

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 23, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Biggins, Lingo, Massoudi, Rendell, Willis)
Office of the General Counsel (Jaeger)

RE: Docket No. 050449-WU – Application for staff-assisted rate case in Pasco County
by Dixie Groves Utility Company.

AGENDA: 04/04/06 – Regular Agenda – Proposed Agency Action Except for Issues 14 and
15 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Carter

CRITICAL DATES: 11/26/06 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050449.RCM.DOC

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Case Background

Dixie Groves Estates, Inc. (Dixie Groves or utility) is a Class C water utility located in Pasco County serving approximately 338 water customers. The utility was issued Water Certificate No. 139-W pursuant to Order No. 5740, issued May 7, 1973, in Docket No. C-73191-W, In Re: Application of Dixie Groves Estates, Inc. for Certificate to Operate an Existing Water System In Pasco County. Dixie Groves is located in the Southwest Florida Water Management District (SWFWMD or District). This particular area of the SWFWMD is in the Tampa Bay Water Use Caution Area. Wastewater service is provided by Pasco County Utilities. The utility's 2004 annual report reflects operating revenues of \$54,410 and an operating loss of (\$11,432).

By Order No. PSC-04-0338-PAA-WU, issued March 31, 2004 in Docket No. 030656-WU, In Re: Application for transfer of facilities and Certificate No. 139-W in Pasco County from Dixie Groves Estates, Inc. to Dixie Groves Utility Company a Division of Community Utilities of Florida Inc., the Commission approved the transfer of the facilities of Dixie Groves Estates, Inc. to Dixie Groves Utility Company a Division of Community Utilities of Florida, Inc. The utility is managed by U.S. Water Services Corporation.

Dixie Groves filed its application for a staff assisted rate case on June 29, 2005. The official date of filing was established as August 26, 2005.

A customer meeting was held on February 15, 2006 in New Port Richey, Florida.

The Commission has jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes.

Discussion of Issues

Issue 1: Is the quality of service provided by Dixie Groves Utility Company considered satisfactory?

Recommendation: Yes. The quality of service provided by Dixie Groves Utility Company should be considered satisfactory. (Massoudi)

Staff Analysis: Rule 25-30.433(1), F.A.C., states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components based on the information available.

Dixie Groves is a Class C water utility which provides water service to approximately 338 customers in Pasco.

QUALITY OF UTILITY'S PRODUCT

The water treatment plants (WTPs) at Dixie Groves are regulated by the Department of Environmental Protection (DEP). The DEP inspected the Dixie Groves WTP on March 26, 2004. The utility has conformed to all testing and chemical analyses required by DEP and the test results have been satisfactory. The quality of the water service appears to meet or exceed the regulatory standards and is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. According to the DEP's letter dated March 26, 2004, the DEP's inspector observed a few deficiencies during his site inspection. The deficiencies are as follows:

1. Provide update cross connection control and bacteriological sampling plans (Chapter 62-555.360 F.A.C.).
2. Provide a fence with lockable access gates around the storage tank (Chapter 62-555.320(5) F.A.C.).
3. Verify the tank sizes and well information.

4. WTP tanks have areas of rust. Those must be resurfaced or repainted as necessary (Chapter 62-555.350 F.A.C.)

The utility has corrected deficiencies No. 1, 2, and 3. Regarding deficiency No. 4, in February 2005, the utility replaced the old hydropneumatic tank (pressure tank) for Well No. 3 with a new tank of the same design and capacity. The utility also intends to replace the old 1,500 gallon pressure tank for Well No. 2 with a new 3,000 gallon pressure tank. The utility proposed a capital improvement plan for solving this problem. This issue is explained in Issue 3.

On February 15, 2005, Mr. Allen Zabel, President of the Dixie Groves Homeowners Association (HOA) filed complaint No. 642278W regarding the Dixie Groves water distribution system due to contamination and age of the water mains. On February 16, 2005, as a follow up, he also wrote a complaint letter to the Commission. In his letter, he stated that all of the residents in the community feel that the water supply is contaminated with asbestos and corroded galvanized pipe. No one feels that this water supply is drinkable, or even good for cooking and bathing. Mr. Zabel, also stated that all residents agree that the utility should replace all distribution systems. He also stated that they feel that U.S. Water, the management company, was ignoring them. He asked the Commission to help regarding this issue.

According to the DEP's documents and e-mails, on February 28, 2005, Mr. Zabel also called the Pasco County Department of Health (DOH) and complained about their contaminated drinking water. Mr. Zabel told the DOH's staff that some of the Dixie Groves residents have been advised by their doctors not to bathe in the water at their homes. This issue was referred to DEP immediately. The DEP's inspector assured Mr. Zabel that all test results indicated that the Dixie Groves water is satisfactory and they are not in any violation.

According to the utility's letter dated March 4, 2005 to the Commission, Mr. Deremer, President of U.S. Water met with Mr. Zabel on March 1, 2005, and outlined the utility's plans to resolve all customers concerns.

According to the utility's letter dated March 17, 2005 to the Commission, Mr. Deremer attended Dixie Groves HOA's meeting on March 10, 2005, and explained to all residents his proposed system improvements and related financing options. According to Mr. Zabel's letter dated March 12, 2005 to U.S Water Services, Mr. Zabel confirmed that the majority of those residents who attended the meeting on March 10, 2005, agreed that the utility should proceed to install the new water distribution system without the fire hydrants and to pave the roadways after the lines were installed.

On December 2, 2005, the utility informed staff that the Pasco County Fire Marshal required that all new utilities or substantially modified water systems be designed to meet the fire protection standards of Pasco County. According to Mr. Zabel's letter dated January 24, 2006 to the utility, HOA held another meeting on January 21, 2006 regarding installing the fire hydrants and replacement of the existing lines at Dixie Groves' service area. Mr. Zabel's letter confirmed that the majority of those residents who attended the meeting voted unanimously in favor of replacement of all the existing water distribution system and the fire hydrants at Dixie Groves. Also, Mr. Zabel's letter indicated that all customers believe that the replacement of the

pipng would be the most prudent option and would result in significantly improving the water quality and the service reliability of the water distribution system.

Now, based on the HOA's agreement, the utility is proposing to replace the entire distribution system and to install 22 fire hydrants in Dixie Groves. In order for the utility to meet the Pasco County fire flow requirement, which is 500 gallons per minutes for the residential, the utility has submitted a request for interconnection with the Pasco County water system. If Pasco County rejects this interconnection project, the utility will pursue the installation of a storage tank for the fire protection. The utility indicated that the interconnection with Pasco County would be more economic and cost much less than to install a storage tank.

Maintenance at the plant-site appeared to have been given adequate attention. The utility is trying to improve the operational conditions and has completed all improvements to the system that are necessary to satisfy the standards set by the DEP.

Consumptive use in Pasco County is permitted by the SWFWMD. The utility obtained its Water Use Permit No. 20007718.002 from the water management office on February 14, 2002, and the permit will expire on October 19, 2013.

All things considered, the operational conditions at the water plant should be considered satisfactory at this time.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

A customer meeting was held on February 15, 2006 in the New Port Richey City Hall in New Port Richey, Florida. The meeting was open to all customers at 5:00 p.m. There were four customers and four representatives from the utility that attended this meeting. One customer (resident of the Dixie Garden Loop) that went on record with comments and concerns about the utility. The customer was concerned about the proposed rate increase and the reading of his water meter.

Regarding the rate increase, staff explained to the customer that the major cost of this rate increase is for the replacement of the entire distribution system in Dixie Groves. Staff also mentioned that the utility provided a letter dated January 24, 2006, from Mr. Allen Zabel, President of the Dixie Groves HOA. In the letter Mr. Zabel states that the majority of those residents who attended its meetings agreed that a new water distribution system should be installed due to the contamination and age of the water mains. The customer said he is not a member of the HOA.

Regarding the meter reading, the customer indicated that since his water meter is covered by a heavy concrete meter box, he believes that the utility was not able to read his meter. As a result, he questioned whether the utility was billing him accurately.

According to the utility's letter dated February 17, 2006 to staff, the utility immediately investigated the customer's concern regarding the meter box. In this letter, the utility stated that it observed that the customer's meter had a heavy concrete box but that the box had two one sided meters (one for the customer and one for the next door neighbor). The utility also stated

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that though it is difficult to read the customer's meter and the reader must lean down on his knee in order to read the meter, the reader is able to read the meter without removing the lid. The utility stated that based on the customer's or the customer's neighbor's billing history, neither customer has been billed on estimated usage.

Although the meters can be read, the utility has issued a work order to replace the meter box with a more conventional box having a full opening top. This work should be completed within ten days, and will not affect the customer's billing.

Based on the above, staff believes that the owner is making a good faith effort to resolve customer complaints, and the quality of service should be considered satisfactory.

Issue 2: Does the utility have excessive unaccounted for water and, if so, what adjustments should be made?

Recommendation: Yes. The utility had approximately 3.58% excessive unaccounted for water during the test year period. Therefore, allowable expenses for purchased electricity and chemicals should be reduced by 3.58% for the water treatment plant during the test year period. (Massoudi)

Staff Analysis: It is Commission practice to allow 10% of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc.

The total treated water pumped from the wells was compared with the total water sold to the customers. The total unaccounted for water was determined to be 3.87 gpm. The reasonable unaccounted amount (10% of average daily flow) was determined to be 2.85 gpm. Therefore, the excessive unaccounted for water was calculated to be 1.02 gpm which is 3.58%. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. It appears that a portion of the unmetered water is a result of the number of cracks and leaks between the distribution system and the service connection meter. The utility's owner intends to replace the distribution system in Dixie Groves in order to prevent the water losses through the water distribution system. Also, the utility has already replaced some of the water meters in the last 12 months which has reduced the water loss noticeably. Because of these meters and entire distribution system replacement, staff believes excessive unaccounted water will be zero in year 2006.

Issue 3: Should the Commission approve a year-end rate base for this utility?

Recommendation: Yes, the Commission should approve a year-end rate base for this utility to allow it an opportunity to earn a fair return on the utility investment made during the test year and to insure compensatory rates on a prospective basis. (Biggins)

Staff Analysis: As discussed in the case background, the utility was purchased by its current owner prior to the test year. The new owners purchased an old system which was in need of major repairs. During the test year, the utility made improvements to the water treatment plant. The cost associated with the improvements and upgrades represent over 33% of its net water plant in service. In order to allow the utility an opportunity to recover the amount spent on plant improvements, the utility should be allowed a year-end rate base.

The Commission has the authority to apply a year-end rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254 (Fla. 1978). Historically, it has only been applied in extraordinary circumstances. Staff believes that extraordinary circumstance exist in this docket because the utility has made water system improvements representing over 33% of its total water utility plant. See Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, In Re: Application for staff-assisted rate case in Marion County by BFF Corp. (Improvements representing 36.07% of total plant deemed extraordinary circumstances).

The utility is planning on replacing its entire water distribution system. Staff believes that these improvements benefit existing customers. Further, staff believes that not allowing the full cost of these improvements in rates would prevent the utility from meeting its debt cost. Also, this would not encourage the utility to make future investments in plant, and might result in the utility immediately filing for another rate increase. Further, as discussed above, staff believes that the magnitude of the improvements represent extraordinary circumstances which the Commission has used in the past to justify a year-end rate base.

Based on the above, staff believes that a year-end rate base for this utility should be approved. A year-end rate base will allow this utility an opportunity to earn a fair return on its investment made during the test year and to insure compensatory rates on a prospective basis.

Issue 4: What portions of Dixie Groves Utility Company, Inc. are used and useful?

Recommendation: Both the water treatment plants and water distribution systems should be considered 100% used and useful for Phase I period. The water distribution systems should be considered 97.5% used and useful for Phase II period which is the pro forma. (Massoudi)

Staff Analysis:

Water Treatment Plant

Dixie Groves has two water treatment plants with two active wells which are interconnected via pressure switches. This water system is a closed system. These two production wells are designated as Well Nos. 2 and 3. Well No. 2 is the main well and operates 24 hours per day and 7 days per week. Well No. 3 is considered as a standby well. The switches are located at each well. As the demand increases, the pressure drop triggers the pumps to come on and sustain peak usage. Well No. 2 has a diameter of six inches equipped with a 15 horsepower (hp) submersible pump with a capacity of 137 gpm. Well No. 3 has a diameter of four inches equipped with a three horsepower (hp) submersible pump with a capacity of 57 gpm. There is another well in the utility's water system known as Well No. 1 which is not active and is not working. The raw water from the Well No. 2 is pumped into a 1,500-gallon hydropneumatic tank and the water from Well No. 3 is pumped into a 3,000-gallon hydropneumatic tank. The raw water from these two operating wells is currently pumped into the hydropneumatic tanks after receiving chlorination by using liquid sodium hypochlorite solution. The treated water from the tanks is then pumped into the water distribution system. There is no fire hydrant within the distribution system.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. Deleting the capacity of Well No. 2 (137 gpm), and considering the capacity of Well No. 3 (57 gpm and no usable storage), the firm reliable capacity of the water plant was determined to be 57 gpm.

During the 12-month test-year review period, the peak month of water usage occurred during May 2005. The maximum day in that maximum month was 38.19 gpm. Since the water plant is a closed system operation having one hydro-tank (no storage tank), the actual peak hours of the maximum days should be considered. Therefore, the actual peak hours $\{2 \times (\text{Maximum day} - \text{excessive unaccounted water})\}$ was used in the used and useful formula. The average daily flow was 28.52 gpm. Since there is no fire hydrant within the distribution system, the fire flow is considered zero gpm in the calculations. A regression analysis was performed to anticipate a growth of two ERCs for the next year which calculates a projection of 2.23 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., Florida Statutes. The excessive unaccounted for water was calculated to be 1.02 gpm which was 3.58%. Therefore, it is recommended that the used and useful for the water treatment plant should be 100% (Attachment A, Page 1 of 3).

Water Distribution System

The water distribution system had the potential of serving 341 customers (estimated to be 344 ERCs) in 2004. The utility has installed a new connection for nine home owners who had private wells (estimated to be nine ERCs) in 2005. Currently, these nine home owners are not receiving water service from the utility. Therefore, the water distribution system has the potential of serving 350 customers (estimated to be 353 ERCs). The average number of customers served during the test year was 340 customers (estimated to be 342 ERCs). A regression analysis of growth over the past five years indicates that next years growth would be two ERCs per year. When the two ERCs are applied to the statutory growth period, the future growth is calculated to be ten ERCs. By the formula approach, staff calculates the distribution system to be 99.7% used and useful. Since the service area is built out, staff recommends that the used and useful percentage for the water distribution system be 100% (Attachment A, page 2 of 3).

USED AND USEFUL FOR PRO FORMA ITEMS

Water Distribution System

The existing water distribution system at Dixie Groves was built in the 1950's and consists of a combination of both asbestos cement piping and galvanized iron piping. Over the past fifty years, this piping has deteriorated significantly and is currently in poor condition. Also, a notice of non-compliance was generated by the SWFWMD on February 8, 2001, as a result of apparent discrepancies between the permitted daily average withdrawal amounts and the actual withdrawals reported to the District. As a result, the District requested a complete evaluation of these discrepancies and the water distribution system, followed by remedial measures to reduce pumpage rates to acceptable levels below the maximum allowable permitted limits. Based on an assessment, it was determined that there is a significant number of cracks and leaks between the distribution system and the service connection meter. Also, it was found that the high degree of corrosion in the piping has also resulted in significantly reducing the inside diameter of the piping due to the deposition and accumulation of iron oxides on the inside surfaces of the pipes.

The utility is proposing to replace the entire distribution system in Dixie Groves. Also, the utility intends to run the new distribution systems for the rest of the customers (11 customers) that have private wells.

The new water distribution system will have the potential of serving 361 customers (estimated to be 364 ERCs). The average number of customers that will be served during the pro forma period is estimated to be 345 ERCs. A regression analysis of growth over the past five years indicates that next year's growth would be two ERCs per year. When the two ERCs are applied to the statutory growth period, the future growth is calculated to be ten ERCs. Using the formula approach, staff calculates the distribution system to be 97.5% used and useful (Attachment A, page 3 of 3).

Issue 5: What is the appropriate year-end test year rate base for this utility?

Recommendation: The appropriate year-end test year rate base for this utility is \$70,078 for water. (Biggins)

Staff Analysis: The utility's rate base was last established by Order No. PSC-99-0243-FOF-WU, issued February 9, 1999, in Docket No. 980726-WU, In Re: Application of Staff Assisted Rate Case by Dixie Groves Estates, Inc., for staff assistance on a rate increase to its customers in Pasco County, Florida.

Staff has selected a test year ended May 31, 2005 for this rate case. Rate base components established in Order No. PSC-99-0243-FOF-WU have been updated through May 31, 2005, using information obtained from staff's audit and engineering reports. Because staff is using a year-end test year, averaging adjustments will not be made. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The utility recorded \$129,341 for water for the test year ending May 31, 2005. The utility's plant in service was last determined by Order No. PSC-04-0338-PAA-WU. A review of plant additions for the audit period revealed that items for the period January to May 2005, were not recorded on the books. Also, the retirements of the replaced items were not recorded on the books. Staff has decreased this account by \$19,528 to reflect plant additions and plant retirements since December 31, 2002. Staff's recommended UPIS balance is \$109,813.

Contributions in Aid of Construction (CIAC): The utility recorded CIAC of \$10,330 for the test year ended May 31, 2005. Per Audit Disclosure No. 4, the utility recorded CIAC as revenues. Staff has made an adjustment to increase this account by \$3,687 to reflect CIAC recorded as revenues. Staff has calculated CIAC to be \$14,017.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$62,986 for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Therefore, staff has decreased this account by \$17,632 to reflect depreciation calculated per staff. Staff recommends an accumulated depreciation balance for the year-end test year of \$45,354.

Amortization of CIAC: The utility recorded \$10,330 for amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$66 to reflect amortization of CIAC as calculated by staff. Staff's recommends amortization of CIAC balance for the year-end test year of \$10,396.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C. staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$8,029 (based on O&M of \$64,235). Working capital has been increased by \$8,029 to reflect one-eighth of staff's recommended O&M expenses.

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Rate Base Summary: Based on the forgoing, staff recommends that the appropriate year-end test year rate base is a positive \$70,078.

A calculation of rate base is shown on Schedule No. 1.

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Issue 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

Recommendation: The appropriate return on equity is 10.00% with a range of 9.00% - 11.00%. The appropriate overall rate of return is 9.39%. (Biggins)

Staff Analysis: Using the leverage formula approved by Order No. PSC-05-0680-PAA-WS issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 10.00%.

The utility's cost of debt is 9.00% for the \$38,708 loan. The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 10.00% with a range of 9.00 – 11.00%, and an overall rate of return of 9.39%.

The return on equity and overall rate of return are shown on Schedule No. 2.

Issue 7: What is the appropriate year-end test year revenue?

Recommendation: The appropriate year-end test year revenue for this utility is \$58,571 for water. (Biggins)

Staff Analysis: Per Audit Disclosure No. 4, the utility recorded total revenues of \$62,258 for the 12-month period ended May 31, 2005. During the audit, the auditor discovered that the utility overstated its revenues for January, March, and May for other water revenues by recording CIAC in the amount of \$3,687. Therefore, staff decreased revenues by \$3,687. Staff recommends year-end test year revenue of \$58,571 for water.

Test year revenue is shown on Schedule No. 3 The related adjustments are shown on Schedule No. 3-A

Issue 8: What is the appropriate amount of operating expenses?

Recommendation: The appropriate amount of operating expense for the utility is \$72,766 for water. (Biggins)

Staff Analysis: The utility recorded operating expenses of \$72,925 during the test year ending May 31, 2005. The test year O & M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

Operations and Maintenance Expenses (O&M)

Purchased Power – (615) – The utility recorded \$2,008 to this account during the test year. Staff has decreased this account by \$72 to reflect excessive unaccounted for water (UAW), as discussed in Issue 2. Staff has also made an adjustment to decrease this account by \$97 to reflect a reversion adjustment. Staff recommends purchased power for the test year of \$1,839.

Chemicals – (618) – The utility recorded \$4,028 to this account during the test year. Staff has decreased this account by \$144 per the engineer to reflect excessive unaccounted for water (UAW), as discussed in Issue 2. Staff has also decreased this account by \$194 to reflect a reversion adjustment. Staff recommends chemical expense for the test year of \$3,690.

Materials and Supplies – (620) – The utility recorded \$5,746 in this account during the test year. Staff has made the following adjustments: decrease of \$214 to reclassify plant additions to Acct No. 331, decrease of \$4,140 to reclassify plant additions to Acct. No. 334, decrease of \$1,152 to reclassify repairs to Acct. No. 636, and decrease of \$39 to reclassify miscellaneous expense to Acct. No. 675. Staff's net adjustment to this account is \$5,545. Staff recommends materials and supplies for the test year of \$201.

Contractual Services – Professional – (631) – The utility recorded \$3,805 in this account during the test year. Staff has decreased this account by \$1,723 to reflect an invoice recorded outside the test year. Staff has also decreased this account by \$214 to reclassify plant additions to Acct. No. 330. Staff's recommends contractual services - professional expense of \$1,868.

Contractual Services – Testing (635) – This expense is included in the utility's monthly management fee for testing. The utility recorded \$2,888 in this account during the test year of which \$1,092 was a portion of the management fee. Staff has made an adjustment to decrease this account by \$701 (\$2,888 - \$2,187) to reflect the appropriate testing fee included in the utility's management fee.

State and local authorities require that several analysis be submitted in accordance with Florida Administrative Rule 62-550, F.A.C. The list below includes monthly monitoring and other less frequent tests required by FDEP:

Rule	Description	Frequency	Cost per year
62-550.518, F.A.C.	Microbiological	Monthly	\$1,092
62-550.310(1), F.A.C.	Primary Inorganics	36 months.	\$52
62-550.320(1), F.A.C.	Secondary Inorganics	36 months.	\$52
62-550.511, F.A.C.	Asbestos	1/9 year	\$35
62-550.512(1), F.A.C.	Nitrate & Nitrite	quartly.	\$160
62-550.515, F.A.C.	Volatile Organics	qtr'ly/1st year/36 month. Subsequent/Annual	\$59
62-550.516, F.A.C.	Pesticides & PCB	36 months.	\$150
62-550.519(1), F.A.C.	Radionuclides		0
	Group I	36 months.	\$29
	Group II	36 months	\$30
62-550.521, F.A.C.	Unregulated Organics		0
	Group I	qtr'ly/1st yr/9 year.	\$112
	Group II	36 months	\$18
	Group III	36 months.	\$83
62-551, F.A.C.	Lead & Copper	36 months	\$240
62-550, F.A.C.	TTHM *	Yearly	\$75
	Total		\$2,187

* Total Trihalomethanes

Based on the above, staff recommends that a total of \$2,187 per year for Dixie Groves water system testing and analysis be allowed.

Contractual Services – Other – (636) – The utility recorded \$35,162 in this account during the test year. The utility charges a management fee which includes but is not limited to the following: treatment plant operations, transportation, collection office, field customer service, groundskeeping, billing and collection, meter reading, vehicle insurance and fuel, and office supplies. During the test year, the utility recorded \$32,322 in this account for the management fee. Staff has increased the management fee in the amount of \$735 (\$33,058 - 32,322) to reflect the appropriate management fee. Staff has made an adjustment to increase this account by \$1,152 to reflect reclassification of repairs from Acct. No. 620. Staff has decreased this account by \$391 to reflect plant additions recorded in Acct. No. 339. The utility provided invoices totaling \$16,884 for hurricane related damages. Those expenses are non-recurring and staff believes this expense should be amortized over four years. Therefore, staff has made an adjustment to increase this account by \$4,221 (\$16,884/4). Staff's net adjustment to this account is an increase of \$5,717.

Regulatory Commission Expense – (665) – The utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. The utility paid a \$1,000 rate case filing fee. Therefore, staff has increased this account by \$250 ($\$1000/4$). The utility is required by Rule 25-22-0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff has estimated noticing expense for wastewater of \$125 postage expense, \$34 printing expense, and \$17 for envelopes. The above results in a total rate case expense for noticing of \$176. Staff has increased this account by \$44 ($\$176/4$) to reflect rate case expense for noticing. Staff recommends a net increase to this account of \$294.

Miscellaneous Expense – (675) – The utility recorded \$356 in this account for the test year. Staff has made an adjustment to increase this account by \$39 to reflect reclassification from Acct. 620. Staff recommends miscellaneous expense of \$395.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is a decrease of \$2,640. Staff's recommended O&M expenses are \$64,235. O&M expenses are shown on Schedule 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$2,535 in this account during the test year. Staff calculated test year depreciation using the rates prescribed in Rule 25-30.140, F.A.C.. This account has been increased by \$1,788 to reflect staff's calculated test year depreciation expense. In addition, amortization of CIAC has a negative impact on depreciation expense. The utility did not record any amortization of CIAC. Staff has calculated amortization of CIAC based on composite rates. Staff has decreased this account by \$524 to reflect staff's calculated amortization of CIAC. Therefore, staff recommends net depreciation expense of \$3,799.

Taxes Other Than Income – The utility recorded taxes other than income of \$3,515 during the test year. Per Audit Disclosure No. 6, the audited revenue for the test year was \$58,571. Based on the audited test year revenues, the utility RAFs should be \$2,635 ($\$58,571 \times 4.5\%$) for the test year. Staff has made an adjustment to increase this account by \$282 ($\$2,635 - \$2,354$) to reflect the appropriate RAFS for the test year revenues.

Income Tax – The utility recorded income tax of \$0 for water. The utility is an 1120 S corporation; however, the utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards are in excess of staff's recommended return on equity, and will continue to be so over the next couple of years. Therefore, staff has not made an adjustment to this account.

Operating Revenues – Revenues have been increased by \$20,775 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – Taxes other than income has been increased by \$935 to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$72,766.

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Operating expenses are shown on Schedule No. 3. The related adjustments are shown on Schedule 3-A.

Issue 9: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$79,346. (Biggins)

Staff Analysis: The utility should be allowed an annual increase of \$20,775 (35.47%). This will allow the utility the opportunity to recover its expenses and earn an 9.39% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$70,078
Rate of Return	x .0939
Return on Rate of Return	\$6,580
Adjusted O & M expense	\$64,235
Depreciation expense (Net)	\$3,799
Taxes Other Than Income	\$4,732
Income Taxes	\$0
Revenue Requirement	<u>\$79,346</u>
Annual Revenue Increase	<u>\$20,775</u>
Percent Increase/(Decrease)	<u>35.47%</u>

Revenue requirements are shown on Schedule No. 3.

Issue 10: What is the appropriate rate structure and base facility charge cost recovery percentage for this utility?

Recommendation: The appropriate rate structure for this utility is a continuation of its base facility charge (BFC) / uniform gallonage charge rate structure. The BFC cost recovery percentage should be 50% for Phase I and 55% for Phase II. (Lingo, Bruce)

Staff Analysis: A key point of discussion in Attachment C relates to the highly seasonal nature of the customer base. Specifically, the overall average monthly consumption figure of 3.1 kgal is misleading because, during the test year, 69% of the customers were billed at monthly consumption levels of 3 kgal or less, averaging 1.2 kgal per month. This had the effect of substantially decreasing the overall annual average monthly consumption. Meanwhile, the remaining 31% of the customers were billed at monthly consumption levels greater than 3 kgal, averaging six times more consumption than those customers who were billed at 3 kgal or less. Another key point of staff's rate design analysis relates to the magnitude of the recommended revenue increase in Phase II.

These points are discussed in more detail in Attachment C.

Issue 11: Are adjustments to reflect repression of consumption appropriate in this case due to the price increases in Phase I and Phase II, and, if so, what are the appropriate repression adjustments to be applied in order to calculate Phase I and Phase II rates?

Recommendation: Yes, repression adjustments of 621.1 kgals for Phase I rates and 2,092.9 kgals for Phase II rates are appropriate. In order to monitor the effects of the recommended revenue increases for Phases I and II, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class, meter size and Phase, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (Lingo)

Staff Analysis: Staff performed separate analyses for the Phase I and Phase II repression adjustments. As discussed in Issue 10, due to the seasonality of the customer base, approximately 69% of the customers were billed at consumption levels of 3 kgal and below. Consistent with staff's analysis in similar cases, staff did not repress consumption below 3 kgal, removing the first 7,145.0 kgals of consumption from the repression calculations.

Repression Adjustment: Phase I

The remaining kgals available for repression are 5,389.0 kgals. For those customers typically billed at consumption levels greater than 3 kgal, the average monthly consumption before the Phase I increase was approximately 7.2 kgals, with an anticipated average price increase resulting from the recommended Phase I increase of 55.03%. Staff used a proportional formula for this subgroup of customers to calculate the anticipated repression for Phase I:

$$\frac{33.33\% \text{ price increase}}{6.98\% \text{ consump reduction}} = \frac{55.03\% \text{ anticipated avg price increase Phase I}}{X}$$

Solving for X, the anticipated average consumption reduction for the kgals available for repression in Phase I is 11.52%.

Repression Adjustment: Phase II

After the anticipated repression resulting from the Phase I increase, the remaining consumption available for repression is 4,767.9 kgals. For those customers typically billed at consumption levels greater than 3 kgal, as a result of the anticipated repression in Phase I, the average monthly consumption before the Phase II increase was reduced to approximately 6.4 kgals. The anticipated average price increase resulting from the recommended Phase I increase for this subgroup of customers is 209.60%. Staff again used a proportional formula to calculate the anticipated repression for Phase II:

$$\frac{33.33\% \text{ price increase}}{6.98\% \text{ consump reduction}} = \frac{209.6\% \text{ anticipated avg price increase Phase II}}{X}$$

Solving for X, the anticipated average consumption reduction for the kgals available for repression in Phase II is 43.9%.

The actual repression calculations for Phases I and II are shown on Attachment D.

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In order to monitor the effects of the recommended revenue increases for Phases I and II, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class, meter size and Phase, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

Issue 12: What are the appropriate water rates for Dixie Groves?

Recommendation: The recommended rates shown below, are designed to produce revenues of \$79,346. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (Lingo, Biggins)

Staff Analysis: The recommended water rates should be designed to produce revenue of \$79,346. Staff has calculated rates using test year number of bills and consumption.

Schedules of the utility's current rates and staff's recommended are as follows:

Monthly Water Rates (Phase I)
Residential and General Service

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
Meter Sizes		
5/8" x 3/4"	\$9.68	\$9.68
3/4"	\$14.52	\$14.52
1"	\$24.21	\$24.20
1 1/2"	\$48.44	\$48.40
2"	\$77.48	\$77.44
3"	\$154.43	\$154.88
4"	\$242.14	\$242.00
6"	\$484.25	\$484.00
 <u>Gallonage Charge</u>		
Per 1,000 Gallons	\$1.58	\$3.33
 Gallonage Charge		
<u>Typical Residential Bills at Various Consumption Levels</u>		
0 kgal	\$9.68	\$9.68
3 kgal	\$14.42	\$19.67
5 kgal	\$17.58	\$26.33
8 kgal	\$22.32	\$36.32

Based on staff's recommended rates, the utility would recover approximately 50% of the Phase I revenue requirement from the base facility charge, with the remaining 50% of the revenue requirement from Phase I being recovered from the gallonage charge. Therefore, for Phase I, the utility would recover \$39,704 from the BFC and \$39,642 from the gallonage charge.

If the Commission approves staff's recommendation, these rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision and the customer notice is adequate.

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

Issue 13: Should the Commission approve pro forma plant additions for the utility, and if so, what is the appropriate return on equity, overall rate of return, revenue requirement and when should the resulting rates be implemented?

Recommendation: Yes. The Commission should approve pro forma plant additions for the utility. With the pro forma items, the utility's appropriate return on equity should be 11.78% with a range of 10.78% - 12.78%. The appropriate overall rate of return is 8.53%. The utility's revenue requirement should be \$252,651. The utility should complete the pro forma additions within 12 months of the issuance of the consummating order. The utility should be allowed to implement the resulting rates once the completed pro forma additions have been verified by staff. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C.. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. If the utility fails to complete all of the pro forma additions, it should not be entitled to the revenue requirement with the pro forma plant additions and the resulting rates. (Biggins)

Staff Analysis: The utility provided a Capital Improvement Plan outlining pro forma plant additions that it intends to complete. The following is a chart summarizing the pro forma additions, the cost, and staff's recommended treatment:

Pro Forma Plant Additions			
	<u>Plant Item</u>	<u>Utility Requested</u>	<u>Staff Recommended</u>
1.	Water Distribution System Replacement (Piping) and related Expenses.	\$1,191,981	\$1,191,981
2.	Install a 3000-gal Hydropneumatic Tank	\$27,048	\$27,048
3.	Install 22 Fire Hydrants	\$95,985	\$95,985
4.	Install Valve for Backflow Prevention	\$684	\$684
	Total	\$1,315,698	\$1,315,698

Staff believes the utility's proposed pro forma additions are prudent to the viability of the system. Staff has also made an adjustment in the amount of \$19,752, to reflect retirement related to pro forma additions.

In order to complete the proposed projects, the utility has been pre-approved for funding at Mercantile Bank at a rate of prime plus 1%. By adding the loan amount of \$1,115,698 to the utility's capital structure discussed in Issue No. 5, and the utility's paid in capital of \$200,000, the appropriate rate of return on equity is 11.78% with a range of 10.78% - 12.78%. The appropriate overall rate of return is 6.58%. By including the \$1,315,698 of pro forma plant

components discussed in Issue Nos. 4 and 7, respectively, staff's recommended revenue requirement should be \$252,651. The utility is aware that this a very substantial increase. Therefore, they are exploring other options that could possibly lower the rates. If they find feasible options, the utility will contact the Commission to have the rates adjusted appropriately. The rate base, capital structure and revenue requirement which includes pro forma plant items are shown on Schedules 5, 5-A, 6, 7, 7-A and 7-B. The resulting rates are shown below:

<u>Monthly Water Rates (Phase II)</u>		
Residential and General Service Water Rates		
<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates with Pro forma Plant</u>
<u>Base Facility Charge</u>		
Meter Sizes		
5/8" x 3/4"	\$9.68	\$33.66
3/4"	\$14.52	\$50.49
1"	\$24.21	\$84.15
1 1/2"	\$48.44	\$168.30
2"	\$77.48	\$269.28
3"	\$154.43	\$538.56
4"	\$242.14	\$841.50
6"	\$484.25	\$1683.00
<u>Gallonge Charge</u>		
Per 1,000 Gallons	\$1.58	\$11.67
Gallonge Charge		
<u>Typical Residential Bills at Various Consumption Levels</u>		
0 kgal	\$9.68	\$33.66
3 kgal	\$14.42	\$68.67
5 kgal	\$17.58	\$92.01
8 kgal	\$22.32	\$127.02

Based on staff's recommended rates, the utility would recover approximately 55% of the Phase II revenue requirement from the base facility charge, with the remaining 45% of the revenue requirement from Phase II being recovered from the gallonage charge. Therefore, for Phase II, the utility would recover \$138,003 from the BFC and \$114,648 from the gallonage charge.

The utility should be allowed to implement the above rates once all pro forma plant items have been completed and verified. Once verified, the rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1),

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F.A.C.. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within ten days after the date of the notice. If the utility fails to complete all of the pro forma additions, it should not be entitled to the revenue requirement with the pro forma plant additions and the resulting rates.

Issue 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

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

Staff Analysis: Section 367.0816, Florida Statutes, requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$308 annually for water. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

Issue 15: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$14,310. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

This account must specify by whom and on whose behalf such monies were paid.

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

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

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Issue 16: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor completion of the pro forma items and the appropriate implementation of the Phase II rates. (Jaeger)

Staff Analysis: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor completion of the pro forma items and the appropriate implementation of the Phase II rates. (Jaeger)

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)	Capacity of Plant	57.00	gallons per min
2)	Maximum Day From Maximum Month	38.19	gallons per min
2a)	Max. day @ peak	76.38	gallons per min
3)	Average Daily Flow	28.52	gallons per min
4)	Fire Flow Capacity (FF) No fire hydrants within the system	0	gallons per min
5)	Growth	2.23	gallons per min
a)	Average Test Year Customers in ERCs: Historical Test Year: June 2004 - May 2005	342	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	2	ERCs
c)	Statutory Growth Period	5	Years
d)	Growth = (5b)x(5c)x [2a\^(5a)]	2.23	gallons per min
6)	Excessive Unaccounted for Water (EUW)	1.02	gallons per min
a)	Percentage of Excessive amount	3.58%	
b)	Total Unaccounted for Water	3.87	gallons per min
c)	Reasonable Amount (10% of average Daily Flow)	2.85	gallons per min
d)	Excessive Amount	1.02	gallons per min

USED AND USEFUL FORMULA

$$[2 \times (\text{Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (38.19 - 1.02) + 0 + 2.23] / 57 = 100\% \quad \text{Used \& Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA PHASE I

1)	Capacity of System (ERCs)	353	ERCs
2)	Test Year Connections Average Test Year	342	ERCs
3)	Growth	10	ERCs
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	2	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a)x(b) Connections allowed for growth	10	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 100\% \quad \text{Used and Useful}$$

* Since the service area is built out, the used and useful is 100%.

**Dixie Groves Utility – Pro Forma
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WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA PHASE II

1)	Capacity of System (ERCs)	364	ERCs
2)	Test Year Connections Average for Pro Forma	345	ERCs
3)	Growth	10	ERCs
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	2	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a)x(b) Connections allowed for growth	10	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 97.5\% \quad \text{Used and Useful}$$

DETERMINATION OF APPROPRIATE RATE STRUCTURE

**CURRENT
RATES:**

- (1) The utility's current water rate structure consists of a monthly base facility charge (BFC) / uniform gallonage charge rate structure. The BFC is \$9.68 and the gallonage charge is \$1.58 for each 1,000 gallons (kgal) used.

**PRIOR ORDERS AND
PRACTICES WITH
WATER
MANAGEMENT
DISTRICTS:**

- (2) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the BFC charges such that they recover no more than 40% of the revenues to be generated from monthly service rates. This guideline also represents a specific recommendation in the final report of the Water Conservation Initiative. The Commission follows this guideline whenever possible.
- (3) The utility is located in the Southwest Florida Water Management District (SWFWMD or District) in the Northern Tampa Bay water use caution area.
- (4) The Commission's preferred rate structure had traditionally been the BFC / uniform gallonage charge rate structure. However, over the past several years, based in large part on requests made by the Water Management Districts, the Commission has been implementing the inclining-block rate structure as the rate structure of choice.
- (5) However, according to **Water Use Permit No. 20007718.002**, the District has not placed an inclining-block rate structure requirement upon the utility.

PHASE I RATE DESIGN:

**RATE
STRUCTURE
ANALYSIS AND
DESIGN FOR PHASE I:**

- (6) Staff's analysis indicates that the utility customers' overall average monthly consumption is approximately 3.1 kgal, which, under normal circumstances, would represent very low average consumption with little, if any, discretionary usage. This figure is misleading, however, as 69% of the customers were billed at consumption levels of 3 kgal or less. These customers' average monthly consumption is approximately 1.2 kgals. This is indicative of a very seasonal customer base. The remaining 31% of the customer base, billed at consumption greater than 3 kgal, has average monthly consumption of approximately 7.2 kgals.
- (7) An important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less. The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. However, due to the seasonality of the customer base, greater emphasis should be placed on revenue stability concerns, rather than on minimizing price increases at 5 kgal or less.
- (8) Due to the relatively low average monthly consumption and the seasonal customer base, coupled with the absence of a conservation rate structure requirement in the utility's water use permit, staff believes a continuation of the current BFC/uniform gallonage charge rate structure is appropriate.

HISTORICAL TEST YEAR ENDED 6/30/05

DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)

**RATE
STRUCTURE
ANALYSIS AND
DESIGN FOR PHASE I
(cont.):**

- (9) Based on staff's initial analysis of fixed versus variable allocation of revenue requirement recovery, the utility would recover approximately 49% from the BFC and the remaining 51% from the gallonage charge. This allocation exceeds both the Water Conservation Initiative's recommendation and the WMD guideline discussed in number (2) above. The initial BFC revenue recovery allocation is also greater than what is typically set by the Commission.
- (10) However, as previously discussed, the customer base is very seasonal, raising revenue stability concerns. In this circumstance, staff believes it would be inappropriate to reduce the BFC by making a conservation adjustment to shift a portion of the cost recovery to the gallonage charge. Instead, staff believes a negative conservation adjustment is appropriate, which would shift sufficient cost recovery from the gallonage charge to the BFC in order to increase the BFC by approximately 2%. The resulting BFC cost recovery percentage is 50%.
- (11) Staff recommends that, to the extent the repression adjustment (to be discussed in a subsequent issue) changes the BFC cost recovery percentage from 50%, that an adjustment be made such that the post-repression BFC cost recovery allocation remains 50%.
- (12) As previously discussed, the utility is located in SWFWMD's Northern Tampa Bay water use caution area. As discussed in a prior issue, the overall revenue requirement increase for Phase I is approximately 36%. In order to recognize both the utility's location in a water use caution area, as well as the Commission's attempts in prior cases to minimize, to the extent possible, the price increases at nondiscretionary levels of consumption, staff recommends placing the entire Phase I revenue requirement increase into the gallonage charge. The Commission has approved the application of the entire increase to the gallonage charge in prior cases. (See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003 in Docket No. 021192-WS, In Re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc., p. 23.)

**STAFF
RECOMMENDATION
FOR PHASE I:**

Therefore, staff recommends that the appropriate final BFC cost recovery percentage is 50%. Staff also recommends that the entire Phase I revenue requirement increase be applied to the gallonage charge.

PHASE II RATE DESIGN:

**RATES IN EFFECT
AFTER PHASE I:**

- (13) The utility's rates resulting from the Phase I increase consist of a monthly BFC of \$9.68 and \$3.33 for each 1,000 kgal used.

**RATE
STRUCTURE
ANALYSIS AND
DESIGN FOR PHASE
II:**

- (14) As discussed in a prior issue, the recommended Phase II revenue requirement increase is a result of the utility replacing its entire transmission and distribution system (lines). The recommended Phase II increase represents greater than a 200% increase over recommended Phase I revenues.
- (15) This replacement results in each of the utility's customers, regardless of seasonality or consumption patterns, receiving the same benefit. That is, each time a customer desires water and places demand on the system, the customer will receive water delivered through the new lines.

HISTORICAL TEST YEAR ENDED 6/30/05

DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)

**RATE
STRUCTURE
ANALYSIS AND
DESIGN FOR PHASE
II (cont.):**

- (16) Therefore, staff believes it is both equitable and appropriate to spread the Phase II increase equally such that, regardless of the quantity consumed, each customer will receive approximately the same percentage increase.
- (17) Staff's Phase II recommended revenue requirement for the utility represents greater than a 200% increase over the utility's recommended Phase I revenues. Due to the magnitude of the revenue requirement increase and seasonality concerns, and consistent with its recommendation in Phase I rate design, staff believes that greater emphasis should be placed on revenue stability concerns, rather than on minimizing price increases at 5 kgal or less.
- (18) Based on staff's initial analysis of fixed versus variable allocation of revenue requirement recovery, the utility would recover approximately 35% from the BFC and the remaining 65% from the gallonage charge. This allocation conforms to both the Water Conservation Initiative's recommendation and the WMD guideline discussed in number (2) above. The initial BFC revenue recovery allocation is also within the range of what is typically set by the Commission.
- (19) However, in order to make the revenue stream more stable, as well as to apply the same approximate percentage increase to bills regardless of usage, a negative conservation adjustment was required, shifting cost recovery from the gallonage charge to the BFC such that the BFC cost recovery increased by 55%. The resulting preliminary BFC cost recovery percentage was approximately 54%.
- (20) The repression adjustment (to be discussed in the following issue), along with the 55% negative conservation adjustment, increases the resulting BFC cost recovery percentage to 55%.
- (21) Allocating the Phase II revenue requirement increase equally to all customers, regardless of their consumption levels, results in a substantial gallonage charge relative to the BFC. However, this methodology will result in adequate monthly revenues for the utility. In addition, it gives customers a greater amount of control over their overall price increase than compared to a methodology more heavily weighted to the BFC.

**STAFF
RECOMMENDATION
FOR PHASE II:**

Based on the foregoing, staff recommends that the same approximate percentage increase be applied to bills regardless of usage. Staff recommends that the appropriate final BFC cost recovery percentage is 55%.

HISTORICAL TEST YEAR ENDED 6/30/05

DETERMINATION OF APPROPRIATE REPRESSION ADJUSTMENT

**REPRESSION
CALCULATION:
PHASE I**

		<u>Kgals Repressed</u>	<u>Total Repression %</u>
<u>Calculation of Ratesetting Kgals:</u>			
	All Residential (RS) Kgals	12,534.0	
-	RS Kgals Not Repressed	7,145.0	
=	RS Kgals Avail for Repression	5,389.0	
x	RS Repression %	11.52%	
=	RS Kgals Repressed (5,389.0 x 11.52%)	621.1	
	Ratesetting RS Kgals (7,145.0 + (5,389.0 - 621.1))	11,912.9	
+	GS Kgals	0.0	
=	Total Water Kgals for Ratesetting	11,912.9	5.0%

**REPRESSION
CALCULATION:
PHASE II**

		<u>Kgals Repressed</u>	<u>Total Repression %</u>
<u>Calculation of Ratesetting Kgals:</u>			
	All Residential (RS) Kgals	11,912.9	
-	RS Kgals Not Repressed	7,145.0	
=	RS Kgals Avail for Repression	4,767.9	
x	RS Repression %	43.9%	
=	RS Kgals Repressed (4,767.9 x 43.9%)	2,092.9	
	Ratesetting RS Kgals (7,145.0 + (4,767.9 - 2,092.9))	9,820.0	
+	GS Kgals	0.0	
=	Total Water Kgals for Ratesetting	9,820.0	17.6%

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 1	
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-	
SCHEDULE OF WATER RATE BASE		WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$129,341	-\$19,528	\$109,813
2. LAND & LAND RIGHTS	1,211	\$0	\$1,211
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	-10,330	-\$3,687	-\$14,017
5. ACCUMULATED DEPRECIATION	-62,986	\$17,632	-\$45,354
6. AMORTIZATION OF CIAC	10,330	\$66	\$10,396
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$8,029</u>	<u>\$8,029</u>
8. WATER RATE BASE	<u>\$67,566</u>	<u>\$2,512</u>	<u>\$70,078</u>

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 1-A
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-WU
ADJUSTMENTS TO RATE BASE		
		<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1.	To reflect plant additions & retirements since 12/31/02	-\$19,528
	Total	<u>-\$19,528</u>
<u>CIAC</u>		
1.	To reflect CIAC recorded as revenues (AD No. 4)	-3,687
		<u>-\$3,687</u>
<u>ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation per Rule 25-30.0140	\$17,632
	Total	<u>\$17,632</u>
<u>AMORTIZATION OF CIAC</u>		
1	To adjust Amortization of CIAC based on composite rates	\$66
		<u>\$66</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1.	To reflect 1/8 of test year O&M expenses	<u>\$8,029</u>

Docket No. 050449-WU
 Date: March 23, 2006

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 2									
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-WU									
SCHEDULE OF CAPITAL STRUCTURE											
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE		PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	COST	WEIGHTED COST	
			BEFORE	PRO RATA ADJUST- MENTS							
1. COMMON STOCK	\$115,000		\$115,000								
2. RETAINED EARNINGS	-47,746		-\$47,746								
3. PAID IN CAPITAL	0		\$0								
4. OTHER COMMON EQUITY			\$0								
5. TOTAL COMMON EQUITY	\$67,254	\$0	67,254	-25,769	41,485	59.20%	10.00%			5.92%	
6. NOTES PAYABLE	\$38,708		38,708	-14,831	23,877	34.07%	9.00%			3.07%	
		0	0	0	0	0.00%				0.00%	
		0	0	0	0	0.00%				0.00%	
		0	0	0	0	0.00%				0.00%	
		0	0	0	0	0.00%				0.00%	
TOTAL LONG TERM DEBT	38,708	0	38,708	-14,831	23,877	34.07%					
7. CUSTOMER DEPOSITS	4,717		4,717	0	4,717	6.73%	6.00%			0.40%	
8. TOTAL	\$110,679	\$0	\$110,679	-\$40,601	\$70,078	100.00%				9.39%	
RANGE OF REASONABLENESS											
RETURN ON EQUITY											
OVERALL RATE OF RETURN											
							<u>LOW</u>			<u>HIGH</u>	
							9.00%			11.00%	
							8.80%			9.98%	

DIXIE GROVES UTILITY COMPANY
TEST YEAR ENDING 05/31/2005
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 050449-WU

	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$62,258</u>	<u>-\$3,687</u>	<u>\$58,571</u>	<u>\$20,775</u> 35.47%	<u>\$79,346</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	66,875	-2,640	64,235	0	64,235
3. DEPRECIATION (NET)	2,535	1,264	3,799		3,799
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,515	282	3,797	935	4,732
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$72,925</u>	<u>-\$1,094</u>	<u>\$71,831</u>	<u>\$935</u>	<u>\$72,766</u>
8. OPERATING INCOME/(LOSS)	<u>-\$10,667</u>		<u>-\$13,260</u>		<u>\$6,580</u>
9. WATER RATE BASE	<u>\$67,566</u>		<u>\$70,078</u>		<u>\$70,078</u>
10. RATE OF RETURN	<u>-15.79%</u>		<u>-18.92%</u>		<u>9.39%</u>

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 3-A
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-WU
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2
7. Regulatory Commission Expense (665)		
a. To amortize Rate Case Filing fee over 4 years (\$1000/4)		250
b. To amortize notice expense over 4 years (\$176/4)		44
		<u>\$294</u>
8. Miscellaneous Expense (675)		
a. To reflect reclassification from Acct. 620 to Acct. 675		39
b.		0
Total		<u>\$39</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>-\$2,640</u>
DEPRECIATION EXPENSE		
a. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.		1,788
b. To reflect amortization of CIAC composite rates		-524
Total		<u>\$1,264</u>
TAXES OTHER THAN INCOME		
a. To reflect appropriate RAFS for test year revenues		282
Total		<u>\$282</u>

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 3-B	
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES		0	0
(603) SALARIES AND WAGES - OFFICERS	12,000	0	12,000
(604) EMPLOYEE PENSION & BENEFITS		0	0
(610) PURCHASED WATER		0	0
(615) PURCHASED POWER	2,008	-169 [1]	1,839
(616) FUEL FOR POWER PRODUCTION		0	0
(618) CHEMICALS	4,028	-338 [2]	3,690
(620) MATERIALS AND SUPPLIES	5,746	-5,545 [3]	201
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,805	-1,937 [4]	1,868
(635) CONTRACTUAL SERVICES - TESTING	2,888	-701 [5]	2,187
(636) CONTRACTUAL SERVICES - OTHER	35,162	5,717 [6]	40,879
(640) RENTS		0	0
(650) TRANSPORTATION EXPENSE		0	0
(655) INSURANCE EXPENSE	882	0	882
(665) REGULATORY COMMISSION EXPENSE		294 [7]	294
(670) BAD DEBT EXPENSE		0	0
(675) MISCELLANEOUS EXPENSES	<u>356</u>	<u>39</u> [8]	<u>395</u>
	66,875	-2,640	64,235

DIXIE GROVES UTILITY COMPANY			SCHEDULE NO. 4
TEST YEAR ENDING 05/31/2005			DOCKET NO. 050449-WU
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
Residential			
<u>and General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$9.24	\$9.68	\$0.04
3/4"	\$13.86	\$14.52	\$0.06
1"	\$23.11	\$24.20	\$0.09
1-1/2"	\$46.24	\$48.40	\$0.19
2"	\$73.96	\$77.44	\$0.30
3"	\$147.92	\$154.88	\$0.60
4"	\$231.15	\$242.00	\$0.94
6"	\$462.28	\$484.00	\$1.88
<u>Residential Service Gallonage Charge</u>			
0-10,000 Gallons	\$1.51	\$3.33	\$0.01
Above 10,000 Gallons			\$0.00
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$1.51	\$3.33	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
0 kgal	\$9.24	\$9.68	
3 kgal	\$13.77	\$19.67	
5 kgal	\$16.79	\$26.33	
8 kgal	\$21.32	\$36.32	

DIXIE GROVES UTILITY COMPANY TEST YEAR ENDING 05/31/2005 SCHEDULE OF WATER RATE BASE Pro-forma		SCHEDULE NO. 5 DOCKET NO. 050449-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$129,341	\$1,276,418	\$1,405,759
2. LAND & LAND RIGHTS	1,211	\$0	\$1,211
3. NON-USED AND USEFUL COMPONENTS	0	-\$23,494	-\$23,494
4. CIAC	-10,330	-\$3,687	-\$14,017
5. ACCUMULATED DEPRECIATION	-62,986	\$20,066	-\$42,920
6. AMORTIZATION OF CIAC	10,330	\$66	\$10,396
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$7,938</u>	<u>\$7,938</u>
8. WATER RATE BASE	<u>\$67,566</u>	<u>\$1,277,307</u>	<u>\$1,344,873</u>

DIXIE GROVES UTILITY COMPANY TEST YEAR ENDING 05/31/2005 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 5-A DOCKET NO. 050449-WU
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. To reflect plant additions & retirements since 12/31/02	-\$19,528
2. To reflect proforma plant additions to Acct. 331	\$1,191,981
3. To reflect proforma plant additions to Acct 330	\$27,048
4. To reflect proforma plant additions to Acct. 335	\$95,985
5. To reflect proforma plant additions to Acct. 336	\$684
6. To retire items related to proforma in Acct. 330	-\$4,136
7. To retire items related to proforma in Acct. 331	<u>-\$15,616</u>
Total	<u>\$1,276,418</u>
<u>NON-USED AND USEFUL</u>	
1 To reflect proforma non used and useful plant	-\$23,840
2. To reflect proforma non used and useful plant depreciation	<u>\$346</u>
Total	<u>-\$23,494</u>
<u>CIAC</u>	
1. To reflect CIAC recorded as revenues (AD No. 4)	-\$3,687
	<u>-\$3,687</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. To reflect accumulated depreciation per Rule 25-30.0140	\$17,632
2. To reflect pro forma accumulated depreciation	-\$17,318
3. To reflect retirements related to proforma	<u>19,752</u>
Total	<u>\$20,066</u>
<u>AMORTIZATION OF CIAC</u>	
1 To adjust Amortization of CIAC based on composite rates	<u>\$66</u>
	<u>\$66</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O&M expenses	<u>\$7,938</u>

Docket No. 050449-WU
Date: March 23, 2006

DIXIE GROVES UTILITY COMPANY
TEST YEAR ENDING 05/31/2005
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 6
DOCKET NO. 050449-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE		PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS					
1. COMMON STOCK	\$115,000		\$115,000						
2. RETAINED EARNINGS	-47,746		-\$47,746						
3. PAID IN CAPITAL		200,000	\$200,000						
4. OTHER COMMON EQUITY		<u>\$0</u>							
5. TOTAL COMMON EQUITY	\$67,254	\$200,000	267,254	-15,322	251,932	18.73%	11.78%	2.21%	
6. NOTES PAYABLE	\$38,708		38,708	-2,219	36,489	2.71%	9.00%	0.24%	
Pro Forma Financing	\$1,115,698		1,115,698	-63,963	1,051,735	78.20%	7.75%	6.06%	
		<u>0</u>	0	0	0	0.00%		0.00%	
		<u>0</u>	0	0	0	0.00%		0.00%	
TOTAL LONG TERM DEBT	1,154,406	0	1,154,406	-66,183	1,088,223	80.92%		0.00%	
7. CUSTOMER DEPOSITS	<u>4,717</u>		4,717	0	4,717	0.35%	6.00%	0.02%	
8. TOTAL	<u>\$1,226,377</u>	<u>\$200,000</u>	<u>\$1,426,377</u>	<u>-\$81,504</u>	<u>\$1,344,873</u>	<u>100.00%</u>		<u>8.53%</u>	
RANGE OF REASONABLENESS									
RETURN ON EQUITY									
							<u>LOW</u>	<u>HIGH</u>	
							10.78%	12.78%	
OVERALL RATE OF RETURN									
							8.35%	8.72%	

DIXIE GROVES UTILITY COMPANY						SCHEDULE NO.7
TEST YEAR ENDING 05/31/2005						DOCKET NO. 050449-WU
SCHEDULE OF WATER OPERATING INCOME						
	TEST YEAR	STAFF ADJ.	STAFF	ADJUST.	REVENUE	
	PER UTILITY	PER UTILITY	ADJUSTED	FOR	REQUIREMENT	
			TEST YEAR	INCREASE		
1. OPERATING REVENUES	<u>\$62,258</u>	<u>-\$3,687</u>	<u>\$58,571</u>	<u>\$194,080</u>	<u>\$252,651</u>	331.36%
OPERATING EXPENSES:						
2. OPERATION & MAINTENANCE	66,875	-3,374	63,501	0	63,501	
3. DEPRECIATION (NET)	2,535	38,871	41,406		41,406	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	3,515	20,776	24,291	8,734	33,025	
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$72,925</u>	<u>\$56,273</u>	<u>\$129,198</u>	<u>\$8,743</u>	<u>\$138,138</u>	
8. OPERATING INCOME/(LOSS)	<u>-\$10,667</u>		<u>-\$70,627</u>		<u>\$114,513</u>	
9. WATER RATE BASE	<u>\$67,566</u>		<u>\$1,344,873</u>		<u>\$1,344,873</u>	
10. RATE OF RETURN	<u>-15.79%</u>		<u>-5.25%</u>		<u>8.51%</u>	

DIXIE GROVES UTILITY COMPANY	SCHEDULE NO. 7-A
TEST YEAR ENDING 05/31/2005	DOCKET NO. 050449-WU
ADJUSTMENTS TO OPERATING INCOME	PAGE 1 OF 2 <u>WATER</u>
OPERATING REVENUES	
1. To reflect actual revenues (AD No. 4)	<u>-3,687</u>
	<u>-\$3,687</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Power (615)	
a. To reflect 3.58% UAW (2008 * 3.58)	-72
b. To reflect repression adjustment (Phase II)	<u>-341</u>
Total	<u>-\$413</u>
2. Chemicals (618)	
a. To reflect 3.58% UAW (4028 * 3.58)	-144
b. To reflect repression adjustment (Phase II)	<u>-684</u>
Total	<u>-\$828</u>
3. Materials and Supplies (620)	
a. To remove plant addition already included in Acct No. 331	-214
b. To remove plant addition already included in Acct No. 334	-4,140
c. To reclassify repairs to Acct. No. 636	-1,152
d. To reclassify miscellaneous expense to Acct. No. 675	<u>-39</u>
Total	<u>-\$5,545</u>
4. Contractual Services - Professional (631)	
a. To reflect invoice outside the test year	-1,723
b. To remove plant addition recorded in Acct. No. 330	<u>-214</u>
Total	<u>-\$1,937</u>
5. Contractual Services - Testing (635)	
a. To reflect testing expense per engineering report	<u>-701</u>
Total	<u>-\$701</u>
6. Contractual Services - Other (636)	
a. To reflect reclassification of repairs from Acct. 620 to Acct. 636	1,152
b. To remove plant addition already recorded in Acct. No. 339	-391
c. To reflect the appropriate management fee	735
d. To reflect non-reoccurring hurricane expense (16884/4)	<u>4,221</u>
Total	<u>\$5,717</u>

DIXIE GROVES UTILITY COMPANY		SCHEDULE NO. 7-A
TEST YEAR ENDING 05/31/2005		DOCKET NO. 050449-WU
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2
7. Regulatory Commission Expense (665)		
a. To amortize Rate Case Filing fee over 4 years (\$1000/4)		250
b. To amortize notice expense over 4 years (\$176/4)		<u>44</u>
Total		<u>\$294</u>
8. Miscellaneous Expense (675)		
a. To reflect reclassification from Acct. 620 to Acct. 675		39
		<u>0</u>
Total		<u>\$39</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>-\$3,374</u>
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.		39,234
2. To reflect amortization of CIAC composite rates		<u>-363</u>
Total		<u>\$38,871</u>
TAXES OTHER THAN INCOME		
1. To reflect increase in property tax related to pro forma		20,494
2. To reflect appropriate RAFS for test year Revenues (AD No. 6)		<u>282</u>
Total		<u>\$20,776</u>