BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.	DOCKET NO. 100426-WS ORDER NO. PSC-11-0514-PAA-WS ISSUED: November 3, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING APPLICATION FOR RATE INCREASE IN PART
AND
FINAL ORDER REFUNDING INTERIM RATES AND APPROVING A FOUR-YEAR RATE REDUCTION

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for our actions requiring an interim refund of interim rates and approving a four-year rate reduction and requiring proof of adjustments to books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Background

Utilities, Inc. (UI or Parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 14 water and wastewater utilities within the State of Florida. This is one of two UI rate case dockets pending before us (Eagle Ridge, Docket No. 110153-SU). Lake Utility Services, Inc. (LUSI or Utility) is a Class A utility providing water and wastewater service to approximately 8,746 water and 2,827 wastewater customers in Lake County. LUSI is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in 2009.[1]

[1] See Order No. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

On December 27, 2010, LUSI filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and February 18, 2011, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical 13-month average period ended June 30, 2010.

LUSI's last rate case proceeding and review of rate base was in Docket No. 070693-WS, utilizing a projected test year ended June 30, 2009, which culminated in Order No. PSC-09-0101-PAA-WS. The Utility's revenue requirement established in that rate case was partially based on projected customer growth which failed to materialize. Water consumption decreased by approximately 35 percent over the past 3 years due to conservation and lack of customer growth. The lack of customer growth and reduced water consumption resulted in revenues that were lower than those projected in the 2007 rate case. The Utility is also requesting recovery of capital costs related to improvements to the Lake Groves wastewater treatment plant and the Oranges-to-Vistas raw water line. LUSI further explained that its costs have increased significantly since the last rate case and is requesting recovery of those costs, including the cost of obtaining a consumptive use permit from the St. John's River Water Management District (WMD). As such, the Utility filed the instant rate case which it believes would allow it to recover all the expenses LUSI will incur on a going-forward basis, and generate a fair rate of return on its investment on all property considered used and useful in the public service.

By Order No. PSC-11-0149-PCO-WS, issued March 4, 2011, in this docket, we approved interim rates designed to generate annual water revenues of $5,502,978, an increase of $1,332,875 or approximately 32 percent. The Utility did not request an interim rate increase for the wastewater system. The Utility requested final rates designed to generate annual water revenues of $5,840,432, an increase of $1,606,673 or approximately 38 percent, and annual wastewater revenues of $2,344,226, an increase of $247,262 or approximately 12 percent. On March 2, 2011, the Office of Public Counsel filed a Notice of Intervention in this docket, and an order acknowledging intervention was issued on March 8, 2011.[2] On June 6, 2011, the Utility filed a letter waiving our requirement pursuant to Section 367.081(8), Florida Statutes (F.S.), through August 9, 2011, to process the rate case within five months of the official filing date.

Our staff filed a recommendation in this docket on July 28, 2011. On August 8, 2011, the Utility submitted a letter requesting deferral of this item from our August 9, 2011 Agenda Conference. In that letter, LUSI waived our requirement pursuant to Section 367.081(8), Florida Statutes (F.S.), through October 4, 2011, to process the rate case within five months of the official filing date. This Order addresses the Utility's requested final rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

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[2] See Order PSC-11-0161-PCO-WS.

II. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., in a rate case proceeding, we must determine the overall quality of service provided by a utility by evaluating 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. The utility's compliance history with the Department of Environmental Protection (DEP) and the WMD, as well as comments or complaints received from the customers, are also considered.

A. Quality of the Product and Operational Conditions of the Plants and Facilities

LUSI provides water service to approximately 8,800 customers and wastewater service to approximately 2,900 customers in Lake County. The Utility's water service territory is made up of three separate areas. The largest part of the service territory is in Clermont and consists of the interconnected LUSI North and Lake Groves service areas. The LUSI North system provides water service to mostly residential customers, and consists of several small, interconnected systems. In addition, LUSI North is connected to the Lake Groves area via a water main along U.S. Highway 27. Four Lakes and Lake Saunders are two separate water-only systems that are also part of LUSI's service territory. They both serve small residential areas and have their own water treatment facilities. The only system that provides wastewater service is the Lake Groves system.

Environmental regulation of LUSI's water and wastewater plants is overseen by the DEP. The Utility is currently in compliance with all of the required chemical analyses and is meeting all applicable rules and regulations related to water quality, wastewater treatment, and facility operations. There are no outstanding environmental compliance issues with DEP. The most recent inspection reports from DEP indicate that most of the water facilities are in compliance. However, LUSI was cited for deficiencies, including failing to operate water plants within the maximum operating capacity and for corrosion on well casings. The Utility subsequently responded to and corrected these deficiencies. Our staff conducted a field investigation of the plant facilities on April 26 and 27, 2011. All water and wastewater facilities were in good operating condition.

LUSI is located in an area known as the Central Florida Coordination Area, which, because of the potential for population growth and issues related to water supply, is monitored closely by the WMD. LUSI is under an active Consent Order from the WMD for several actions, including exceeding ground water withdrawal limitations and failing to comply with various other conditions of its consumptive use permits. The Consent Order was issued in December 2010 and required the Utility to take corrective actions that include staffing a full-time water conservation coordinator. This coordinator had already been hired by LUSI in February 2009 as a result of response to the ongoing negotiations with the WMD.

In summary, the Utility's water and wastewater facilities are in compliance with applicable DEP rules and regulations. The plant facilities are being maintained appropriately and the water produced meets all testing requirements. While there is an ongoing compliance issue with the WMD, LUSI is complying with the provisions of the Consent Order and is attempting to resolve the issues. Therefore, we find that the quality of the product and the operational conditions of the water and wastewater facilities is satisfactory.

B. The Utility's Attempt to Address Customer Satisfaction

To assess the Utility's attempt to address customer satisfaction, we reviewed the complaints filed with LUSI, complaints filed with us, correspondence received from the customers in response to the rate case, and customer comments received during the customer meeting.

A customer meeting was noticed and held on April 27, 2011, in the LUSI service territory. Approximately 60 customers attended the meeting and 20 spoke. All of the customers spoke in opposition to the rate increase. Many customers expressed opposition to the rate increase because of the short time since the last increase,[3] the magnitude of the proposed increase, and the financial hardship that increased rates would cause. Several customers complained that reuse water for irrigation was not available and expressed a desire to install private wells for irrigation use. Many customers also expressed displeasure with wastewater charges for water that was not returned to the wastewater system because of irrigation use.

In response to a data request, the Utility addressed some of the concerns that were raised at the customer meeting. LUSI asserts that the delay in initiating reuse service was primarily due to a lack of performance of the two micro-screen filters that are part of the treatment process. The Utility received and installed replacement filters from the manufacturer in June 2011, and after satisfactory equipment tests, plans to begin the process of providing reuse service to certain customers within the Lake Groves service area.

We also received approximately 36 letters and emails from customers in opposition to the rate case. Much of the correspondence opposes the rate increase because of the same reasons presented by the customers at the customer meeting, including the short time since the last rate increase and the financial hardship that increased rates would create. There are two petitions with approximately 90 signatures of customers that are in opposition to the rate increase.

As of July 12, 2011, we have received 28 complaints through the Complaint Activity Tracking System since 2008, all of which have been addressed and closed. Most of the complaints involved billing issues, water outages, and water quality complaints. The Utility also submitted a record of the complaints that were filed with LUSI by their customers during the test year. Most of the complaints filed with the Utility involved meter reading and billing issues. In responding to the complaints, LUSI appears to take appropriate and timely actions, including re-reading the water meter or having it tested for accuracy for billing complaints, or testing the chlorine residual or flushing the lines for water quality complaints. Therefore, we find that the Utility's attempt to address customer satisfaction is satisfactory.

[3] See Order Nos. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

C. Overall Quality of Service

In summary, we find that the overall quality of service provided by LUSI is satisfactory. The Utility's water and wastewater facilities are in substantial compliance with DEP rules and are in good operational condition. LUSI is also addressing the open Consent Order with the WMD and attempting to achieve compliance. The Utility also appears to be appropriately responding to customer complaints and concerns. Therefore, we find that the overall quality of service provided by the Utility is satisfactory.

III. Rate Base

Base on audit adjustments agreed to by the Utility, the following adjustment shall be made:

LUSI Audit Adjustments	Description of Adjustments
Finding No. 1	Reclassify expenses recorded as plant.
Finding No. 2	Reflect appropriate plant retirements.
Finding No. 5	Reflect supported plant not included in MFRs.
Finding No. 6	Correct errors in the Utility's accumulated depreciation balance.
Finding No. 7	Correct errors in Utility's CIAC and amortization of CIAC.
Finding No. 10	Correct misclassification of revenues recorded in other accounts.
Finding No. 11	Remove non-recurring expenses that have been fully amortized.
Finding No. 12	Reflect a prior Commission-ordered adjustment.
Finding No. 13	Reclassify plant items that were recorded as expenses.
Finding No. 14	Remove all lobbying expenses.
Finding No. 15	Reflect the appropriate allocation of property taxes.
Affiliate Audit Adjustments	Description of Adjustments
Finding No. 1	Reclassify expenses recorded as plant.
Finding No. 4	Correct errors in the Utility's prepaid expenses.
Finding No. 7	Correct errors in the Utility's capitalized salaries.
Finding No. 9	Remove non-utility expenses.

Based on the audit adjustments agreed to by the Utility, we find that the adjustments set forth in the tables below shall be made to rate base and net operating income.

Water								
LUSI Audit Adjustment	Plant	Accum. Deprec.	Deprec. Expense	Contributions in Aid of Construction (CIAC)	Amort. of CIAC	CIAC Amort. Expense	Revenue	O & M Expenses
Finding No. 1	($8,709)	$658	($442)	$0	$0	$0	$0	$0
Finding No. 2	(123,772)	129,035	(4,435)	0	0	0	0	0
Finding No. 5	219	0	0	0	0	0	0	0
Finding No. 6	0	170,515	0	0	0	0	0	0
Finding No. 7	0	0	0	(10,646)	104	(288)	0	0
Finding No. 10	0	0	0	0	0	0	1,946	0
Finding No. 11	0	0	0	0	0	0	0	(8,733)
Finding No. 12	0	0	0	0	0	0	0	(104,984)
Finding No. 13	236	705	6	0	0	0	0	(2,450)
Finding No. 14	0	0	0	0	0	0	0	(654)
Finding No. 15	0	0	0	0	0	0	0	(45,551)
Affiliate Audit Adjustment	Plant	Accum. Deprec.	Deprec. Expense	CIAC	Amort. of CIAC	Amort. Expense	Revenue	O & M Expenses
Finding No. 1	(171)	8	(16)	0	0	0	0	0
Finding No. 4	0	0	0	0	0	0	0	(3,930)
Finding No. 7	(25,662)	695	(1,390)	0	0	0	0	0
Finding No. 9	0	0	0	0	0	0	0	(3,629)
Adjustment Totals	($157,859)	$301,616	($6,277)	($10,646)	$104	($288)	$1,946	($169,931)

Wastewater								
LUSI Audit Adjustment	Plant	Accum. Deprec.	Deprec. Expense	CIAC	Amort. of CIAC	CIAC Amort. Expense	Revenue	O & M Expenses
Finding No. 1	($19,175)	$1,034	($1,048)	$0	$0	$0	$0	$0
Finding No. 2	(24,150)	25,581	(1,389)	0	0	0	0	0
Finding No. 7	0	0	0	32,579	(2,402)	1,134	0	0
Finding No. 11	0	0	0	0	0	0	0	(1,698)
Finding No. 12	0	0	0	0	0	0	0	(62,290)
Finding No. 14	0	0	0	0	0	0	0	(103)
Finding No. 15	0	0	0	0	0	0	0	45,551
Affiliate Audit Adjustment	Plant	Accum. Deprec.	Deprec. Expense	CIAC	Amort. of CIAC	Amort. Expense	Revenue	O & M Expenses
Finding No. 1	(56)	3	(5)	0	0	0	0	0
Finding No. 4	0	0	0	0	0	0	0	(1,297)
Finding No. 7	(8,468)	227	(455)	0	0	0	0	0
Finding No. 9	0	0	0	0	0	0	0	(1,197)
Adjustment Totals	($51,849)	$26,845	($2,897)	$32,579	($2,402)	$1,134	$0	($21,034)

A. Phoenix Project

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. In 2009, we approved recovery of the cost of the Phoenix Project in 11 UI rate cases.[4] In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs.

1. Allocation of Phoenix Project Costs

In the instant case, UI allocated 4.51 percent of its costs to LUSI based on the ratio of LUSI's total ERCs to UI's total ERCs as of June 30, 2010. LUSI then allocated the cost from UI between its water and wastewater systems using the ERC percentage of 75.19 percent for water and 24.81 percent for wastewater. Based on total Phoenix Project costs of $21,545,555, LUSI calculated its allocated share to be 4.51 percent, or $971,705. Of this amount, 75.19 percent or $730,625 was assigned to the water system, and 24.81 percent or $241,080 was assigned to the wastewater system.

2. 2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as other subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, we found that allocating costs according to ERCs was an appropriate methodology to spread the cost of the Phoenix Project, but that the Phoenix Project costs previously allocated to the divested subsidiaries shall not be reallocated to the surviving utilities.[5] Because no added benefit was realized by the remaining subsidiaries, we found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, we found that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

3. Affiliate Audit Finding No. 2

In Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at $21,617,487 and required UI to deduct $1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of $19,893,321.[6] In this case, our auditors determined that the Utility did not make the adjustment for the Phoenix Project that we ordered. According to Affiliate Audit

[4] See Docket Nos. 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

[5] See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

[6] See Order No. PSC-10-0407-PAA-SU, issued on September 22, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p.6.

Finding No. 2, LUSI showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility's balance and our ordered balance is \$1,652,234 (\$21,545,555 - \$19,893,321). Therefore, the UI balance for the Phoenix Project shall be reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to water and wastewater plant by \$56,028 and \$18,487, respectively. Corresponding adjustments shall also be made to decrease both accumulated depreciation and depreciation expense by \$5,603 for water and \$1,849 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project.

In its response to Affiliate Audit Finding No. 2, LUSI disagreed with the finding and argued that the full balance of the Phoenix Project should be included at the UI level, with 4.51 percent allocated to LUSI. The Utility contends that Order No. PSC-10-0407-PAA-WS does not apply to future filings such as the instant case because it is a violation of Section 367.0813, F.S. LUSI contends that it is a violation of Section 367.0813, F.S. to use the gains received by the shareholders on the sale of the divested systems to reduce the rate base of the remaining systems. The Utility stated that reducing the Phoenix Project balance for the remaining subsidiaries creates an improper gain on sale situation in the amount of \$1,652,234 because it effectively includes the allocated amount of the Phoenix Project costs with the sale of the divested utilities. LUSI contends that none of the Phoenix Project assets were included in any of the sales and our findings resulted in stranded assets on which the Utility will never recover. LUSI maintains that the total Phoenix Project balance is currently in-service and benefiting current ratepayers and it is arbitrary and inappropriate to reduce the balance.

In response to LUSI's objection to this adjustment, we point out that we have already determined in prior UI rate cases that the Phoenix Project balance shall be reduced to account for the divestitures of subsidiary UI systems. We find that a departure from this practice would result in unfair and inconsistent treatment between UI's subsidiary utilities. If the adjustment is not made in this case, one could argue that LUSI customers would effectively be subsidizing part of the cost of the Phoenix Project for the customers of UI's other subsidiaries.

4. 2010 Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries as listed below.

Date	Subsidiary	ERCs
March 15, 2010	Emerald Point Subdivision (North Carolina)	327
July 19, 2010	River Forest (South Carolina Utilities, Inc.)	74
July 19, 2010	Stone Creek (South Carolina Utilities, Inc.)	172
September 19, 2010	Alafaya Utilities, Inc. (Florida)	8,945

The four divested systems collectively represent 9,518 ERCs. UI planned to divest a fifth subsidiary, Montague in New Jersey, which was under contract to be sold when LUSI filed its rate case. However, the sale of the Montague subsidiary did not close, and as such, LUSI believes the 1,019 ERCs allocated to Montague should be subtracted from the total number of ERCs allocated to the divested systems. We agree that for the purposes of calculating the adjustment to the allocated costs for the Phoenix Project in this particular case, the 1,019 ERCs for the Montague system should be used to offset the total number of ERCs divested. Therefore, the net number of ERCs related to the divestitures and Montague shall be 8,499, or 3.14 percent of the total number of ERCs for UI.

To be consistent with our prior decisions, our ordered adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for the four subsequent divestitures. As such, we calculated that the total cost of the Phoenix Project for UI shall be reduced by an additional 3.14 percent, or $678,237 ($21,617,487 x 3.14 percent), to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to water and wastewater plant of $24,423 and $8,059, respectively. Corresponding adjustments shall also be made to decrease both accumulated depreciation and depreciation expense by $2,300 for water and $759 for wastewater.

5. Amortization / Depreciation Period

In our Affiliate Audit Finding No. 3, our auditors discovered that the Utility did not change the depreciation life for the Phoenix Project from eight to ten years as directed in Order No. PSC-10-0407-PAA-SU. In its response to Affiliate Audit Finding No. 3, LUSI disagreed with our finding based on the depreciation period used in the previous LUSI rate case in Docket No. 070693-WS. The Utility stated that we previously established a depreciation life of eight years with respect to LUSI and that a departure from this practice would result in an inconsistency between successive rate cases.

In previous UI cases, we approved a six-year amortization period for the Phoenix Project.[7] In subsequent UI cases, we found that an eight-year amortization period was more appropriate for a software project of this magnitude.[8] In 2010, we set the amortization period for the Phoenix Project to ten years in four separate rate cases involving LUSI sister companies.[9] There were three factors we considered in our decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, we concluded that the Phoenix Project software will be used for at least ten years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,[10] UI responded that any amortization period between four and ten years would be in compliance with Generally Accepted Accounting Principles (GAAP). Similarly, UI stated to us

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[7] See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.
[8] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.
[9] See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and 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; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.
[10] Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

that its own research revealed that computer software could be amortized over a period of anywhere from four to ten years.[11] As such, we find that ten years is the appropriate amortization period for the instant case.

Based on the aforementioned, we find that the appropriate depreciation period for LUSI is ten years which results in a necessary reduction to accumulated depreciation of $27,867 and $9,194 for water and wastewater, respectively. Accordingly, depreciation expense shall be reduced by $18,829 for water and $6,213 for wastewater.

6. Conclusion

Based on the Phoenix Project balance for LUSI and the adjustment for the divestitures as ordered us in Docket Nos. 090381-SU and 090462-WS, we find that the total cost of the Phoenix Project for UI shall be reduced by $2,330,471. The resulting UI Phoenix Project balance for ratemaking purposes is $19,215,083. The appropriate amount of LUSI's allocated share of the Phoenix Project is $866,600 ($19,215,083 x 4.51 percent). Our adjustments to LUSI's Phoenix Project balances are summarized in the following table:

Approved Adjustment	13-Month Average Plant		13-Month Average Accumulated Depreciation		Depreciation Expense	
	Water	Wastewater	Water	Wastewater	Water	Wastewater
Affiliate Audit Finding No. 2	($56,028)	($18,487)	$5,603	$1,849	($5,603)	($1,849)
2010 Divestitures Adjustment	(24,423)	(8,059)	2,300	759	(2,300)	(759)
Affiliate Audit Finding No. 3	0	0	27,867	9,194	(18,829)	(6,213)
Total	($80,451)	($26,546)	$35,770	$11,802	($26,732)	($8,821)

Accordingly, we find that plant shall be reduced by $80,451 for water and $26,546 for wastewater. In addition, accumulated depreciation shall be reduced by $35,770 for water and $11,802 for wastewater. Depreciation expense shall be decreased by $26,732 for water and $8,821 for wastewater.

B. Pro Forma Plant Additions

LUSI's filing reflected pro forma plant additions, net of retirements, of $633,619 for water and $60,000 for wastewater, as shown in the table below:

[11] See December 2, 2008, Commission Conference Transcript, Page 26, Line 3, through Page 27, Line 19.

Utility Pro Forma Plant Additions per MFRs	Water	Wastewater
US Highway 27 Main Relocation	$453,619	$0
Retirement for U.S. Highway 27 Main Relocation	(70,000)	0
Oranges to Vistas Raw Water Main Installation	250,000	0
Treatment Equipment at Lake Groves WWTP	0	60,000
Total Pro Forma Plant Additions	$633,619	$60,000

1. U.S. Highway 27 Main Relocation

In response to our staff's data request, the Utility stated that the Florida Department of Transportation is widening U.S. Highway 27 North between Lake Louisa Road and SR 50 in Clermont. This roadway project impacted a 16-inch water main located in the right-of-way of U.S. Highway 27 that had to be relocated due to conflicts with storm water and roadway structures. Based on a review of the support documentation provided by the Utility, we find that an adjustment is necessary. According to the journal entries and other support provided by LUSI, the retirement for U.S. Highway 27 Main Relocation was $109,011, instead of the $70,000 included in the Utility's original estimate. As such, plant and accumulated depreciation for water shall both be reduced by $39,011 to reflect the appropriate retirement amount. Accordingly, corresponding adjustments shall be made to decrease depreciation expense and property taxes by $907 and $589, respectively.

2. Oranges to Vistas Raw Water Main Installation

With regard to the Oranges to Vistas Raw Water Main Installation, LUSI asserted that, in order to increase permitted water treatment capacity within the LUSI North community water system to meet current and future demand, a raw water main is proposed to be constructed to convey groundwater from the existing well at the Oranges WTP to the existing piping at the Vitas WTP. The project has an estimated completion date of June 30, 2012. In support of the cost, the Utility provided a proposal from CPH Engineers listing a construction cost of $250,000. Based on the information provided by LUSI, we find that the proposed pro forma plant addition of $250,000 is unsupported and shall not be included in rate base until the project is required by the Florida Department of Environmental Protection, the Utility solicits three bids for the construction of the project, the projects is completed and placed into commercial service, and the actual cost as bid is five percent or less than the estimated cost by CPH Engineers, Inc. The Utility shall have 24 month form the date of the issuance of this Order to provide our staff the appropriate documentation demonstrating the criteria stated above has been met. Once the criteria have been met, a step increase of $32,837 shall be added to the revenue requirement for water rates. This step increase equates to an increase of 0.6166 percent which shall be applied across-the-board to all water rates. The resulting water rates are shown as Phase II of Schedule No. 4-A.

3. Treatment Equipment at Lake Groves WWTP

Upon completion of the expansion of its Lake Groves WWTP in December 2009, the Utility discovered that the installation of the new static screens at the head works resulted in a reduction in the pumping capacity of the Savannas lift station. As a result, LUSI stated that additional pumps were needed at the Savannas lift station to correct the pumping capacity issue. The Utility included in its MFRs an estimate of $60,000 for the cost of the project. In response to our staff's data request, the Utility submitted invoices supporting the actual cost of the expansion and upgrade which totaled $88,808. The in-service date for the head works project was July 31, 2011. To reflect the actual supported cost for Treatment Equipment at the Lake Groves WWTP, wastewater plant should be increased by $28,808. Accordingly, corresponding adjustments for wastewater shall be made to increase both accumulated depreciation and depreciation expense by $1,602, and increase property taxes by $1,316.

4. High Service Pumps at Lake Louisa Water Distribution Plant

Subsequent to its filing, the Utility requested to include a pro forma plant addition of $37,203 for the cost to rebuild three high service pumps at the Lake Louisa water distribution system. In response to our staff's data request, LUSI contends that the repair of the three high service pumps was necessary because of diminished pumping capacity due to significant impeller damage. The repairs improved the pumping capacity to the level authorized by DEP which is necessary to provide adequate service to the water customers located in LUSI North. The Utility provided invoices supporting the cost of $37,203 to repair the pumps. The in-service date for the pumps was April 25, 2011. As such, to reflect the cost to rebuild the pumps, water plant shall be increased by $37,203. Accordingly, corresponding adjustments for water shall be made to increase both accumulated depreciation and depreciation expense by $1,860, and increase property taxes by $533.

5. Lake Groves WTP Biofilter Rehabilitation

Subsequent to its filing, LUSI also requested to include a pro forma plant addition of $202,017 for the cost to refurbish the biofilter at the Lake Groves WTP. The Utility explained that the repair was necessary because many of the internal components were corroded and required replacement. The biofilter treats noxious hydrogen sulfide odors that are a byproduct of the water treatment process that removes sulfides from the raw water pumped from the Lower Floridan Aquifer. The Utility contends that the interior concrete surfaces of the biofilter had become badly corroded and the grating that supports the internal media mixture of porous rock and treated mulch had completely collapsed. In response to our staff's data request, LUSI provided documentation and invoices supporting the requested cost of the biofilter refurbishment. The Utility confirmed that the cost includes a retirement of $32,056 for the grating that was replaced. The in-service date for the refurbished biofilter was September 9, 2011. As such, water plant shall be increased by $202,017. Accordingly, corresponding adjustments for water shall be made to increase accumulated depreciation by $9,192, increase depreciation expense $7,733, and increase property taxes by $2,910.

6. Conclusion

We find that adjustments to pro forma plant additions are necessary and appropriate; said adjustments are summarized in the table below:

Approved Adjustments to Pro Forma Plant Additions	Water	Wastewater
Plant Additions	($49,791)	$28,808
Accumulated Depreciation	$27,959	($1,602)
Depreciation Expense	$8,686	$1,602
Property Taxes	($918)	$1,316

Water plant shall be decreased by $49,791 and wastewater plant shall be increased by $28,808. Corresponding adjustments to accumulated depreciation shall be made to decrease water by $27,959, and increase wastewater by $1,602. Corresponding adjustments shall also be made to increase depreciation expense by $8,686 for water and $1,602 for wastewater. Property taxes shall also be decreased by $918 for water, and increased by $1,316 for wastewater.

C. Used and Useful (U&U) Percentage of the Utility's Water System

Rule 25-30.4325, F.A.C., provides that the U&U percentage for a water treatment plant (WTP) is determined by dividing the peak customer demand, less EUW, plus fire flow, and a growth allowance by the firm reliable capacity (FRC) of the wells. For systems with storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd). For systems without storage facilities, the units are referenced in gallons per minute (gpm).

1. Four Lakes WTP and Lake Saunders WTP

LUSI's service area is made up of three different service areas within Lake County. Four Lakes is a small service area near Montverde that serves approximately 66 customers. Lake Saunders is another small service area near Tavares that serves approximately 44 customers. Both of these areas serve residential customers and are built out with no growth during the past 5 years. The Four Lakes water treatment plant has 2 wells, no storage, and a FRC of 90 gpm. The maximum day demand during the test year was 72,000 gpd, with a peak hour demand of 100 gpm, excessive unaccounted for water of 1 gpm, and a fire flow requirement of 500 gpm. The resulting U&U calculation for the Four Lakes WTP exceeds 100 percent. The Lake Saunders WTP also has 2 wells, with a FRC of 300 gpm, and no storage capacity. The maximum day demand was 29,000 gpd, with a peak hour demand of 40 gpm, excessive unaccounted for water of 0.81 gpm, and a fire flow requirement of 500 gpm. The resulting U&U calculation for the Lake Saunders WTP exceeds 100 percent. We therefore find that both the Four Lakes and Lake Saunders water plants shall be considered 100 percent U&U.

2. LUSI North and Lake Groves

LUSI North and Lake Groves serve approximately 8,800 residential and commercial customers in Clermont. The area is still experiencing growth, with most of the growth occurring in the Lake Groves region. The LUSI North system has 18 small wells that have been interconnected for reliability. The Lake Groves system has 3 wells and is interconnected to the LUSI North system via a water main along U.S. Highway 27. The total FRC for the LUSI North and Lake Groves system is 9,340 gpm, or 8,966,400 gpd. This is less than the FRC from the previous case because of smaller pumps installed on 2 of the Lake Groves wells as a result of restrictions placed on the wells by the WMD requiring those wells to be used only for back up and maintenance purposes. The maximum day demand was 9,955,000 gpd, with 261,845 gpd of excessive unaccounted for water, and a fire flow requirement of 60,000 gpd. LUSI included a growth allowance of 488,407 gpd, pursuant to Section 367.081(2)(a)2.c., F.S., and Rule 25-30.431, F.A.C. The resulting U&U calculation exceeds 100 percent, and we therefore find that the LUSI North and Lake Groves WTP shall be considered 100 percent U&U.

3. Storage and Distribution Systems

The LUSI North and Lake Groves systems have a total usable storage capacity of 3,015,000 gallons. However, the total usable storage capacity is less than the 9,955,000 gallons of peak demand. Therefore, pursuant to Rule 25-30.4325(8), F.A.C., the storage shall be considered 100 percent used and useful. Essentially, all of the distribution lines are contributed to the Utility. Therefore, we find that the water distribution systems in all three service areas shall be considered 100 percent U&U.

4. Excessive Unaccounted for Water (EUW)

In its filing, LUSI indicated that all three water systems, Lake Saunders, Four Lakes, and LUSI North and Lake Groves, experienced a 7.65 composite percentage of EUW during the test year. This composite percentage was utilized because the O&M expenses for the three systems are combined. Unaccounted for water is the difference between water produced or purchased and water sold or used in line flushing or for fire fighting. Unaccounted for water typically results from water lost due to line leaks or inaccurate customer meters. Pursuant to Rule 25-30.4325(1)(e), F.A.C., unaccounted for water is considered excessive when it exceeds ten percent of the total volume of water produced or purchased. The Utility was found to have EUW in the previous rate case and an adjustment to O&M expenses was made.[12]

[12] See Order Nos. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

LUSI stated that it stopped using a contracted meter reader and began using Utility employees for meter reading. As a result, the meters are now read more accurately which will decrease EUW. The Utility also began testing customer meter accuracy, and is being required to initiate a meter replacement program by the WMD. For the Lake Saunders system, operational changes were made that decreased the frequency of the iron filter backwash cycles. LUSI also recently replaced the well meter register because of accuracy issues. After reviewing post test year water consumption and pumping data and adjusting for meter reading inaccuracies, it appears that the Utility was able to reduce the amounts of EUW from 7.65 percent to 5.41 percent. Therefore, we find that water O&M expenses related to chemicals and purchased power shall be reduced by a total of $30,604 to account for EUW of 5.41 percent. In addition, as discussed in below, we find that adjustments shall be made to test year water revenues and billing determinants to account for changes implemented by the Utility to more accurately measure customer usage.

D. Used and Useful (U&U) Percentages of the Utility's Wastewater System

Rule 25-30.432, F.A.C., provides that the U&U percentage for a wastewater treatment plant is determined by dividing the customer demand, less excessive infiltration and inflow, plus a growth allowance by the permitted capacity. The rule also contains a provision for consideration of other factors, such as whether the service area is built out, whether the permitted capacity differs from design capacity, and whether flows have decreased due to conservation or reduction in the number of customers. Pursuant to Section 367.0817(3), F.S., this rule does not apply to reuse projects. In addition, pursuant to Section 367.081(2), F.S., a growth allowance is limited to 5 percent per year for 5 years, or a maximum of 25 percent.

In 2007, the treatment capacity of the Lake Groves wastewater treatment plant (WWTP) was expanded from 0.5 million gallons per day (mgd) to 1.0 mgd. It was also upgraded in order to provide reuse for irrigation purposes. In the last rate case, the plant was found to be 52.42 percent U&U, which recognized the potential for additional customer growth that could be handled by the system. The plant facilities associated with the reuse system were found to be 100 percent U&U, consistent with Section 367.0817(3), F.S. The collection system was also found to be 100 percent U&U, because essentially all of the collection lines have been contributed to the Utility.

Subsequent to receiving the wastewater plant permit in August 2007, DEP granted LUSI's request to modify portions of the Operation and Maintenance Requirements provisions of the wastewater plant permit in October 2007. This modification allowed LUSI to reduce the compliance staffing requirements and the number of monthly composite samples collected. The modification decreases the amount of hours that a Class C or higher wastewater plant operator must be on site, as long as the plant flows remain less than 0.500 mgd.

The average annual flow at the plant during the test year was approximately 0.374 mgd. The WWTP flows have slightly increased each year for the past four years, although there has been a fluctuation in customers and a decrease in water demand over that same period. An analysis for infiltration and inflow (I&I) shows that there is no excessive I&I, and thus, we find that no adjustment is necessary. A total growth allowance of 19,719 gpd was included pursuant to Section 367.081(2)(a)2.c., F.S., and Rule 25-30.431, F.A.C. Based on the permitted capacity of 1.0 mgd, the calculation results in a 40 percent U&U percentage.

In its application, the Utility requested that the wastewater plant be considered 79 percent U&U based on the modified permit conditions. This modification to the permit is a temporary provision that allowed LUSI to reduce certain staffing and reporting requirements, and this modification only lasts as long as the plant flows do not exceed 0.500 mgd. Once flows exceed 0.500 mgd, the staffing and reporting requirements associated with the full 1.0 mgd capacity of the plant go into effect.

We find that the plant has the capacity to handle additional customer growth. However, in order to account for factors such as conservation and a reduction in customers, we find that consistent with our previous decisions,[13] the Lake Groves WWTP shall be considered 53 percent U&U, similar to the U&U percentage from the last case. In addition, similar to our decision in the Utility's last rate case, we find that all of the collection lines and all plant facilities associated with providing reuse shall be considered 100 percent U&U. Accordingly, we find that rate base, depreciation expense, and property taxes shall be reduced by $685,825, $80,483, and $6,616, respectively.

In its filing, LUSI made certain non-U&U adjustments to CIAC. On MFR Schedule A-12, page 2 of 2, the Utility made an adjustment to remove $980,217 from CIAC Reuse Service and Management Fees and added the amount to CIAC Structures/Improvement Treatment Plant. LUSI agreed during an informal noticed meeting that this adjustment should not have been made. Additionally, the account labeled CIAC Structures/Improvement Treatment Plant did not have a historic annual balance. The account was created by an adjustment made by LUSI. The adjusted balance of the CIAC Structures/Improvement Treatment Plant account was $2,221,923. The Utility made a non-U&U adjustment of 21 percent to the entire balance of $2,221,923. LUSI also made non-U&U adjustments to accounts labeled as CIAC Sewer Residential Capacity Fee and CIAC Sewer Plant Modification Fee. In total, the Utility made non-U&U adjustments that reduced wastewater CIAC by $494,105.

We find that the Utility's non-U&U adjustments to the CIAC accounts are not appropriate or justified. Pursuant to Section 367.0817(3), F.S., the applicable adjustments under Rule 25-30.432, F.A.C., do not apply to reuse projects. Further, U&U adjustments apply only to prepaid CIAC and it is the Utility's burden to prove that those adjustments relate to prepaid CIAC. We find that LUSI did not provide documentation supporting any prepaid CIAC. Prepaid CIAC for treatment plant is typically associated with Refundable Advance Agreements which the Utility admitted that it does not have. Consistent with our practice, all CIAC

[13] See Order Nos. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida Inc., pp. 36-38; PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities Inc. of Florida, pp. 14-15; and PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities Inc. of Florida, pp. 36-38, 64-66.

associated with existing customers is considered 100 percent U&U, and as such, no U&U adjustments shall be made to CIAC. Additionally, no approved adjustments were made to the Utility's CIAC U&U calculations in its prior rate case. LUSI's U&U adjustments made to CIAC in the prior rate case were related to the anticipated new developments in the service territory which never materialized. Based on the aforementioned, we find that non-U&U adjustments shall not be applied to CIAC in this case. As such, we find that rate base and depreciation expense shall be further reduced by $699,697 and $15,715, respectively, and property taxes shall be increased by $28.

In conclusion, we find that the wastewater treatment plant is 53 percent U&U, and the portions of the plant designated as providing reuse are 100 percent U&U. The collection system is 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes shall be reduced by $1,385,522, $96,198, and $6,588, respectively.

E. Deferred Rate Case Expense (DRCE)

In its filing, LUSI included $486,749 in its working capital allowance for DRCE. Of that amount, $317,784 is the 13-month average balance of DRCE from the Utility's 2009 rate case. LUSI made an adjustment of $55,386 to correct the actual expense per books to our approved rate case expense, for a net 13-month balance of $262,398. The remainder of the amount is one-half of the estimated DRCE for the current rate case, or $224,351. We find that two adjustments are necessary. The first adjustment is a reduction in the DRCE from the 2009 case and the second adjustment is related to the DRCE for the current case.

1. Deferred Rate Case Expense – 2009 Rate Case

In LUSI's 2009 rate case, we approved rate case expense of $331,450 to be amortized over four years.[14] The rates and rate case expense amortization from that case went into effect on March 23, 2009. Recognizing that rates for the instant rate case will not go into effect before November 2011, we calculated a 13-month average balance of $151,915 for the beginning of the first year the new rates will go into effect. Our practice is to include one-half of rate case expense in working capital.[15] As such, one-half of the 13-month average balance of $151,915, or $75,958, shall be included in the working capital allowance. Therefore, we find that the Utility's prior-case DRCE 13-month average net balance of $262,398 shall be reduced by $186,440 to $75,958. This adjustment is consistent with our recent decision in the Aqua Utilities Florida, Inc. (AUF) rate case.[16] We note that while our PAA decision in the AUF case on the level of rate case expense has been protested, this adjustment was not protested and therefore is now deemed stipulated pursuant to Section 120.80(13)(b), F.S.

[14] See Order No. PSC-09-0101-PAA-WS, issued February 16, 2009, in Docket No. 070693-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc. at pp. 11-14.
[15] See Order No. PSC-10-0426-PAA-WS, issued July, 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities, Corporation at p. 11.
[16] See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

2. Deferred Rate Case Expense (DRCE) - Current Rate Case

The Utility included a pro forma adjustment of $224,351 in the working capital allowance for DRCE associated with the current rate case. As stated below, we find that rate case expense of $329,870 for the current rate case is appropriate. Consistent with our long-standing practice, one-half of the total rate case expense, or $164,935, shall be included in the working capital allowance. As such, we find that an adjustment of $59,416 shall be made to reduce LUSI's pro forma adjustment of $224,351 to $164,935.

3. Conclusion

Based on the above, we find that the Utility's DRCE shall be decreased by $186,440 to reflect the appropriate amount for the 2007 rate case, and decreased by an additional $59,416 to reflect the appropriate amount for the current rate case. The appropriate total amount of DRCE is $240,893. Consistent with the annual amortization amount approved in LUSI's last rate case and our practice, we find that DRCE included in the working capital allowance shall be decreased by $245,856, or $184,859 for water and $60,997 for wastewater.

F. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. The balance sheet approach generally defines working capital as current assets and deferred debits that are utility-related and do not already earn a return, less current liabilities, deferred credits and operating reserves that are utility-related and upon which a utility does not already pay a return. The Utility has properly filed its allowance for working capital using the balance sheet method. In its filing, LUSI reflected a working capital allowance of $1,090,233 ($819,746 for water and $270,487 or wastewater) using the balance sheet approach.

G. Deferred Rate Case Expense

It is our practice to include one-half of the approved amount from the instant rate case ($164,935) in the working capital calculation for Class A water and wastewater utilities.[17] As discussed above, we included one-half of the 13-month average of the approved amount of rate case expense from the prior rate case ($75,958). Accordingly, we find that the appropriate amount of DRCE to include in the working capital allowance is $240,893 ($164,935 + $75,958). The Utility included $486,749 for the prior and current rate case expense. We find that the DRCE included in the working capital shall be decreased by $245,856.

[17] See Order Nos. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Review of 2007 Electric Infrastructure Storm Hardening Plan filed pursuant to Rule 25-6.0342, F.A.C., submitted by Florida Public Utilities Company.; PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.; and PSC-97-1225-FOF-WU, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

H. Miscellaneous Deferred Debits

Based on the above, we find that DRCE shall be reduced by a total of $245,856, or $184,859 for water and $60,997 for wastewater. Thus, we find that the appropriate working capital is $634,888 for water and $209,490 for wastewater.

I Appropriate Rate Base

In its MFRs, the Utility recorded rate base of $18,140,610 for water and $6,223,040 for wastewater. We have calculated LUSI's water and wastewater rate bases using the Utility's MFRs with adjustments as stated above. Accordingly, we find that the appropriate rate base for the historical test year ended June 30, 2010, is $18,022,453 for water and $4,794,157 for wastewater. Our findings for rate base are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

IV. Cost of Capital

A. Return on Equity (ROE)

The ROE included in the Utility's filing is 10.55 percent based on the 2010 leverage formula. Based on the 2011 leverage formula and an equity ratio of 43.41 percent, the appropriate ROE is 10.80 percent.[18] We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

B. Short-term Debt

The cost rate for short-term debt included in the Utility's filing was 4.28 percent. According to Audit Finding No. 5, LUSI could not provide supporting documentation for the total interest expense to substantiate the cost rate listed on the short-term debt schedule. Our auditors recalculated the cost rate for short-term debt to be 3.17 percent. The Utility did not object to Staff Audit Finding No. 5. As such, we find that the appropriate cost rate for short-term debt is 3.17 percent.

C. Weighted Average Cost of Capital

We find that the weighted average cost of capital included in the Utility's filing is 8.12 percent. With the exception of the cost rate for short-term debt and ROE, we calculated the weighted average cost of capital based on the test year components, amounts, and cost rates listed in LUSI's MFR Schedule D-2. The cost rate for short-term debt and the ROE were addressed above. Based upon the proper components, amounts, and cost rates associated with the test year ended June 30, 2010, we approve a weighted average cost of capital of 8.13 percent. Schedule No. 2 details the approved weighted average cost of capital.

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[18] See Order Nos. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

V. NET OPERATING INCOME

A. Revenue Adjustments

In its filing, LUSI reflected adjusted test year revenues of $4,233,759 for water and $2,096,964 for wastewater. Based on a review of the MFRs and the Utility's recent annual report, we discovered LUSI failed to include revenues associated with income received from plant leased to others. As will be discussed in greater detail below, we find that the test year kgals (1,000 gallons) sold for the water system shall be increased by 27,571 kgals. This adjustment reflects an approximate 1.9 percent increase in the number of kgals pumped that are captured for billing purposes. This results in an increase in test year revenues for the water system of $60,704. Accordingly, we find that revenues shall be increased by $72,965 ($12,261 + $60,704) and $4,045 for water and wastewater, respectively.

B. Consumptive Use Permit (CUP)

On MFR Schedule B-3, the Utility recorded a pro forma adjustment to O&M expense of $95,945 to recover the cost of obtaining a CUP from the WMD. The cost incurred to obtain the permit was $239,862. Our staff reviewed the invoices and verified the cost was incurred. The CUP will expire at the end of 2013, or approximately 30 months from the date of issue. Based on the time period between the approval date and the expiration date, the Utility estimated the amortization period to be 30 months. We will note that the application process has been ongoing since November 2006 and incurred several delays before obtaining the permit in May 2011. LUSI incurred costs related to the application since 2006. However, we find that a 30-month amortization period is appropriate. Based on a 30-month amortization period, we find that the appropriate amount of amortization is $95,945 ($239,862 ÷ 30 months x 12). Accordingly, we find that the $47,922 shall be disallowed.

C. Salaries and Wages Expense

In its MFRs, LUSI reflected water and wastewater salaries and wages of $607,603 and $200,477, respectfully. On MFR Schedules B-7 and B-8, LUSI explained the increase in the salaries and wages expense for water reflects the addition of a water conservation coordinator position that was required by the WMD, and the increase for wastewater can be attributed to an additional wastewater system operator to staff the new wastewater reuse plant. The salaries for the water conservation coordinator and the additional wastewater system operator are included in the test year expenses and are not a pro forma or an annualization adjustment.

In its filing, LUSI made two adjustments to the salaries and wages expense for the current test year. The first adjustment annualized the salaries and wages expense, and the second adjustment was a pro forma increase for salary increases of 3.5 percent in April 2011. Given the tumultuous state of the economy, we find that any pay increase at this time shall not be borne by the ratepayers. As such, we find that the Utility's annualization adjustment and pro forma pay increase shall be disallowed. This is consistent with our recent decision in the AUF rate case.[19] Therefore, we find an adjustment to reduce LUSI's requested salaries and wages expense by the amount of the annualization and pro forma adjustments is appropriate. We note, however, that this adjustment has been protested in the AUF case.

Based on the above, we find that salaries and wages expense shall be reduced by $62,658 for water and $20,674 for wastewater.

1. Pensions and Benefits Expense

In its filing, LUSI requested employee pensions and benefits expense of $176,077 for water and $58,095 for wastewater. In its last rate case, we approved water and wastewater employee pension and benefit expense of $124,483 and $41,263, respectively. The amounts were 21.63 percent of the salaries and wages expense approved in the 2007 rate case. In the instant case, LUSI is requesting employee pension and benefit expense equal to 29.0 percent of the Utility's requested salaries and wages expense. The requested amount represents a 34 percent increase over the amount approved in LUSI's last rate case. On MFR Schedules B-7 and B-8, for both water and wastewater, the Utility explained that the increase is a fallout from the increase in the number of full-time staff as well as adjustments in compensation levels. However, we were unable to reconcile the requested increase in employee pensions and benefits expense with the information submitted by the Utility.

In LUSI's response to our data request dated January 4, 2011, the Utility provided a schedule that listed the UI employee benefit expenses from calendar year 2009 through June 2010. The schedule indicated a decrease in benefit expense from $3,823,675 in 2009 to $3,654,083 in the test year ended June 30, 2010. This represents a 4.43 percent decrease in the employee benefit expenses over that same period. In the Utility's response to another staff data request, LUSI provided a schedule that listed, by employee, all the employee expenses for UI and the allocated amounts for LUSI. The new positions for the water conservation coordinator and the wastewater system operator were included in the list. Based on the information provided by LUSI, we calculated that the employee pension and benefit costs for LUSI equates to 23.43 percent of the salaries and wages expense. Therefore, we find that it is reasonable and appropriate to base the amount of employee pension and benefit expense on 23.43 percent of employee salaries and wages expense. Accordingly, we find that employee pension and benefit expense shall all be reduced by $48,411 for water and $15,972 for wastewater.

2. Conclusion

Based on the above, we find that the requested salaries and wages expense, and employee pensions and benefits expense shall be reduced. The Utility has the burden of proving that its

[19]See Order No. PSC-11-0256-PAA-WS, issued June 13, 2011, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., at p. 80.

costs are reasonable.[20] We find that the Utility has not met its burden of proof for the proposed increase in salaries and wages expense, and employee pensions and benefits expense. Accordingly, we find that salaries and wages expense shall be reduced by $62,658 for water and $20,674 for wastewater. In addition, employee pensions and benefits expense shall be reduced by $48,411 for water and $15,972 for wastewater. Corresponding adjustments shall be made to reduce payroll taxes by $6,085 for water and $2,008 for wastewater.

D. Liability Insurance Expense

In its filing, the Utility included allocated Directors and Officers (D&O) liability insurance expense of $3,655 for water and $1,206 for wastewater. We note that, in the Final Order in the recent Tampa Electric Company rate case, we found the following:

> We find that DOL insurance is a part of doing business for a publicly-owned Company. It is necessary to attract and retain competent directors and officers. Corporate surveys indicate that virtually all public entities maintain DOL insurance, including investor-owned electric utilities.[21]

In addition, we note that, in the recent Progress Energy Florida, Inc. rate case, we found the following:

> In summary, we believe that D&O liability insurance has become a necessary part of conducting business for any publicly owned company and it would be difficult for companies to attract and retain competent directors and officers without it. We also believe that ratepayers receive benefits from being part of a large public company including, among other things, easier access to capital. Because D&O liability insurance benefits both the ratepayer and the shareholder, it should be a shared cost. Thus, we find that O&M expense shall be reduced by $964,913 jurisdictional to reflect the sharing of costs between the ratepayers and the shareholders.[22]

Based on the above, we find that D&O liability insurance costs shall be shared between the ratepayers and the shareholders. Therefore, we find that O&M expense shall be reduced by $1,828 for water and $603 for wastewater.

E. Bad Debt Expense

The Utility recorded bad debt expense of $83,539 for water and $27,563 for wastewater in the test year. In numerous decisions, we have set bad debt expense using the 3-year average in

[20] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).
[21] See Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company, p. 64.
[22] See Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc., pp. 98-99.

electric,[23] gas,[24] and water and wastewater cases.[25] We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility.

We calculated the 3-year average using the bad debt expense reported in the Utility's annual reports for 2008, 2009, and 2010. Based on the 3-year average calculation, LUSI shall be entitled to bad debt expense of $47,085 for water and $15,505 for wastewater, which we find is representative of the Utility's bad debt expense. As a result, we find that LUSI's bad debt expense of $83,539 for water and $27,563 for wastewater shall be reduced by $36,454 and $12,058, respectively.

F. Rate Case Expense

In its MFRs, the Utility included an estimate of $448,701 for current rate case expense. Our Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On August 19, 2011, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $396,672.

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[23] See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

[24] See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, pp. 30-31.

[25] See Order Nos. PSC-10-0407-PAA-SU, PSC-10-0423-PAA-WS, PSC-09-0385-FOF-WS, pp. 92-96; and PSC-10-0585-PAA-WS, pp. 43-44.

	MFR Estimated	Actual as of July 31, 2011	Additional Estimated	Revised Total
Legal Fees	$66,300	$73,357	$16,838	$90,195
Accounting Consultant Fees	264,900	90,138	8,238	98,376
Engineering Consultant Fees	18,150	30,914	2,175	33,089
WSC In-house Fees	76,776	106,393	35,475	141,868
Filing Fee	4,000	7,000	0	7,000
Travel- WSC	3,200	353	2,847	3,200
Temp Employee Fees-WSC	0	2,724	500	3,224
Miscellaneous	12,000	75	11,925	12,000
Notices	3,375	7,720	0	7,720
Total Rate Case Expense	$448,701	$318,674	$77,998	$396,672

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find that the following adjustments shall be made to the Utility's revised rate case expense estimate.

1. Legal Consultant Fees

We find that four adjustments related to the Utility's legal consultant fees are appropriate, resulting in a total reduction of $4,640. The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.[26] Based on our staff's review of invoices from LUSI's legal consultant, 11.2 hours were spent on resolving MFR deficiencies for a cost of $3,535. Accordingly, we find that legal fees shall be reduced by $3,535.

The second adjustment relates to the legal fees currently billed for this case. The revised MFR Schedule B-10 reflected actual legal consulting charges of $73,357. The invoices provided to support the actual legal fees billed total $81,647. Hence, legal fees shall be increased by $8,290. However, two invoices in the amounts of $528 and $817 were not related to the instant rate case, and a third invoice in the amount of $817 was a duplicate. The charges billed on the three invoices totaled $2,163 and shall be netted against our approved increase. Accordingly, we

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

find that legal fees shall be increased by $6,127 based on the total amount listed on the invoices provided as support for the legal fees.

The third adjustment relates to the filing fee. The rate case filing fee of $7,000 was included in the total amount of the legal fees billed to the Utility. LUSI also included the $7,000 filing fee as a separate line item in the B-10 Schedule. Therefore, legal fees shall be further reduced by $7,000 to remove the duplicate cost of the rate case filing fee.

The fourth adjustment relates to the remaining estimated legal fees to complete the PAA process. In its calculation of the estimated legal fees to complete the case, the Utility applied an hourly rate of $330 for 40.5 estimated hours. The law firm representing LUSI has a partner billing at a rate of $340 per hour and an associate lawyer billing at a rate of $315 per hour. During the rate case, the associate lawyer billed approximately 90 percent of the hours. Therefore, we find that it is reasonable to assume that, with the exception of the fifteen hours estimated to prepare for and attend our Agenda Conference, the associate lawyer will be working the remainder of the rate case which represents a total of 25.5 hours. As such, we find that legal fees shall be recalculated and reduced by $232.

2. Accounting Consultant Fees

We find that two adjustments to the Utility's accounting consultant fees are appropriate, resulting in a reduction of $275. The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. The accounting consultant incurred 3.25 hours at a cost of $537 to correct MFR deficiencies. Accordingly, we find that accounting fees shall be reduced by $537 for duplicative MFR filing costs.

The second adjustment relates to the actual charges currently billed to the Utility. The revised MFR Schedule B-10 reflected actual accounting consultant charges of $90,413. The invoices provided to support the requested amount totaled $90,675. Hence, accounting fees shall be increased by $262.

In its revised MFR Schedule B-10, LUSI included an estimate of $8,238 for additional work to complete the case through the PAA process. The Utility provided supporting documentation including two invoices totaling $5,738 dated after July 31, 2011, that were not included in the actual charges listed on the revised MFR Schedule B-10. The remaining amount is an estimate of $2,500, which equates to approximately fifteen hours for remaining work by the accounting consultant. Based on our review of the time sheets and invoices provided by LUSI, the accounting consultant incurred 25 hours to review our order after its filing on July 28, 2011. Therefore, we find that it is reasonable to assume that the accounting consultant will spend 15 hours, for a cost of $2,500, to review our order after filing.

3. Engineering Consultant Fees

We find that three adjustments to the Utility's engineering consultant fees are appropriate, resulting in a reduction of $3,075. The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. The engineering consultant incurred one hour at a cost of

$150 to correct MFR deficiencies. Accordingly, we find that engineering fees shall be reduced by $150 for duplicative MFR filing costs.

The second adjustment relates to the actual charges billed to the Utility. The revised MFR Schedule B-10 reflected actual engineering consultant charges of $30,914. The invoices provided to support the requested amount totaled $30,164. Hence, engineering fees shall be decreased by $750 for unsupported rate case expense.

The third adjustment relates to LUSI's estimated engineering consultant fees through the remainder of the PAA process. The Utility estimated 15 hours at a cost of $2,175 for its engineering consultant to complete the rate case. The only support provided for the work to be performed was the following statement on the revised MFR Schedule B-10: "U&U Analysis, Assist w/ MFRs, data requests, audit facilitation." We note that there would be no work remaining for engineering U&U Analysis, assisting with MFRs, responding to data requests, and audit facilitation. Also, we find that any remaining data requests would be more appropriately addressed by WSC in-house employees. Accordingly, we find that engineering consultant fees shall be reduced by $2,175.

4. WSC In-house Employee Fees

We find that multiple adjustments to the Utility's WSC in-house employee fees are appropriate, resulting in a reduction of $47,906. The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. WSC in-house employees incurred 40 hours for a cost of $1,627 to correct MFR deficiencies. Accordingly, we find that WSC in-house fees shall be reduced by $1,627 for duplicative MFR filing costs.

The second adjustment relates to the number of hours WSC in-house employees incurred to prepare and file the MFRs. In its revised MFR Schedule B-10, the Utility reported that the total number of actual hours incurred by WSC in-house employees as of July 31, 2011, was 2,699, and estimated an additional 693 hours remaining to complete the rate case, for a total of 3,392 hours. We find that the number of hours proposed by LUSI for WSC in-house employees is excessive, unreasonable, and unsupported. In the Utility's 2007 rate case, the total number of hours incurred by all the consultants and WSC in-house employees combined was 3,219. In this case, the Utility estimated the total number of hours incurred by all the consultants and WSC in-house employees to prepare the MFRs, respond to all audit requests, data requests, discovery, and complete the rate case through the PAA process is 4,370.

In the 2007 rate case, the Utility used the projected test year ended June 30, 2009, which required additional MFR preparation and auditing as compared to this rate case which used only the historical test year ended June 30, 2010. It stands to reason that the hours incurred to process the entire rate case by WSC in-house employees in this rate case would be less than the 2007 rate case. In comparison, LUSI reported that the accounting consultant incurred 1,427 hours in the 2007 rate case, but reported that 593 total hours have been incurred in this rate case as of July 31, 2011. This equates to a 58 percent decrease in the number of hours incurred by the accounting consultant to prepare the MFRs and respond to the audit and data requests as compared to the 2007 rate case. As such, we expected to see a decrease in the number of hours incurred by WSC in-house employees to prepare the MFRs in this case as compared to the prior rate case. The total number of hours incurred by WSC in-house employees in LUSI's last rate case was 1,585. In the instant case, LUSI reported that 2,699 hours has been incurred as of July 31, 2011. We find that the number of hours is unreasonable and excessive.

Based on the detailed timesheets provided by LUSI, we determined that WSC in-house employees spent 1,199 of the 2,699 hours preparing the MFRs for filing. We find that the number of hours spent on preparing the MFRs is excessive. UI has made the decision to not keep its books and records in accordance with NARUC system of accounts. As a result, WSC in-house employees spend additional time re-stating depreciation, making "roll-forward" adjustments to account for regulatory accounting and our ordered adjustments, and re-calculating the 13-month average balance. For example, one WSC in-house employee recorded 162 hours working on a depreciation re-statement and correcting the 13-month average balance. The hourly rate for the employee is $50 for a total expense of $8,100. In response to our staff's data request regarding the purpose for the work, LUSI explained:

> This file is created to account for Commission-ordered adjustments as well as correct depreciation errors and coding reclassifications that need to be made. These corrections must be made in order to prepare accurate MFRs. In addition, the Company's regulatory ledger currently does not depreciate, and this file must be created in order to depreciate any items that are on that ledger that should be depreciating.

We find that the Utility's ratepayers shall not be required to bear the added cost of correcting errors and re-calculating depreciation as part of rate case expense. Accordingly, we find that rate case expense shall be decreased by $8,100.

In addition, a second WSC employee recorded 64 hours for correcting errors, assisting other employees, correcting formatting errors, and re-running data. The 64 hours of work performed by this employee appears to be duplicative of the work performed by co-workers, and as such, shall be removed from rate case expense. The hourly rate for this employee is $41 for a total expense of $2,624. Accordingly, we find that rate case expense shall be reduced by $2,624.

A third WSC employee recorded 24 hours reconciling the PDF files for the 2007, 2008, and 2009 annual reports to the Excel file versions. The employee also recorded 23 hours correcting the placed in-service dates on the computer file restatement and re-reconciling the corrected annual report to the trial balance. The work performed appears to be time incurred correcting errors and is duplicative in nature. The hourly rate for this employee is $40 for a total expense of $1,880. Accordingly, we find that rate case expense shall be reduced by $1,880.

A fourth WSC employee recorded 46 hours for "Supporting production of MFRs. Additional engineering data provided." We find that activities listed do not contain sufficient detail to support the expense. The hourly rate for this employee is $39.36 for a total expense of $1,811. Accordingly, we find that rate case expense shall be reduced by $1,811.

A fifth WSC employee recorded 38 hours for "Pull Invoices for Audit Requests" and "Scan Invoices for Audit Requests." The time period for the hours recorded preceded the dates of our staff audit for LUSI. Hence, it appears the activities were not related to the LUSI rate case. The hourly rate for this employee is $24 for a total expense of $912. Accordingly, we find that rate case expense shall be reduced by $912.

Based on the aforementioned, we find that 357 hours associated with WSC in-house fees of $15,327 related to the preparation of the MFRs shall be disallowed. This adjustment results in a total of 842 hours for MFR preparation which we find is more reasonable.

The third adjustment relates to the number of hours WSC in-house employees incurred to respond to our staff data requests, our audit staff requests, and OPC discovery. During the course of processing LUSI's rate case, our staff requested three updated rate case expense estimates. The most recent estimate included actual charges through July 31, 2011. However, the documentation provided to us for the most recent rate case expense estimate did not include detailed time sheets for WSC in-house employees. Therefore, we used the previous rate case expense estimate filed on June 24, 2011, which did include detailed time sheets for the charges incurred through June 9, 2011.

As of June 9, 2011, the Utility reported it incurred 1,344 responding to our staff data requests, our audit staff requests, and OPC discovery. In the instant case, as of June 9, 2011, staff sent out data requests totaling 87 questions and sub-parts. In LUSI's 2007 rate case, our staff sent out data requests totaling 66 questions and sub-parts. In both cases, OPC intervened and requested discovery, and we performed audits on the Utility and Affiliates. As such, the number of hours incurred by that date to respond to data requests, audit requests, and discovery in this rate case should be reasonably close to the number of hours incurred in the Utility's 2007 rate case. The total number of hours incurred by WSC in-house employees in the 2007 rate case was 1,585. Therefore, the total number of hours incurred as of June 9, 2011, should not be significantly greater than 1,585. Therefore, we find that 842 hours for MFR preparation and filing the rate case is appropriate. Hence, we find that as of June 9, 2011, no more than 743 hours shall be allowed for WSC in-house employees responding to our staff data requests, our audit staff's requests, and OPC discovery. Therefore, we find that 601 hours shall be disallowed as excessive and unreasonable rate case expense. According to the supporting data provided by the Utility, six WSC employees recorded time for responding to data requests, audit requests, and OPC's discovery. The average hourly rate for the six employees is $37.69. Accordingly, we find that rate case expense shall be reduced by $22,655 (601 hours x $37.69 per hour).

In the Utility's most recent rate case expense estimate filed on August 19, 2011, LUSI reported WSC in-house employees incurred 156 hours since June 9, 2011, at a cost of $6,743, to respond to our staff's data requests and OPC discovery. The 156 hours is consistent with our approved number of WSC in-house employee hours per month to complete the PAA rate case as discussed in the following paragraphs. Therefore, we find that this expense is reasonable and shall be allowed.

The fourth adjustment relates to the Utility's estimated costs to complete the rate case through the PAA process. The Utility estimated an additional 693 hours for WSC in-house employees to complete the rate case through the PAA process at a cost of $35,477. LUSI explained the additional hours are related to assistance with MFRs, data requests, audit facilitation, billing analysis, implementation of rates, and customer notice mailings. We have concerns regarding these estimated hours. First, as stated earlier, there shall be no hours related to the MFRs or the audit in this case because the Utility has already completed the MFRs and has responded to the audit requests and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.[27] We find a reasonable method to estimate WSC employee hours to complete the rate case is to utilize the average monthly hours of WSC employees incurred to date and carry the monthly average forward until the PAA process is complete.

The Utility began to incur charges related to the rate case in August 2010. We find that the appropriate number of hours incurred as of June 9, 2011, is 1,585. Based on 1,585 hours incurred over a period of ten months (August 2010 through June 9, 2011) we calculated the average number of hours worked per month to be 158.5. The anticipated implementation of the rates will occur in November 2011, which is four months from July 31, 2011. We find that a reasonable estimate for WSC employees to complete the case is 634 hours (158.5 hours per month x 4 months). The Utility reported that 19 WSC In-house employees would incur charges to complete the rate case. The average hourly rate of the WSC in-house employees is $50. Accordingly, we find that the appropriate amount of rate case expense is $31,700 ($50 x 634). Therefore, rate case expense shall be decreased by $3,777 ($35,477 - $31,700).

As discussed above, we find that all salary increases shall be disallowed. In the Utility's rate case expense estimates and incurred charges, LUSI calculates hourly rate increases for WSC employees. To be consistent, we calculated the charges for the WSC in-house employees based on the lowest reported hourly rate in MFR Schedule B-10 for each employee. The result is a reduction of $4,520 due to the removal of the salary increases proposed by the Utility. As such, we find that rate case expense shall be decreased by $4,520.

In total, we find that WSC in-house employee charges shall be reduced by $47,906 ($1,627 + $15,327 + $22,655 + $3,777 + $4,520) for unreasonable and excessive expense. We note that all preceding adjustments to WSC in-house employees fees were calculated using the lowest hourly rates in the MFR schedule.

[27] See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, the we removed the entire unsupported amounts.

5. WSC Travel Expenses

In its MFRs, LUSI estimated $3,200 for travel. However, the documentation the Utility provided to support this expense did not demonstrate that this expense was related to this rate case. The time of travel on the receipts and invoices did not correlate to the time during which the informal meeting or the customer meeting took place. Furthermore, based on several previous UI rates cases, it is our experience that for PAA rate cases UI does not send a representative from its Illinois office to attend the Agenda Conference. Therefore, we find that rate case expense shall be decreased by $3,200.

6. WSC FedEx Expenses

In its MFRs, the Utility estimated $12,000 for FedEx Corporation (FedEx) and other miscellaneous costs these items. LUSI provided one invoice in the amount of $75.33 for FedEx charges to ship documents to our auditors in Miami. However, UI has requested and received authorization from us to keep its records outside the state in Illinois. This authorization was made pursuant to Rule 25-30.110(1)(c), F.A.C. However, when a utility receives this authorization, it is required to reimburse us for the reasonable travel expense incurred by each of our representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In a 1993 rate case for Mid-County Service, Inc. (another UI subsidiary), we found the following:

> The Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.[28]

We find that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data and audit requests, and other rate case correspondence to its law firm located in central Florida. The documents are then submitted to us. We do not believe that ratepayers should bear the related costs of having LUSI's records located out of state. This is a decision by the management of the Utility, and, thus, the shareholders should bear the related costs. Further, the legal consultant billed LUSI a total of $832.37 for FedEx shipping expenses which is included in our approved rate case expense for legal fees. The Utility provided no other support for the requested FedEx expenses. Accordingly, we find that rate case expense shall be decreased by $12,000.

7. Customer Notices and Postage

In its MFRs, the Utility included estimated charges of $3,375 for customer notices and postage, but included actual charges of $7,720 in its revised MFR Schedule B-10. In the 2009

[28] See Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.

UI rate cases, we allowed expenses of $0.05 per envelope, $0.34 for postage,[29] and $0.10 per photocopy. The charges appear to be reasonable based on approximately 8,746 customers to whom notices were mailed. In addition, LUSI did not include costs for customer notices and postage for the final notice. Accordingly, we find that rate case expense shall be increased by $4,294 to account for the cost of mailing the final notice to customers.

8. Conclusion

It is the Utility's burden to justify its requested costs.[30] Further, we have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[31] In summary, we find that LUSI's revised rate case expense shall be decreased by $66,802 for MFR deficiencies and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is $329,870. That amount includes charges for a total of approximately 3,316 hours for all consultants and WSC in-house employees. We find that 3,316 hours is reasonable and appropriate based on the 3,219 hours charged in LUSI's 2007 rate case. A breakdown of rate case expense is as follows:

Description	MFR Estimated	Utility Revised Actual & Estimated	Approved Adjustments	Total
Legal Fees	$66,300	$90,195	($4,640)	$85,555
Accounting Consultant Fees	264,900	98,376	(275)	98,101
Engineering Consultant Fees	18,150	33,089	(3,075)	30,014
WSC in-house Fees	76,776	141,868	(47,906)	93,962
Filing Fee	4,000	7,000	0	7,000
Travel- WSC	3,200	3,200	(3,200)	0
Temp Employee Fees-WSC	0	3,224	0	3,224
Miscellaneous	12,000	12,000	(12,000)	0
Notices	3,375	7,720	4,294	12,014
Total Rate Case Expense	$448,701	$396,672	($66,802)	$329,870
Annual Amortization	$112,175	$99,168	($16,701)	$82,467

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29 UI has a presorted postage rate of $0.34.

30 See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

31 See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

In its MFRs, LUSI requested total rate case expense of $448,701, which amortized over four years is $112,175. The Utility included a pro forma adjustment of $112,175 in its MFRs for rate case expense, or $84,346 for water and $27,829 for wastewater. Based on the adjustments approved above, total rate case expense shall be decreased by $118,831 (448,701 - $329,870), or $29,708 ($112,175 – $82,467) per year, which equates to a reduction of $22,338 for water and $7,730 for wastewater.

The approved total rate case expense shall be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by LUSI and the approved adjustments discussed above, we find that the appropriate amount of rate case expense is $329,870. This expense shall be recovered over four years for an annual expense of $82,467, or 62,008 for water and $20,459 for wastewater. Therefore, annual rate case expense shall be reduced by $22,338 for water and $7,370 for wastewater.

G. Gain on Sale of Land

Our staff auditors determined that in 2009, the Utility sold 5 of the 180 acres of land at Lake Groves to Sumter Electric for $244,439 net of closing costs. This amount was recorded in account 7690 (414 NARUC), Gain or Loss from Sale of Property, which is below-the-line and was not included in the rate case filing. There is a question as to whether the cost of this particular piece of land was ever included in the Utility's rate base. Thus, we find that the Utility shall provide proof that the cost of this particular piece of land was not included in its rate base within 10 days of our Agenda Conference (October 4, 2011) and any adjustment for the Gain on Sale of Land shall be removed and the rates shall be adjusted accordingly.

H. Test Year Water and Wastewater Operating Income

As shown on Schedule Nos. 3-A and 3-B, after applying our approved adjustments, the Utility's net operating income is $805,087 for water and $458,517 for wastewater. Our adjustments to operating income are shown on Schedule No. 3-C.

VI. REVENUE REQUIREMENT

In its filing LUSI requested revenue requirements to generate annual revenues of $5,840,432 and $2,344,226 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of $1,606,673 or approximately 38 percent for water and $247,262 or approximately 12 percent for wastewater.

Consistent with concerning the underlying rate base, cost of capital, and operating income issues, we find it appropriate to approve rates designed to generate a water revenue requirement of $5,416,202 and a wastewater revenue requirement of $1,985,379. The approved water revenue requirement exceeds our adjusted test year revenues by $1,107,533, or 25.70 percent, for water. Our approval of wastewater revenue requirement is below our adjusted test year revenues by $115,630 or 5.50 percent. These pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.13 percent return on its investment in water and wastewater rate base.

VII. RATE STRUCTURE AND RATES

A. Appropriate Numbers of Bills, ERCs and Consumption

According to the Utility's MFRs, there were 102,813 bills, 111,368 ERCs and 1,443,485 kgals associated with the water system, and 33,456 bills, 37,844 ERCs and 254,416 kgals associated with the wastewater system during the historical test year ending June 30, 2010. The Utility reported no billing determinants associated with its reuse system during the test year.

As discussed above, the Utility submitted a record of customer complaints filed with LUSI during the test year. The majority of these complaints involved meter reading by an outside contractor, curb (estimated) readings, and billing issues. The Utility also found meters that either did not function at all or were under-registering. In response to these complaints, the Utility undertook meter testing and meter replacement programs. The Utility was asked to provide our staff with further details of the meter replacement initiative, and its anticipated impact on test year billing determinants. The Utility responded that approximately 10 of the 100 oldest meters tested had accuracy levels of less than 95 percent, which is below the minimum requirement set by the St. Johns River Water Management District. These meters were replaced. Furthermore, the function of meter reading is now being serviced in house.[32]

In a noticed conference call held between the parties on January 31, 2011, the Utility offered to provide our staff with post-test year data in order to evaluate whether, as a result of the changes the Utility had made with meter reading and meter replacements, there had been a reduction in EUW. Based on our review of 10 months of post test year data, there has been an improvement in the percentage of kgals captured for billing purposes. A comparison of the Utility's post test year kgals billed relative to the number of kgals pumped (yielding the percentage of kgals that are revenue generating) indicated an approximate 1.9 percent increase in the number of kgals pumped captured for billing purposes. Therefore, we find that it is appropriate to increase the water system's test year kgals sold by 1.9 percent to recognize this improvement in billing accuracy on a forward-going basis. This results in an increase in test year consumption of 27,571 kgals, yielding total adjusted water system sales of 1,471,056 kgals.

We evaluated our approved increase in water test year consumption to determine whether a corresponding increase should be made to wastewater system consumption. Based on our analysis, the resulting increase in wastewater consumption is immaterial; therefore, no corresponding increase in kgals sold is ordered for the Utility's wastewater system. The Utility had no sales of reuse during the test year; therefore, no adjustments are needed.

Based on the foregoing, the appropriate numbers of bills, ERCs and consumption for the Utility's water, wastewater and reuse systems for the historical test year ending June 30, 2010 are shown in table below.

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[32] LUSI's, response to our staff's second data request, question no. 3.

LAKE UTILITY SERVICES, INC.
COMMISSION APPROVED
TEST YEAR BILLING DETERMINANTS
FOR THE HISTORICAL TEST YEAR ENDING JUNE 30, 2010

Water System		Wastewater System		Reuse System	
Bills	102,813	Bills	33,456	Bills	0
ERCs	111,368	ERCs	37,844	ERCs	0
Consumption (kgals)	1,471,056	Consumption (kgals)	254,416	Consump	0

B. Rate Structures

In the Utility's last rate case, due to very high average residential consumption per month, we implemented an aggressive three-tiered inclining block rate structure for the residential water customers, with usage blocks for monthly consumption of a) 0-5 kgal; b) 5.001-10 kgal; and c) greater than 10 kgal. The BFC cost recovery was set at 20 percent. An analysis of the Utility's residential test year billing data in the instant proceeding indicates that, despite reductions in residential customers' average monthly consumption, there continues to be greater than average usage by its residential customers. For example, at residential consumption levels of 5 kgals or less, 38 percent of the bills are accounted for, but these bills account for only 30 percent of kgals sold. Similarly, at residential consumption levels of 10 kgals or less, approximately 59 percent of the bills are accounted for, while accounting for only 50 percent of kgals sold. In addition, the average residential consumption per month remains high, at approximately 13.9 kgal per month. Therefore, we find that the current water system rate structure shall remain in place. The Utility's current water system rate structure along and our approved rate structure are shown in the table below:

LAKE UTILITY SERVICES, INC.
COMMISSION APPROVED RATE STRUCTURES
FOR THE WATER SYSTEM'S RESIDENTIAL CUSTOMERS
POST-REPRESSION ANALYSIS

Rate Structure and Rates at End of Test Year		Approved Rate Structure and Rates	
Three-tiered inclining block rate structure Usage blocks of: 0-5 kgal, 5.001-10 kgal, 10+ kgals BFC = 20 percent		Three-tiered inclining block rate structure Usage blocks of: 0-5 kgal, 5.001-10 kgal, 10+ kgals BFC = 20 percent	
BFC for 5/8" x 3/4" meter	$8.36	BFC for 5/8" x 3/4" meter	$9.47
0-5 kgals	$1.69	0-5 kgals	$2.31
5.001-10 kgals	$2.12	5.001-10 kgals	$2.65
10+ kgals	$2.54	10+ kgals	$3.98
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		**Cons (kgal)**	
0	$8.36	0	$9.47
5	$16.81	5	$21.03
10	$27.41	10	$34.30
15	$40.11	15	$54.20
20	$52.81	20	$74.10
25	$65.51	25	$94.00

We find that the approved rate structure accomplishes two things. First, the prices are reduced at lower, nondiscretionary levels of consumption. This avoids penalizing those customers whose usage is essential in nature. Second, since customers are sent more aggressive price signals at greater consumption levels, a greater level of conservation can be achieved.

As discussed in above, we find it appropriate to decrease revenues for the Utility's wastewater system; therefore, we do not believe a change in rate structure is appropriate. The Utility's reuse rates were set in the Utility's last rate proceeding, but no reuse kgals have been sold. Therefore, we find that no change to the reuse system rate structure is appropriate at this time.

Therefore, the appropriate rate structure for the Utility's residential water system is a continuation of a three-tiered inclining block rate structure, with usage blocks for monthly usage of: a) 0-5 kgals; b) 5.001-10 kgals; and c) for usage in excess of 10 kgals. The appropriate water system rate structure for the Utility's remaining customer classes is a continuation of the BFC/uniform gallonage charge rate structure. The pre-repression BFC cost recovery percentage shall be set at 20 percent.

As discussed in above, we approved a 5.50 percent revenue requirement reduction to the Utility's wastewater system. We find that this revenue requirement decrease shall be applied across the board to the Utility's wastewater rates, thereby keeping the wastewater system's current BFC/gallonage charge rate structure intact. The residential customers' billing for monthly consumption shall continue to be capped at 10 kgal. The general service gallonage charge shall continue to be 1.2 times greater than the corresponding residential gallonage charge. The appropriate rate structure for the Utility's reuse system is a continuation of the BFC/uniform gallonage charge rate structure.

C. Repression Adjustments

A repression adjustment quantifies changes in consumption patterns in response to an increase in prices. Customers will typically reduce their non-essential consumption (i.e. outdoor irrigation, etc.) in response to price changes, while essential consumption (i.e. indoor uses such as cooking, cleaning, drinking, bathing, etc.) remains relatively unresponsive to price changes.

As discussed above, at residential consumption levels of 5 kgals or less, 38 percent of the bills are accounted for, but these bills account for only 30 percent of kgals sold. Similarly, at residential consumption levels of 10 kgals or less, approximately 59 percent of the bills are accounted for, while accounting for only 50 percent of kgals sold. In addition, the average residential consumption per month remains high, at approximately 13.9 kgals per month. This represents a high degree of non-essential consumption that should be responsive to changes in price.

Therefore, we find that a repression adjustment for the water system is appropriate in this case. Based on our staff's analysis and the application of our approved water system rate structure for the residential class, residential water consumption is expected to be reduced by 9.8 percent. The resulting consumption reduction is approximately 138,062 kgals. Total water consumption for rate setting is 1,337,464 kgals, which represents a 9.8 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are $37,092 in purchased power expense, $13,127 in chemicals expense, and $2,366 in RAFs. The post-repression revenue requirement for the water system is $5,272,674. As discussed above, we find a revenue requirement reduction to the wastewater system. Therefore, no repression adjustment is necessary for that system.

In order to monitor the effect of the rate changes, the Utility shall file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class and meter size. The reports shall be filed with us, on a semi-annual basis, for a period of two years beginning with 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 shall file a revised monthly report for that month within 30 days of any revision.

D. Appropriate Rates for the Utility's Water

The appropriate pre-repression water system revenue requirement, excluding miscellaneous service charges, is $5,325,260. As discussed above, we find that the appropriate rate structure for the residential customer class is the continuation of the three-tiered inclining block rate structure, with usage blocks for monthly consumption of: a) 0-5 kgals; b) 5.001-10 kgals; and c) usage in excess of 10 kgals. We find that the traditional BFC/uniform kgal charge rate structure shall be applied to the Utility's remaining water system customer classes. The BFC cost recovery percentage for the water system shall be set at 20 percent. As discussed we find that a repression adjustment of 138,062 kgals shall be made. Applying these approved results in the final rates contained in Schedule 4-A. These rates are designed to recover annual revenues, excluding miscellaneous service charges, of $5,272,674.

The appropriate wastewater system revenue requirement, after our approved reduction and excluding miscellaneous service charges, is $1,973,435. As discussed above, we find that the appropriate rate structure is a continuation of the Utility's current traditional BFC/kgal charge rate structure for all classes. As discussed previously, we find that no repression adjustment shall be made. The final rates are contained in Schedule 4-B. These rates are designed to recover annual revenues, excluding miscellaneous service charges, of $1,973,435. We find no change is appropriate to the Utility's current reuse rate structure or rates.

The Utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect our approved rates for the respective systems. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

VIII. OTHER ISSUES

A. Water Service Availability Charges

LUSI requested to revise its water service availability charges to increase the main extension charge from $270 to $800, and the plant capacity charge from $270 to $1,783. For Lake Groves, the Utility is requesting to increase the main extension charge from "negotiable" to $800, and the plant capacity charge from $707 to $1,783. In addition, for Lake Groves, LUSI is requesting to increase its meter installation charges for a 5/8" x 3/4" meter from $67 to $150, and for a 1" meter from $114 to $250, so that the charges mirror the present meter installation charges of the other LUSI systems. Service availability charges for water were last approved for LUSI on May 15, 1999. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability policy. Pursuant to the rule, the maximum amount of contributions-in-aid-of-construction (CIAC), net of amortization, shall not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC shall not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

1. Main Extension Charge

The main extension charge is used to pay for the original cost of the water transmission and distribution plant. In the instant case, LUSI's service availability policy requires that additional customers contribute property or donate lines to pay for the cost of the water transmission and distribution plant. However, the main extension charge would allow the Utility to collect the appropriate CIAC from a single property owner in lieu of donating lines in addition to developers who may be installing and donating lines.

In its filing, the Utility listed $18,227,478 for the original cost of the water transmission and distribution plant. This amount represents the minimum amount of CIAC that shall be included in total plant. Hence, according to Rule 25-30.580, F.A.C., the main extension charge shall be designed to collect $18,227,478. Although the total amount of LUSI's proposed service availability charges fall within the guidelines set forth in Rule 25-30.580, F.A.C., we find the charges shall be designed so that the total amount of the original cost of the transmission and distribution plant is allocated to the main extension charge. This cost shall be equally allocated to all ERCs. LUSI determined that the water plant has a design capacity of 12,781 ERCs. As such, we find that the appropriate main extension charge shall be $1,426 per ERC ($18,227,478 ÷ 12,781). The approved main extension charge of $1,426 is consistent with the guidelines in Rule 25-30.580, F.A.C., which require, at a minimum, the cost of the lines shall be contributed.

2. Plant Capacity Charge

The remainder of the CIAC received by the Utility shall be obtained through the plant capacity charge. The balance of CIAC for all of the water plant in service as of June 30, 2010, is $17,040,299. LUSI's proposed service availability charges (both main extension and plant capacity charges) are projected to collect approximately $9,032,750 in additional CIAC through December 31, 2023, which will increase the total amount of CIAC to $26,073,050. The total amount of CIAC, less projected amortization of $13,251,450, is 12,821,600 or 69 percent of the total original cost, less accumulated depreciation, of the Utility's water facilities and plant at its designed capacity. The total amount of revised service availability charges requested by LUSI is $2,583 per ERC. We find that a main extension charge of $1,426 per ERC is appropriate. Therefore, the plant capacity charge shall be the difference between the total amount of CIAC and the main extension charge, or $1,157 ($2,583 - $1,426). The approved plant capacity charge of $1,157 is consistent with the guidelines in Rule 25-30.580, F.A.C.

3. Meter Installation Charges

LUSI is requesting to increase the meter installation charge in Lake Groves for a 5/8" x 3/4" meter from $67 to $150, and for a 1" meter from $114 to $250. Current meter installation charges in the other LUSI systems are $150 for a 5/8" x 3/4" meter and $250 for a 1" meter. The Utility is requesting an increase for only Lake Groves so that the charges mirror the meter installation charges of the other LUSI systems. We find that the meter installation charges are reasonable and shall be approved.

4. Conclusion

We find that the Utility is authorized to revise its water service availability charges as set forth herein. We find that the charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and shall be approved. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised water service availability charges are reflected below.

Type of Charge	Current	Requested	Approved
Main Extension Charge	$270	$800	$1,426
Plant Capacity Charge	$270	$1,783	$1,157
Lake Groves Meter Installation			
5/8" x 3/4"	$67	$150	$150
1"	$114	$250	$250

B. Wastewater Service Availability Charges

In its filing, LUSI did not request to revise its wastewater service availability charges. The Utility's current wastewater service availability charges are set at a negotiable rate for the main extension charge and $558 for the plant capacity charge. We find that the Utility's wastewater main extension charge shall be revised to include a dollar amount of $1,243. Rule 25-30.580, F.A.C., establishes guidelines for designing service availability policy. Pursuant to the rule, the maximum amount of CIAC, net of amortization, shall not exceed 75 percent of the total original cost, net of accumulated depreciation, of the Utility's facilities and plant when the facilities and plant are at their designed capacity. The minimum amount of CIAC shall not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. The main extension charge is used to pay for the original cost of the wastewater sewer collection system. According to LUSI's wastewater service availability policy, the sewer collection system is installed by the developer and contributed to the Utility. However, a main extension charge would allow the Utility to collect the appropriate CIAC from a single property owner in lieu of donating lines in addition to developers who may be installing and donating sewer collection lines.

1. Main Extension Charge

In response to our staff's data request, LUSI provided the necessary information to calculate the appropriate wastewater main extension charge. The Utility listed $5,242,654 for the original cost of the sewer collection system. The majority of this amount was contributed by the developer. This amount represents the minimum amount of CIAC that shall be included in total plant. Hence, according to the guidelines in Rule 25-30.580, F.A.C., the main extension charge shall be designed to collect $5,242,654. This cost shall be equally allocated to all ERCs. LUSI determined that the wastewater plant has a design capacity of 4,217 ERCs. As such, we find that the appropriate wastewater main extension charge shall be $1,243 per ERC ($5,242,654 ÷ 4,217). The approved main extension charge of $1,243 is consistent with the guidelines in Rule 25-30.580, F.A.C., which require at a minimum the cost of the lines shall be contributed.

2. Plant Capacity Charge

The remainder of the CIAC received by the Utility shall be obtained through the plant capacity charge. LUSI's wastewater plant capacity charge is currently $558. We find that it is not necessary to change the plant capacity charge. The approved wastewater service availability charges (both main extension and plant capacity charges) are projected to collect approximately $1,916,497 in additional CIAC through October 30, 2021, which will increase the total amount of CIAC to $12,856,179. The total amount of the wastewater service availability charges approved by us is $1,801 per ERC. The total amount of CIAC, less projected amortization of $8,731,071, is $4,125,108 or 70 percent of the total original cost, less accumulated depreciation, of the Utility's wastewater facilities and plant at its designed capacity. The current wastewater plant capacity charge of $558 is consistent with the guidelines in Rule 25-30.580, F.A.C.

3. Conclusion

We find that it appropriate to revise LUSI's wastewater service availability charges. The approved charges are reasonable and consistent with the guidelines set forth in Rule 25-30.580, F.A.C., and shall be approved. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475, F.A.C. The appropriate revised water service availability charges are reflected below.

Type of Charge	Current	Approved
Main Extension Charge	Negotiable	$1,243
Plant Capacity Charge	$558	$558

C. Interim Refund

By Order No. PSC-11-0149-PCO-WU,[33] we authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim water revenue requirement was $5,502,978, which represented an increase in annual water revenue of $1,332,875 or approximately 32 percent. This interim increase was effective for service rendered after March 6, 2011, and was protected by a corporate undertaking.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended June 30, 2010. LUSI's approved interim water rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the $5,502,978 revenue requirement granted in Order No. PSC-11-0149-PCO-WU for the interim test year is greater than the revised revenue requirement for the interim collection period of $5,286,031. This results in a refund of 3.90 percent. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

D. Amortized Rate Case Expense

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is $75,485 for water and $24,906 for wastewater. The decreased revenue will result in the rate reduction approved by us on Schedule Nos. 4-A and 4-B.

[33] See Order No. PSC-11-0149-PCO-WU.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. LUSI shall provide proof of the date notice was given within 10 days after the date of the notice.

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

E. Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decision, LUSI shall provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Lake Utility Services, Inc.'s application to increased water and wastewater rates is granted in part and denied in part as set out in the body of this Order. It is further

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

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Lake Utility Services, Inc. is hereby authorized to charge the new rates and charges as set forth herein as approved in the body of this Order. It is further

ORDERED that Lake Utility Services, Inc. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule Nos. 4-A, and 4-B. It is further

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

ORDERED that the approved water and reduced wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Lake Utility Services, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Lake Utility Services, Inc. shall file a proposed customer notice to reflect the approved rates and charges. The approved rates and charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. It is further

ORDERED that Lake Utility Services, Inc. shall be authorized to revise its water service ability charges as set forth in the body of this Order. It is further

ORDERED that the approved charges shall be effective for service rendered on or after the stamped approved date of the tariff, pursuant to Rule 25-6.475, F.A.C. It is further

ORDERED that a repression adjustment shall be made for the water system only as set forth in the body of this Order.

ORDERED the Utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports shall be prepared by customer class, usage block, and meter size. The reports shall be filed with us, on a semi-annual basis, for a period of two years beginning with 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 shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the Utility's request to include $250,000 pro forma plant addition for the Oranges to Vistas Raw Water Main Installation is denied. It is further

ORDERED that the $250,000 pro forma plant addition for the Oranges to Vistas Raw Water Main Installation shall not be included in rate base until the project is required by the Florida Department of Environmental Protection, the Utility solicits three bids for the construction of the project, the projects is completed and placed into commercial service, and the actual cost as bid is five percent or less than the estimated cost by CPH Engineers, Inc. It is further

ORDERED that the Utility shall have 24 month form the date of the issuance of this Order to provide our staff the appropriate documentation demonstrating the criteria stated above has been met. Once the criteria have been met, a step increase of $32,837 shall be added to the revenue requirement for water rates and shall be applied across-the-board to all water rates. It is further

ORDERED that the appropriate amount of rate case expense is $329,870. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the rates shall be reduced to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

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

ORDERED that the Utility shall file tariff sheets which are consistent with our vote. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that Lake Utility Services, Inc. shall refund 3.90 percent of revenues collected under interim rates. It is further

ORDERED that the refunds shall be made with interest in accordance with Rule 25-30.360(4), F.A.C., and the Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. It is further

ORDERED that the Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C., and the escrow account shall be released upon staff's verification that the required refunds have been made. It is further

ORDRED that the Utility shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED the provisions of this Order, except for ordering the refund of interim rates, the four-year rate reduction and the requirements of proof of adjustments, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, F.A.C., is received by the Office of the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings." It is further

ORDERED that if no person whose substantial interests are affected by the Proposed Agency Action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. It is further

ORDERED in the event no protest is filed, this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff, and that the refund has been completed and verified by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 3rd day of November, 2011.

Ann Cole

ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

KY

DISSENTS BY: COMMISSIONER BALBIS
COMMISSIONER BROWN

COMMISSIONER BALBIS dissents on the following issue without opinion: *Directors and Officers Liability Insurance Expense.*

COMMISSIONER BROWN, dissenting with opinion as follows:

I respectfully dissent with the majority as to the issue of directors and officers liability (DOL) insurance expense with the 50/50 allocation of expense.

Directors and officers liability insurance is an elective coverage that serves to protect the individual shareholders without any direct benefit to the ratepayers. In four prior water cases,[34]

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[34] See Order Nos. PSC-09-0385-FOF-WS, p. 81, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.; Order No. PSC-07-0505-SC-WS, p.44, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties

the Commission disallowed DOL insurance expense for the reason that there was no primary benefit to the ratepayers, since the purpose of DOL insurance was to act as a safety net for the utility's shareholders.

It is the utility's burden to show that its requested expenses are reasonable, Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (1982). When questioned, the utility was unable to identify any direct benefit to its ratepayers.[35] Since Lake Utility Services, Inc. (LUSI) did not provide any evidence to support this expense, it is not appropriate that the cost should be borne by the ratepayers.

In prior electric cases,[36] the Commission allowed DOL insurance expense on the basis that it had become a necessary part of doing business and was a factor in attracting and retaining competent directors and officers. Water cases are distinct from electric in that the utilities are smaller, resulting in a smaller customer base over which to spread any rate increase.

For purposes of consistency with past water cases and due to the fact that LUSI failed to meet its burden, the DOL expense should not be allowed as this is an expense that has no direct benefit to the ratepayers.

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by Utilities, Inc. of Florida.; Order No. PSC-03-1440-FOF-WS, p.84, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.; and Order No. PSC-99-1912-FOF-SU, pp. 22-25, issued September 27, 1999, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

[35] October 4, 2011, Agenda Conference Transcript, Item No. 9 at 106.

[36] See Order Nos. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company, p. 64; and Order No. PSC-10-0131-FOF-EI, issued March 5, 2010, in Docket No. 090079-EI, In re: Petition for increase in rates by Progress Energy Florida, Inc., pp. 98-99

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action, except for the actions ordering the refund of interim rates, approving a four-year rate reduction, and requiring proof of adjustments to books and records, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 24, 2011. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Lake Utility Services, Inc. Schedule of Water Rate Base Test Year Ended 6/30/10						Schedule No. 1-A Docket No. 100426-WS
	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year
1	Plant in Service	$43,784,217	($7,354,922)	$36,429,295	($288,101)	$36,141,194
2	Land and Land Rights	117,081	(975)	116,106	0	116,106
3	Construction Work in Progress	636,275	(636,275)	0	0	0
4	Accumulated Depreciation	(6,457,866)	410,111	(6,047,755)	365,344	(5,682,411)
5	CIAC	(17,058,144)	17,845	(17,040,299)	(10,646)	(17,050,945)
6	Amortization of CIAC	3,866,668	(3,151)	3,863,517	104	3,863,621
7	Working Capital Allowance	0	819,746	819,746	(184,858)	634,888
8	Rate Base	$24,888,231	($6,747,621)	$18,140,610	($118,157)	$18,022,453

Lake Utility Services, Inc. Schedule of Wastewater Rate Base Test Year Ended 6/30/2010						Schedule No. 1-B Docket No. 100426-WS
	Description	**Test Year Per Utility**	**Utility Adjust-ments**	**Adjusted Test Year Per Utility**	**Commission Adjust-ments**	**Commission Adjusted Test Year**
1	Plant in Service	$13,650,545	$4,438,937	$18,089,482	($49,586)	$18,039,896
2	Land and Land Rights	397,641	(371,396)	26,245	0	26,245
3	Non-used and Useful Components	0	(343,626)	(343,626)	(1,385,522)	(1,729,148)
4	Accumulated Depreciation	(2,707,904)	(133,904)	(2,841,808)	37,045	(2,804,763)
5	CIAC	(10,894,397)	(45,285)	(10,939,682)	32,579	(10,907,103)
6	Amortization of CIAC	1,767,524	194,418	1,961,942	(2,402)	1,959,540
7	CWIP	(398,327)	398,327	0	0	0
8	Advances for Construction	(38,400)	38,400	0	0	0
9	Working Capital Allowance	0	270,487	270,487	(60,997)	209,490
10	Rate Base	$1,776,682	$4,446,358	$6,223,040	($1,428,883)	$4,794,157

Lake Utility Services, Inc. | **Schedule No. 1-C**
Adjustments to Rate Base | **Docket No. 100426-WS**
Test Year Ended 6/30/10

	Explanation	Water	Wastewater
	Plant In Service		
1	Audit Finding No. 1 - Expenses recorded as plant.	($8,709)	($19,175)
2	Audit Finding No. 2 - Reflect plant retirements.	(123,772)	(24,150)
3	Audit Finding No. 5 - Correct plant error.	219	0
4	Audit Finding No. 13 - Capital projects expensed.	236	0
5	Affiliated Audit Finding No. 1.	(171)	(56)
6	Affiliated Audit Finding No. 2 - Phoenix Project.	(56,028)	(18,487)
7	Affiliated Audit Finding No. 7 - Capitalized salaries.	(25,662)	(8,468)
8	Reflect appropriate amount for Phoenix Project.	(24,423)	(8,059)
9	Reflect appropriate pro forma plant items.	(49,791)	28,808
	Total	($288,101)	($49,586)
	Non-used and Useful		
	To reflect net non-used and useful adjustment.	$0	($1,385,522)
	Accumulated Depreciation		
1	Audit Finding No. 1 - Expenses recorded as plant.	$658	$1,034
2	Audit Finding No. 2 - Reflect plant retirements.	129,035	25,581
3	Audit Finding No. 6 - Correct accumulated depreciation error.	170,515	0
4	Audit Finding No. 13 - Capital projects expensed.	705	0
5	Affiliated Audit Finding No. 1 - Expenses recorded as plant.	8	3
6	Affiliated Audit Finding No. 7 - Capitalized salaries.	695	227
7	Affiliated Audit Finding No. 2 - Phoenix Project Adjustment.	5,603	1,849
8	Affiliated Audit Finding No. 3 - Depreciation of Phoenix Project.	27,867	9,194
9	Adjust Phoenix Project for 2010 Divestures.	2,300	759
10	Reflect appropriate pro forma accumulated depreciation.	27,959	(1,602)
	Total	$365,344	$37,045
	CIAC		
	Audit Finding No. 7 – Correct Utility errors in CIAC.	($10,646)	$32,579
	Accumulated Amortization of CIAC		
	Audit Finding No. 7 - Correct Utility errors in CIAC amort.	$104	($2,402)
	Working Capital		
1	Average Deferred Rate Case Expense.	($184,859)	($60,997)
2	Appropriate Miscellaneous Deferred Debits.	0	0
	Total	($184,859)	($60,997)

Lake Utility Services, Inc. | **Schedule No. 2**
Capital Structure-13-Month Average | **Docket No. 100426-WS**
Test Year Ended 6/30/10

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Pro rata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($168,398,745)	$11,601,255	47.62%	6.65%	3.17%
2	Short-term Debt	29,629,231	0	29,629,231	(27,718,578)	1,910,653	7.84%	4.28%	0.34%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	164,142,503	0	164,142,503	(153,560,424)	10,582,079	43.43%	10.55%	4.58%
5	Customer Deposits	111,811	0	111,811	0	111,811	0.46%	6.00%	0.03%
6	Deferred Income Taxes	157,852	0	157,852	0	157,852	0.65%	0.00%	0.00%
7	**Total Capital**	$374,041,397	$0	$374,041,397	($349,677,747)	$24,363,650	100.00%		8.12%
Per Commission									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($169,141,901)	$10,858,099	47.59%	6.65%	3.16%
9	Short-term Debt	29,629,231	0	29,629,231	(27,841,914)	1,787,317	7.83%	3.17%	0.25%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	164,142,503	0	164,142,503	(154,240,972)	9,901,531	43.40%	10.80%	4.69%
12	Customer Deposits	111,811	0	111,811	0	111,811	0.49%	6.00%	0.03%
13	Deferred Income Taxes	157,852	0	157,852	0	157,852	0.69%	0.00%	0.00%
14	**Total Capital**	$374,041,397	$0	$374,041,397	($351,224,787)	$22,816,610	100.00%		8.13%

	LOW	**HIGH**
RETURN ON EQUITY	9.80%	11.80%
OVERALL RATE OF RETURN	7.70%	8.56%

Lake Utility Services, Inc.
Statement of Water Operations
Test Year Ended 6/30/10

Schedule No. 3-A
Docket No. 100426-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$4,185,151	$1,655,281	$5,840,432	($1,531,762)	$4,308,670	$1,107,533	$5,416,202
							25.70%	
	Operating Expenses							
2	Operation & Maintenance	$2,583,569	($176,677)	$2,406,892	($326,672)	$2,080,220		$2,080,220
3	Depreciation	705,108	79,473	784,581	(24,611)	759,970		759,970
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	845,645	(172,199)	673,446	(121,484)	551,962	49,839	601,801
6	Income Taxes	(7,906)	510,336	502,430	(391,000)	111,430	398,010	509,440
7	**Total Operating Expense**	$4,126,416	$240,933	$4,367,349	($863,767)	$3,503,582	$447,849	$3,951,431
8	**Operating Income**	$58,735	$1,414,348	$1,473,083	($667,996)	$805,087	$659,684	$1,464,771
9	**Rate Base**	$24,888,231		$18,140,610		$18,022,453		$18,022,453
10	**Rate of Return**	0.24%		8.12%		4.47%		8.13%

Lake Utility Services, Inc.
Statement of Wastewater Operations
Test Year Ended 6/30/10

Schedule No. 3-B
Docket No. 100426-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year	Revenue Decrease	Revenue Requirement
1	**Operating Revenues:**	$2,059,060	$285,166	$2,344,226	($243,217)	$2,101,009	($115,630)	$1,985,379
							-5.50%	
	Operating Expenses							
2	Operation & Maintenance	$358,331	$545,880	$904,211	($123,262)	$780,949		$780,949
3	Depreciation	617,123	(76,277)	540,846	(105,180)	435,666		435,666
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	0	221,481	221,481	27,327	248,808	(5,203)	243,604
6	Income Taxes	(2,609)	174,974	172,365	4,705	177,070	(41,554)	135,516
7	**Total Operating Expense**	$972,845	$866,058	$1,838,903	($196,411)	$1,642,492	($46,757)	$1,595,735
8	**Operating Income**	$1,086,215	($580,892)	$505,323	($46,806)	$458,517	($68,873)	$389,644
9	**Rate Base**	$1,776,682		$6,223,040		$4,794,157		$4,794,157
10	**Rate of Return**	61.14%		8.12%		9.56%		8.13%

	Lake Utility Services, Inc. **Adjustment to Operating Income** **Test Year Ended 6/30/10**	**Schedule No. 3-C** **Docket No. 100426-WS**	
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase.	($1,606,673)	($247,262)
2	Audit Finding No. 10 - Correct misclassification of revenues.	1,946	0
3	Income from Utility Plant Leased to Others.	12,261	4,045
4	Revenue adjustment for improved metering accuracy.	60,704	0
	Total	($1,531,762)	($243,217)
	Operation and Maintenance Expense		
1	Audit Finding No. 11 - Remove non-recurring.	($8,733)	($1,698)
2	Audit Finding No. 12 - Prior Commission-ordered adjustment.	(104,984)	(62,290)
3	Audit Finding No. 13 - Reclassify plant items.	(2,450)	0
4	Audit Finding No. 14 - Remove all lobbying expenses.	(654)	(103)
5	Affiliated Audit Finding No. 4 - Prepaid - Other Expenses.	(3,930)	(1,297)
6	Affiliated Audit Finding No. 9 - Removal of Operating Expenses.	(3,629)	(1,197)
7	Reflect appropriate O&M expenses due to EUW adjustment.	(30,604)	0
8	Reflect appropriate salaries.	(62,658)	(20,674)
9	Reflect appropriate pension & benefits.	(48,411)	(15,972)
10	Reflect appropriate amount for D&O liability insurance.	(1,828)	(603)
11	Reflect appropriate amount of bad debt expense.	(36,454)	(12,058)
12	Reflect appropriate amount of rate case expense.	(22,337)	(7,370)
	Total	($326,672)	($123,262)
	Depreciation Expense – Net		
1	Audit Finding No. 1 - Expenses recorded as plant.	($442)	($1,048)
2	Audit Finding No. 2 - Reflect plant retirements.	(4,435)	(1,389)
3	Audit Finding No. 7 - Correct Utility errors in CIAC amort.	(288)	1,134
4	Audit Finding No. 13 - Capital projects expensed.	6	0
5	Affiliated Audit Finding No. 1 - Expenses recorded as plant.	(16)	(5)
6	Affiliated Audit Finding No. 7 - Capitalized salaries.	(1,390)	(455)
7	Affiliated Audit Finding No. 2 - Phoenix Project Adjustment.	(5,603)	(1,849)
8	Affiliated Audit Finding No. 3 - Depreciation of Phoenix Project.	(18,829)	(6,213)
9	Adjust Phoenix Project for 2010 Divestures.	(2,300)	(759)
10	Reflect appropriate pro forma depreciation expense.	8,686	1,602
11	Remove net depreciation on non-U&U adjustment above.	0	(96,198)
	Total	($24,611)	($105,180)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($68,929)	($10,945)
2	Audit Finding No. 15 - Allocation of Personal Property.	(45,551)	45,551
3	Reflect appropriate pro forma property taxes.	(918)	1,316
4	To remove non-U&U property taxes.	0	(6,588)
5	Reflect appropriate payroll taxes.	(6,085)	(2,008)
	Total	($121,484)	$27,327

Lake Utility Services, Inc. **Schedule No. 4-A**
Water Monthly Service Rates **Docket No. 100426-WS**
Test Year Ended 6/30/10

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential and Multi-Family					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.48	$11.08	$11.74	$9.47	$0.12
1"	$21.21	$27.71	$29.36	$23.68	$0.30
1-1/2"	$42.41	$55.40	$58.71	$47.35	$0.59
2"	$67.85	$88.63	$93.93	$75.76	$0.95
3"	$135.71	$177.27	$187.88	$151.52	$1.89
4"	$212.03	$276.97	$293.53	$236.75	$2.95
6"	$424.06	$553.95	$587.07	$473.50	$5.91
8"	$763.32	$997.12	$1,056.74	$852.30	$10.63
10"	$1,229.73	$1,606.45	$1,702.52	$1,373.15	$17.13
Gallonage Charge (per 1,000)					
0 - 5,000 Gallons	$1.72	$2.24	$2.38	$2.31	$0.03
5,001 - 10,000 Gallons	$2.15	$2.81	$2.98	$2.65	$0.03
Over 10,000 Gallons	$2.58	$3.37	$3.57	$3.98	$0.05
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$8.48	$11.08	$11.74	$9.47	$0.12
1"	$21.21	$27.71	$29.36	$23.68	$0.30
1-1/2"	$42.41	$55.40	$58.71	$47.35	$0.59
2"	$67.85	$88.63	$93.93	$75.76	$0.95
3"	$135.71	$177.27	$187.88	$151.52	$1.89
4"	$212.03	$276.97	$293.53	$236.75	$2.95
6"	$424.06	$553.95	$587.07	$473.50	$5.91
8"	$763.32	$997.12	$1,056.74	$852.30	$10.63
10"	$1,229.73	$1,606.45	$1,702.52	$1,373.15	$17.13
Gallonage Charge (per 1,000)	$2.32	$3.04	$3.21	$3.13	$0.04
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$13.64	$17.80	$18.88	$16.40	
5,000 Gallons	$19.23	$25.13	$26.64	$21.02	
10,000 Gallons	$29.98	$39.18	$41.54	$34.27	

Lake Utility Services, Inc. | **Schedule No. 4-B**
Wastewater Monthly Service Rates | **Docket No. 100426-WS**
Test Year Ended 6/30/10

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential					
Base Facility Charge - all meter sizes	$24.57	n/a	$27.48	$23.22	$0.26
Gallonage Charge - Per kgal (10 kgal cap)	$4.48	n/a	$5.01	$4.23	$0.05
Multi-Family and General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$24.57	n/a	$27.48	$23.22	$0.26
1"	$61.44	n/a	$68.71	$58.06	$0.65
1-1/2"	$122.87	n/a	$137.41	$116.11	$1.30
2"	$196.60	n/a	$219.86	$185.79	$2.09
3"	$393.21	n/a	$439.73	$371.58	$4.17
4"	$614.38	n/a	$687.06	$580.59	$6.52
6"	$1,228.78	n/a	$1,374.14	$1,161.20	$13.04
8"	$2,211.79	n/a	$2,473.44	$2,090.14	$23.47
10"	$3,563.46	n/a	$3,985.02	$3,367.47	$37.81
Gallonage Charge - Per 1,000 gallons (10,000 gallon cap)	$5.39	n/a	$6.02	$5.09	$0.06
Irrigation Quality Reuse Services					
Base Facility Charge					
Residential Service - all meter sizes	$7.36	n/a	$8.23	$7.36	$0.08
General Service - all meter sizes	$7.36	n/a	$8.23	$7.36	$0.08
Irrigation Quality Reuse - Residential	$1.10	n/a	$1.23	$1.10	$0.01
Irrigation Quality Reuse - General Service	$1.10	n/a	$1.23	$1.10	$0.01
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$38.01	n/a	$42.51	$35.92	
5,000 Gallons	$46.97	n/a	$52.53	$44.39	
10,000 Gallons	$69.37	n/a	$77.58	$65.55	
(Wastewater Gallonage Cap - 10,000 Gallons)					