVC replacement, roadway repairs, dewatering and mobilization (Acct. No. 361).	0	22,150
19.	To reflect plant retirements from Acct. No. 361.	0	(24,157)
20.	To reflect the appropriate total cost for the electronics flow meter (Acct. No. 370).	0	853
21.	To reflect the ending balance approved in the last order for Acct. No. 370.	0	(5,755)
22.	To reflect cost for pump assembly, aluminum flow baffle, and monitor well (\$1,983 + \$343 + \$1,580).	0	3,906
23.	To reflect plant retirements from Acct. No. 370.	0	(2,930)
24.	To reflect the ending balance approved in the last order for Acct. No. 380.	0	(13,841)
25.	To reflect blower package (\$8,689) and blower repairs (\$2,393 + \$6,358) (Acct. No. 380).	0	17,440
26.	To replace drop pipes and surge tank (Acct. No. 380).	0	396
27.	To reflect chlorinator and pole for lift station (Acct. No. 380).	0	505
28.	To reflect plant retirements from Acct. No. 380.	0	(13,756)
29.	To reflect the ending balance approved in the last order for Acct. No. 382.	0	(908)
30.	Repair broken discharge line (Acct. No. 382).	0	1,448
31.	Re-route sludge waste lines (Acct. No. 382).	0	312
32.	To reflect plant retirements from Acct. No. 382.	0	(1,320)
33.	To reflect Utility billing software (Acct. No. 390).	0	450
34.	Plant items completed outside the test year.	0	5,000
35.	Averaging Adjustment	(305)	(1,085)
	Total	<u>\$39,200</u>	<u>(\$4,944)</u>
 <u>CIAC</u>			
	To reflect the appropriate CIAC balance.	<u>\$2,410</u>	<u>\$0</u>

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 100359-WS PAGE 2 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. Depreciation Adjustment Per Rule 25-30.140 F.A.C.	(\$39,902)	(\$31,528)	
2. Averaging Adjustment.	<u>2,801</u>	<u>10,454</u>	
Total	<u>(\$37,101)</u>	<u>(\$21,074)</u>	
<u>AMORTIZATION OF CIAC</u>			
1. To adjust Amortization of CIAC based on composite rates.	(\$12,735)	\$0	
2. Averaging Adjustment.	<u>(2,224)</u>	<u>0</u>	
Total	<u>(\$14,959)</u>	<u>\$0</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$433</u>	<u>\$1,789</u>	

TYMBER CREEK UTILITIES, INCORPORATED
TEST YEAR ENDED 06/30/10
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 100359-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	\$100	\$0	\$100					
2. RETAINED EARNINGS	79,288	0	79,288					
3. PAID IN CAPITAL	0	151,107	151,107					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	<u>\$79,388</u>	<u>\$151,107</u>	<u>\$230,495</u>	<u>(\$46,315)</u>	<u>\$184,180</u>	<u>70.64%</u>	<u>9.27%</u>	<u>6.55%</u>
6. LONG TERM DEBT - OFFICER'S LOANS	\$78,920	(\$78,920)	\$0	\$0	\$0	0.00%	0.00%	0.00%
7. LONG TERM DEBT - SHIRAH BUILDERS, INC.	44,227	0	44,227	(8,887)	35,340	13.56%	3.25%	0.44%
8. LONG TERM DEBT - SHAREHOLDER'S LOANS	72,187	(72,187)	0	0	0	0.00%	0.00%	0.00%
9. LONG TERM DEBT - SUN TRUST	33,502	(14)	33,488	(6,729)	26,759	10.26%	3.25%	0.33%
TOTAL LONG TERM DEBT	<u>\$228,836</u>	<u>(\$151,121)</u>	<u>\$77,715</u>	<u>(\$15,616)</u>	<u>\$62,099</u>	<u>23.82%</u>		
10. CUSTOMER DEPOSITS	<u>10,260</u>	<u>4,180</u>	<u>14,440</u>	<u>0</u>	<u>14,440</u>	<u>5.54%</u>	8.00%	<u>0.44%</u>
11. TOTAL	<u>\$318,484</u>	<u>\$4,166</u>	<u>\$322,650</u>	<u>(\$61,931)</u>	<u>\$260,719</u>	<u>100.00%</u>		<u>7.77%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>8.27%</u>	<u>10.27%</u>	
OVERALL RATE OF RETURN						<u>7.06%</u>	<u>8.47%</u>	

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 SCHEDULE OF WATER OPERATING INCOME				SCHEDULE NO. 3-A DOCKET NO. 100359-WS	
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$116,474</u>	<u>(\$2,894)</u>	<u>\$113,580</u>	<u>\$29,535</u> 26.00%	<u>\$143,115</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$121,411</u>	<u>\$3,459</u>	<u>\$124,870</u>	<u>\$0</u>	<u>\$124,870</u>
3. DEPRECIATION (NET)	<u>684</u>	<u>2,228</u>	<u>2,912</u>	<u>0</u>	<u>2,912</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>7,044</u>	<u>1,331</u>	<u>8,375</u>	<u>1,329</u>	<u>9,704</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$129,139</u>	<u>\$7,018</u>	<u>\$136,157</u>	<u>\$1,329</u>	<u>\$137,487</u>
8. OPERATING INCOME/(LOSS)	<u>(\$12,665)</u>		<u>(\$22,577)</u>		<u>\$5,629</u>
9. WATER RATE BASE	<u>\$82,458</u>		<u>\$72,440</u>		<u>\$72,440</u>
10. RATE OF RETURN	<u>(15.36%)</u>		<u>(31.17%)</u>		<u>7.77%</u>

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 100359-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$189,599</u>	<u>\$7,068</u>	<u>\$196,667</u>	<u>\$50,020</u> 25.43%	<u>\$246,687</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$173,172	\$10,096	\$183,268	\$0	\$183,268
3. DEPRECIATION (NET)	14,196	13,860	28,056	0	28,056
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	13,519	4,963	18,482	2,251	20,733
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$200,887</u>	<u>\$28,920</u>	<u>\$229,807</u>	<u>\$2,251</u>	<u>\$232,057</u>
8. OPERATING INCOME/(LOSS)	<u>(\$11,288)</u>		<u>(\$33,140)</u>		<u>\$14,629</u>
9. WASTEWATER RATE BASE	<u>\$212,507</u>		<u>\$188,278</u>		<u>\$188,278</u>
10. RATE OF RETURN	<u>(5.31%)</u>		<u>(17.60%)</u>		<u>7.77%</u>

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 100359-WS PAGE 1 OF 3	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To reflect the appropriate test year revenue.	<u>(\$2,894)</u>	<u>\$7,068</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages Employees (601/701)			
To reflect the appropriate salaries.	<u>\$11</u>	<u>(\$11)</u>	
2. Salaries and Wages Officers (603/703)			
a. To reflect annualized salary.	\$285	\$285	
b. Reclassify Salaries From Acct. No. 675/775.	<u>925</u>	<u>563</u>	
Subtotal	<u>\$1,210</u>	<u>\$848</u>	
3. Employees Pension and Benefits (604/704)			
To reflect appropriate allocation.	<u>(\$2,078)</u>	<u>\$2,078</u>	
4. Purchased Water (610/710)			
a. To reflect increase in bulk water rate.	\$2,521	\$0	
b. To reflect EUW adjustment.	<u>(1,322)</u>	<u>0</u>	
	<u>\$1,199</u>	<u>\$0</u>	
5. Sludge Removal Expense (711)			
To reflect appropriate sludge hauling.	<u>\$0</u>	<u>\$2,065</u>	
6. Chemicals (618/718)			
To reflect the appropriate amount.	<u>\$0</u>	<u>\$110</u>	
7. Materials & Supplies (620/720)			
To reflect all invoices for materials and supplies.	<u>\$640</u>	<u>\$1,113</u>	
(O&M EXPENSES CONTINUED ON NEXT PAGE)			

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 3	
(O&M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
8. Contractual Services - Professional (631/731) To reflect audited amount.	(\$28)	\$1,565	
9. Contractual Services - Testing (635/735)			
a. To reflect appropriate amount.	(\$40)	\$0	
b. To annualize effluent testing.	0	7,845	
c. To reclassify to Account No. 736.	0	(25,296)	
d. To reflect increase in Coliform Drinking Water testing.	120	0	
e. To reflect phosphorus tests required by DEP.	0	960	
f. To reflect dye testing.	<u>0</u>	<u>60</u>	
Subtotal	<u>\$80</u>	<u>(\$16,431)</u>	
10. Contractual Services - Other (636/736)			
a. To reflect appropriate amount.	\$0	\$0	
b. To reclassify from Account No. 735.	0	25,296	
c. To reflect leak repairs.	726	300	
d. To reflect 5-year amortization of chlorine tank repairs.	0	1,000	
e. To reflect videography of lines.	0	1,000	
f. To reflect increase in Steve Fryson's fee.	300	300	
g. To annualize Steve Woodman's fee.	1,200	0	
h. To reflect fence installation.	<u>0</u>	<u>260</u>	
Subtotal	<u>\$2,226</u>	<u>\$28,156</u>	
11. Rents (640/740)			
a. To reflect appropriate allocation for office rent.	(\$1,831)	\$1,831	
b. To reflect land rent.	0	(9,579)	
c. To reflect the appropriate sales tax.	119	607	
d. To reflect excavation rental.	<u>405</u>	<u>0</u>	
Subtotal	<u>(\$1,307)</u>	<u>(\$7,141)</u>	
12. Transportation Expense (650/750) To reflect gasoline charges used for Utility purposes.	(\$78)	\$0	
13. Insurance Expenses (655/755) To reflect 50 percent allocation to water and wastewater.	\$1,100	(\$1,100)	
14. Regulatory Expense (665/765) Amortize rate case expense over 4 years.	\$902	\$1,507	
(O&M EXPENSES CONTINUED ON NEXT PAGE)			

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 3-C	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 3 OF 3	
(O&M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
15. Miscellaneous Expense (675/775)			
a. To remove disallowed late telephone charges.	(\$71)	\$0	
b. To remove unsupported balance.	<u>(346)</u>	<u>(2,663)</u>	
Subtotal	<u>(\$417)</u>	<u>(\$2,663)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$3,459</u>	<u>\$10,096</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$4,554	\$13,860	
2. To reflect test year CIAC amortization calculated by staff.	<u>(2,326)</u>	<u>0</u>	
Total	<u>\$2,228</u>	<u>\$13,860</u>	
TAXES OTHER THAN INCOME			
1. To reflect Payroll Tax.	\$1,416	\$2,510	
2. To reflect Property Tax.	0	502	
3. To reflect the appropriate RAFs.	(85)	(49)	
4. To reflect fees from Volusia County Health Department.	<u>0</u>	<u>2,000</u>	
Total	<u>\$1,331</u>	<u>\$4,963</u>	

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 100359-WS	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$7,000	\$11	\$7,011
(603) SALARIES AND WAGES - OFFICERS	9,461	1,210	10,671
(604) EMPLOYEE PENSIONS AND BENEFITS	4,676	(2,078)	2,598
(610) PURCHASED WATER	63,587	1,199	64,786
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	867	640	1,507
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	5,588	(28)	5,560
(635) CONTRACTUAL SERVICES - TESTING	7,808	80	7,888
(636) CONTRACTUAL SERVICES - OTHER	12,425	2,226	14,651
(640) RENTS	3,662	(1,307)	2,355
(650) TRANSPORTATION EXPENSE	260	(78)	182
(655) INSURANCE EXPENSE	100	1,100	1,200
(665) REGULATORY COMMISSION EXPENSE	0	902	902
(670) BAD DEBT EXPENSE	2,040	0	2,040
(675) MISCELLANEOUS EXPENSES	<u>3,937</u>	<u>(417)</u>	<u>3,520</u>
	<u>\$121,411</u>	<u>\$3,340</u>	<u>\$124,870</u>

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 3-E	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$21,042	(\$11)	\$21,032
(703) SALARIES AND WAGES - OFFICERS	9,461	848	10,309
(704) EMPLOYEE PENSIONS AND BENEFITS	5,715	2,078	7,793
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	34,163	2,065	36,228
(715) PURCHASED POWER	14,979	0	14,979
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	6,155	110	6,265
(720) MATERIALS AND SUPPLIES	901	1,113	2,014
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	5,588	1,565	7,153
(735) CONTRACTUAL SERVICES - TESTING	38,451	(16,431)	22,020
(736) CONTRACTUAL SERVICES - OTHER	8,791	28,156	36,947
(740) RENTS	17,082	(7,141)	9,941
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	2,300	(1,100)	1,200
(765) REGULATORY COMMISSION EXPENSES	0	1,507	1,507
(770) BAD DEBT EXPENSE	2,464	0	2,464
(775) MISCELLANEOUS EXPENSES	<u>6,080</u>	<u>(2,663)</u>	<u>3,417</u>
	<u>\$173,172</u>	<u>\$10,096</u>	<u>\$183,268</u>

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 100359-WS	
	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" X 3/4"	\$9.75	\$9.41	\$0.06
3/4"	\$14.64	\$14.12	\$0.09
1"	\$24.43	\$23.53	\$0.16
1-1/2"	\$48.83	\$47.05	\$0.31
2"	\$78.15	\$75.28	\$0.50
3"	\$156.32	\$150.56	\$0.99
4"	\$244.25	\$235.25	\$1.55
6"	\$488.48	\$470.50	\$3.10
<u>Residential Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.56	N/A	N/A
0 - 6,000 Gallons	N/A	\$3.57	\$0.02
6,001 - 10,000 Gallons	N/A	\$4.12	\$0.03
Over 10,000 Gallons	N/A	\$6.18	\$0.04
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.56	\$3.89	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$17.43	\$20.12	
5,000 Gallons	\$22.55	\$27.26	
10,000 Gallons	\$35.35	\$47.31	

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 4-B	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$15.89	\$24.10	\$0.15
<u>Gallage Charge</u>			
Per 1,000 Gallons (10,000 gallon maximum)	\$5.78	N/A	N/A
Per 1,000 Gallons (8,000 gallon maximum)	N/A	\$6.36	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	\$15.89	\$24.10	\$0.15
3/4"	\$23.83	\$36.15	\$0.23
1"	\$39.72	\$60.25	\$0.39
1-1/2"	\$79.43	\$120.50	\$0.77
2"	\$127.10	\$192.80	\$1.23
3"	\$254.18	\$385.60	\$2.47
4"	\$397.14	\$602.50	\$3.85
6"	\$794.29	\$1,205.00	\$7.71
Gallage Charge per 1,000 Gallons	\$5.78	\$7.63	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$33.23	\$43.18	
5,000 Gallons	\$44.79	\$55.90	
8,000 Gallons	\$62.13	\$74.98	

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 5-A	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
SCHEDULE OF WASTEWATER RATE BASE (PHASE II)			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$699,863	\$35,998	\$735,861
2. LAND & LAND RIGHTS	4,524	0	4,524
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(380,306)	0	(380,306)
5. ACCUMULATED DEPRECIATION	(539,017)	(1,771)	(540,788)
6. AMORTIZATION OF CIAC	380,306	0	380,306
7. WORKING CAPITAL ALLOWANCE	<u>22,908</u>	<u>5,414</u>	<u>28,322</u>
8. WASTEWATER RATE BASE	<u>\$188,278</u>	<u>\$39,641</u>	<u>\$227,919</u>

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 5-B	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ADJUSTMENTS TO RATE BASE (PHASE II)			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. Pro Forma adjustment for two Gorman-Rupp pumps.	\$0	\$14,400	
2. Pro Forma adjustment for wireless monitoring of two collection lift stations.	0	3,155	
3. Pro Forma adjustment for new surge pump.	0	5,675	
4. Pro Forma adjustment for filter media.	0	5,865	
5. Pro Forma adjustment for automatic dialer at main lift station.	0	3,300	
6. Pro Forma adjustment for monitoring well covers.	<u>0</u>	<u>3,603</u>	
Total	<u>\$0</u>	<u>\$35,998</u>	
<u>ACCUMULATED DEPRECIATION</u>			
Depreciation Adjustment Per Rule 25-30.140 F.A.C.	<u>\$0</u>	<u>(\$1,771)</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.	<u>\$0</u>	<u>\$5,414</u>	

TYMBER CREEK UTILITIES, INCORPORATED
TEST YEAR ENDED 06/30/10
SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

SCHEDULE NO. 6
DOCKET NO. 100359-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS				
1. COMMON STOCK	\$100	\$0	\$100					
2. RETAINED EARNINGS	79,288	0	79,288					
3. PAID IN CAPITAL	151,107	0	151,107					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	<u>\$230,495</u>	<u>\$0</u>	<u>\$230,495</u>	<u>(\$16,670)</u>	<u>\$213,825</u>	<u>71.19%</u>	<u>9.27%</u>	<u>6.60%</u>
6. LONG TERM DEBT - OFFICER'S LOANS	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7. LONG TERM DEBT - SHIRAH BUILDERS, INC.	44,227	0	44,227	(3,199)	41,028	13.66%	3.25%	0.44%
8. LONG TERM DEBT - SHAREHOLDER'S LOANS	0	0	0	0	0	0.00%	0.00%	0.00%
9. LONG TERM DEBT - SUN TRUST	<u>33,488</u>	<u>0</u>	<u>33,488</u>	<u>(2,422)</u>	<u>31,066</u>	<u>10.34%</u>	<u>3.25%</u>	<u>0.34%</u>
TOTAL LONG TERM DEBT	<u>\$77,715</u>	<u>\$0</u>	<u>\$77,715</u>	<u>(\$5,621)</u>	<u>\$72,094</u>	<u>13.66%</u>		
10. CUSTOMER DEPOSITS	<u>14,440</u>	<u>0</u>	<u>14,440</u>	<u>0</u>	<u>14,440</u>	<u>4.81%</u>	<u>8.00%</u>	<u>0.38%</u>
11. TOTAL	<u>\$322,650</u>	<u>\$0</u>	<u>\$322,650</u>	<u>(\$22,291)</u>	<u>\$300,359</u>	<u>89.66%</u>		<u>7.77%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>8.27%</u>	<u>10.27%</u>	
OVERALL RATE OF RETURN						<u>7.05%</u>	<u>8.48%</u>	

TYMBER CREEK UTILITIES, INCORPORATED TEST YEAR ENDED 06/30/10 SCHEDULE OF WASTEWATER OPERATING INCOME (PHASE II)					SCHEDULE NO. 7-A DOCKET NO. 100359-WS	
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$246,687</u>	<u>\$0</u>	<u>\$246,687</u>	<u>\$50,429</u> 20.44%	<u>\$297,116</u>	
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	\$187,268	\$43,309	\$226,577	\$0	\$226,577	
3. DEPRECIATION (NET)	28,056	1,771	29,827	0	29,827	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	20,733	0	20,733	2,269	23,003	
6. INCOME TAXES	0	0	0	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$232,057</u>	<u>\$45,080</u>	<u>\$277,137</u>	<u>\$2,269</u>	<u>\$279,406</u>	
8. OPERATING INCOME/(LOSS)	<u>\$14,629</u>		<u>(\$30,450)</u>		<u>\$17,709</u>	
9. WASTEWATER RATE BASE	<u>\$188,278</u>		<u>\$227,919</u>		<u>\$227,919</u>	
10. RATE OF RETURN	<u>7.77%</u>		<u>(13.36%)</u>		<u>7.77%</u>	

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 7-B	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ADJUSTMENTS TO OPERATING INCOME (PHASE II)			
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Sludge Removal Expense (711)			
To reflect additional sludge hauling expense.	<u>\$0</u>	<u>\$25,200</u>	
2. Contractual Services - Professional (631/731)			
To reflect engineering reports to summarize results.	<u>\$0</u>	<u>\$2,000</u>	
3. Contractual Services - Other (636/736)			
a. Perform leakage tests of force main.	\$0	\$400	
b. To reflect installation of Wireless Monitoring System.	0	695	
c. To reflect collection system repairs.	<u>0</u>	<u>15,014</u>	
Subtotal	<u>\$0</u>	<u>\$16,109</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$0</u>	<u>\$43,309</u>	
DEPRECIATION EXPENSE			
To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$0</u>	<u>\$1,771</u>	

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 7-C	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$21,032	\$0	\$21,032
(703) SALARIES AND WAGES - OFFICERS	10,309	0	10,309
(704) EMPLOYEE PENSIONS AND BENEFITS	7,793	0	7,793
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	36,228	25,200	61,428
(715) PURCHASED POWER	14,979	0	14,979
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	6,265	0	6,265
(720) MATERIALS AND SUPPLIES	2,014	0	2,014
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	7,153	2,000	9,153
(735) CONTRACTUAL SERVICES - TESTING	22,020	0	22,020
(736) CONTRACTUAL SERVICES - OTHER	36,947	16,109	53,056
(740) RENTS	9,941	0	9,941
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	1,200	0	1,200
(765) REGULATORY COMMISSION EXPENSES	1,507	0	1,507
(770) BAD DEBT EXPENSE	2,464	0	2,464
(775) MISCELLANEOUS EXPENSES	<u>3,417</u>	<u>0</u>	<u>3,417</u>
	<u>\$183,268</u>	<u>\$43,309</u>	<u>\$226,577</u>

TYMBER CREEK UTILITIES, INCORPORATED		SCHEDULE NO. 8	
TEST YEAR ENDED 06/30/10		DOCKET NO. 100359-WS	
MONTHLY WASTEWATER RATES (PHASE II)			
	STAFF RECOMMENDED PHASE I RATES	STAFF RECOMMENDED PHASE II RATES	4-YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$24.10	\$28.89	\$0.15
<u>Gallonge Charge</u>			
Per 1,000 Gallons (8,000 gallon cap)	\$6.36	\$7.73	\$0.04
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	\$24.10	\$28.89	\$0.15
3/4"	\$36.15	\$43.34	\$0.23
1"	\$60.25	\$72.23	\$0.38
1-1/2"	\$120.50	\$144.45	\$0.77
2"	\$127.12	\$231.12	\$1.23
3"	\$385.60	\$462.24	\$2.45
4"	\$397.25	\$722.25	\$3.83
6"	\$794.50	\$1,444.50	\$7.67
Gallonge Charge per 1,000 gallons	\$6.94	\$9.28	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$37.50	\$52.08	
5,000 Gallons	\$48.80	\$67.54	
8,000 Gallons	\$65.75	\$90.73	