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: July 6, 2006

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

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

RE: Docket No. 050587-WS – Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

AGENDA: 07/18/06 – Regular Agenda – Proposed Agency Action Except Issues 12 and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: 15-Month Statutory Effective Date (SARC): 2/3/07
Extended to 5/2/07 by utility

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:/PSC/ECR/WP/050587.RCM.DOC

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Case Background

MSM Utilities, LLC (MSM or utility), is a Class C water and wastewater utility currently providing service to approximately 54 customers in the Rivers Edge mobile home development in Charlotte County. MSM is located in the Southwest Florida Management District. The utility's 2005 annual report shows combined operating revenues of $18,820, operating expenses of $127,493 and a net operating loss of $108,673.

Order No. PSC-99-0756-FOF-WS, issued April 19, 1999,[1] approved the utility's current rates and charges. By Order No. PSC-05-0147-PAA-WS, issued February 7, 2005,[2] the Commission approved the transfer of assets and certificates from Hunter Creek Utilities, LLC to MSM Utilities, Inc. and established rate base. The utility has never had a rate case.

On September 6, 2005, MSM filed the Application for a Staff Assisted Rate Case (SARC) at issue in the instant docket. By letter dated October 31, 2005, the utility extended the fifteen-month statutory deadline for consideration of its requested increase by 90 days to allow the utility additional time to provide required information to staff in order for staff to fully evaluate the 2005 test year. The test year proposed for final rates is the twelve-month period ended December 31, 2005.

By Order No. PSC-06-0129-FOF-WS, issued February 16, 2006,[3] the Commission approved the addition of approximately 280 acres to MSM's service territory. There are currently four development projects being planned in the proposed territory. Some projects are being developed by entities related to the owners of the utility. Anticipated construction starts for these projects range from 2006 through 2011. The utility estimates it will add 545 customers during this period. To accommodate this growth, the utility plans to expand and relocate both of its facilities in 2007.

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

[1] Docket No. 980731-WS, In re: Application for certificate to provide water and wastewater service in Charlotte County by Hunter Creek Utilities, LLC.
[2] Docket No. 031042-WS, In re: Application for transfer of Certificate Nos. 611-W and 527-S in Charlotte County County from Hunter Creek Utilities, LLC to MSM Utilities, LLC, in Charlotte County.
[3] Docket No. 050820-WS, In re: Application for amendment of Certificates 611-W and 527-S to extend water and wastewater service areas to include territory in Charlotte County by MSM Utilities, LLC.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by MSM Utilities, LLC satisfactory?

Recommendation: Yes. The quality of service provided by MSM Utilities, LLC should be considered satisfactory. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code (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.

MSM Utility is a Class C water and wastewater utility which provides water and wastewater service to approximately 52 customers in Charlotte County.

QUALITY OF UTILITY'S PRODUCT

Water Treatment Plant (WTP)

The WTP at MSM is regulated by the Department of Environmental Protection (DEP). The DEP inspected the MSM WTP on February 10, 2005. The utility conformed to all testing and chemical analyses required by that agency and the test results have been satisfactory.

According to DEP's letter dated May 17, 2006, the DEP notified the utility on April 5, 2006 that MSM's records showed the water system exceeded the non-acute maximum contaminant level (MCL) for microbiological contaminants for the month of March, 2006. The utility collected six appropriate repeat bacteriological distribution samples on April 4, 2006. The test results indicated that all of the samples were satisfactory. Therefore, DEP returned the utility to compliance status.

The quality of the water service appears to meet or exceed the regulatory standards, and staff believes it should be considered satisfactory.

Wastewater Plant (WWTP)

The WWTP at MSM is also regulated by DEP. The DEP inspected the utility's WWTP on January 12, 2006. According to DEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory.

The quality of wastewater service appears to meet or exceed regulatory standards, and staff believes it should be considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

WTP

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. According to DEP's letter dated February 23, 2005, the DEP inspector observed a few deficiencies during his site inspection as follow below:

1. The south well needs to be secured. "Wellheads shall be enclosed by fences with lockable access gates, housed in lockable buildings or enclosures, or otherwise protected against tampering, vandalism, and sabotage." (Chapter 62- 62-555.315(1) F.A.C.)

2. The exterior tanks need to be secured. "Drinking water treatment or pumping facilities shall be enclosed by fences with lockable access gates, housed in lockable buildings or enclosures, or otherwise protected against tempering, vandalism, and sabotage." (Chapter 62- 62-555.320(5) F.A.C.)

3. If there are any dead-end water mains they must be flushed quarterly or in accordance with a schedule in a written flushing program and a record of the flushing is to be maintained. (Chapter 62- 62-555.350(12)(c) F.A.C.)

4. All suppliers of water shall keep records documenting that their isolation valves are being exercised. (Chapter 62- 62-555.350(2) F.A.C.)

Regarding deficiencies No. 2, 3 and 4, the utility completed these projects. Regarding deficiency No. 1, the utility intends to install a fence around the south well in the near future. Maintenance at the plant-site appeared to have been given adequate attention.

According to DEP's letter dated May 25, 2006, the DEP proposed a Short Form Consent Order because the utility violated the bacteriological Maximum Contaminated Level (MCL) for the month of March 2006, and they failed to issue Public Notice to their customers in a timely manner. Rule 62-560.410, F.A.C., requires that when a water system exceeds the non-acute maximum contaminant level for microbiological contaminants, public notice must be issued within 30 days of notification of the violation. Since the utility violated the above rule and did not notify its customers of the bacteriological MCL in a timely manner, the utility was assessed a civil penalty in the amount of $1,000. According to DEP's letter dated June 6, 2006, the DEP stated that since the utility paid the above amount and completed all conditions of the Consent Order satisfactory, the utility's case is closed.

Although, the operational condition at the water treatment plant is not 100% satisfactory, the DEP inspector believes the utility is cooperating and trying to improve the operational conditions. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. All things considered, the operational conditions at the water plant should be considered satisfactory at this time.

WWTP

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the WWTP is sufficient to process the average daily flows of the on-line customers. The utility's operating permit was issued on December 17, 2004, and will expire on December 16, 2009. According to DEP's letter to the utility dated January 17, 2006, the WWTP was inspected on January 12, 2006. Based on this inspection, the DEP inspector observed a couple of records and reports deficiencies. The inspector found the certified operator's daily logbook was not available for inspection during his visit and a few months of 2005 Discharge Monitoring Reports (DMR) were not submitted to the DEP. Although in general, the inspector stated the utility is in compliance status for their operation and maintenance and the effluent disposal. Also, the DEP inspector stated the utility had many problems with its operator services in the past. In response, the utility hired a new qualified operator recently. Staff believes the utility is cooperating and trying to improve the operational conditions and bring the plant into compliance status. In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The WWTP equipment and percolation ponds appeared to have been receiving periodic maintenance and were functioning properly. The plant ground within the fenced-in area was organized. The utility should complete any and all improvements to the system that are necessary to satisfy the standards set by DEP.

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

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer meeting was held on June 8, 2006 in The Oaks at Rivers Edge Community Clubhouse in Punta Gorda, Florida. The meeting was open to all customers at 6:00 p.m. Twenty-five customers attended this meeting, and five customers went on record with comments and concerns about the utility. Of those customers that attended the evening meeting, two came forward with complaints and opinions concerning the rate increase and the quality of service. The quality of service issues raised by these customers were: staining and brownish color in the sinks and toilets, not having a back-up generator during the emergencies, smell of chlorine and low water pressure.

Mr. Maurice Millard who was nominated by a group of customers to provide comments stated that most of the utility's customers do not live in the area during the summer. On behalf of those customers, he commented regarding the staining of the sinks and toilets and lack of generator during the emergencies and hurricanes.

Only one customer complained regarding the excessive chlorine in the drinking water and low water pressure. Staff reported the above issues to DEP. The DEP inspector inspected the customers' houses a few days after the staff reported the complaints. The DEP inspector said he did not find any sign of stain in Mr. Millard's sinks or toilets during his inspection. He further stated that when these customers leave for six months and return, they may see iron in the water. He stated that iron will build up after the water sits in the water lines for six months. He recommends that the customers flush their water lines after being gone for an extended amount of time. No other customers complained about stains.

Concerning the excessive chlorine in the drinking water and the low water pressure, DEP also contacted the customer, but the customer had left to go north for the summer. The inspector explained to staff that because only one person was concerned regarding the smell of chlorine and water pressure, the problem could be from the customer's house or from her meter.

Mr. Millard also complained that the utility does not have a back-up generator during the emergencies. Staff explained that under current DEP Rule 62-555.320(14), F.A.C., the utility is not required to have a generator (auxiliary power source) because the system has less than 150 connections or 350 population.

All things considered, staff believes that the owner of the utility is putting forth a sufficient good faith effort to respond to customer complaints. Therefore, staff recommends that the utility's attempts to resolve customer complaints should be considered satisfactory.

Based on all the above, staff recommends that the overall quality of service provided by MSM be considered satisfactory.

Issue 2: Does the utility have excessive unaccounted for water and, if so, are adjustments necessary?

Recommendation: Yes. The Utility had approximately 5% excessive unaccounted for water during the test year period. Therefore, allowable expenses for purchased electricity and chemicals should be reduced by 5% for the WTP during the test year period. (Massoudi, Merta, Fletcher)

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 the water was determined to be 742 gallons per day (gpd). The reasonable unaccounted amount (10% of average daily flow) was determined to be 492 gpd. The excessive unaccounted for water (EUW) was calculated to be 250 gpd which is 5%. 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 caused by the number of cracks and leaks between the distribution system and the service connection meter. The utility's owner claimed that a lot of water is lost due to the pool leaking in spring 2005. The utility stated the leaking problem was fixed on September 2005.

Since there is 5% EUW, the electrical power and chemical cost for the water system should be reduced by 5% during the test year period. These reductions are discussed in Issue 7. The utility should not charge the customers for the power and chemical expenses that were used to treat the water for that portion of the leaking or inaccurate reading.

Issue 3: What are the used and useful percentages for MSM's water and wastewater systems?

Recommendation:

Water Treatment System	84%
Storage Tank	100%
Water Distribution System	100%
Wastewater Treatment Plant	47.79%
Wastewater Collection Systems	100%

(Massoudi)

Staff Analysis:

Water Treatment Plant

The utility's water system is a Reverse Osmosis (R/O) water system. This process allows the removal of particles as small as ions from a solution. Also, R/O is used to purify water and remove salts and other impurities in order to improve the color, taste or properties of the fluid. This water system has two active wells designated as South Well No. 1 and North Well No. 2. Each well has a diameter of four inches and is equipped with a three horsepower (hp) submersible pump. Well No. 1 has a capacity of 50 gallons per minute (gpm) and Well No. 2 has a capacity of 40 gpm. The raw water from these two operating wells is pumped into a R/O water system with a 40,000 gpd membrane unit. The R/O reject concentrate is aerated, piped and spray irrigated at 9.2 gpm on an open permitted field. The filtered and purified water from the R/O system is chlorinated by using liquid sodium hypochlorite solution and pumped into six 5,000-gallon concrete storage tanks. The treated water from the storage tanks is pumped into a 5,000-gallon hydropneumatic tank and then pumped into the water distribution system. There are three fire hydrants within the distribution system.

In general, 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. The firm reliable capacity is calculated by using the capacity of the well with removing the largest well (50 gpm). Considering the other lowest volume capacity well with 40 gpm and no usable storage, the firm reliable capacity of water plant should be 40 gpm. In this case, since the raw water from wells is pumped first into a R/O water system (a treatment process other than aeration or disinfection including a storage facility), the used and usefulness of the storage facility and the water treatment system will be determined separately.

R/O Water System

Since the raw water from wells is pumped first into a R/O water treatment system with permitted maximum capacity of 40,000 gpd or 27.8 gpm membrane unit, the firm reliable capacity of water plant was determined to be 40,000 gpd. During the 12-month test year review period, the peak month of water usage occurred during February 2005. The maximum day in that maximum month was 27,600 gpd. The average daily flow was 4,921 gpd. Because the utility provides fire protection via fire hydrants throughout the distribution system pumped directly from the storage tank and not the R/O treatment system, the fire flow is considered to be

zero in this calculation. The anticipated growth for the following year (2006) was calculated by regression analysis to be 1.4 ERCs. As discussed in Issue 11, the utility will experience an extremely high level of growth over the next 5 or 6 years. Staff anticipates 50 customers being added in the year 2007. Since this growth rate exceeds the 5% per year limit provided by Section 367.081(2)(a)2.b., F.S., the customer growth in ERCs was calculated by using the statuary 5% per year cap of the average connections in 2005 (52 ERCS) for the subsequent 4-year period. The customer growth for the 4-year period was determined to be 2.6 ERCs. The total growth was calculated to be 6,263 gpd. The excessive unaccounted for water was calculated to be 250 gpd which was 5%. Therefore, it is recommended that the used and useful for the R/O water treatment system should be 84% (Attachment A, Page 1 of 5).

Storage Tank

The filtered and purified water from the R/O system is chlorinated and then pumped into six 5,000-gallons concrete storage tanks. Therefore, the firm reliable capacity of the storage tank was determined to be 30,000 gpd. The utility provides fire protection via fire hydrants throughout the distribution system. The Charlotte County fire code requires a minimum of 500 gpm for one hour (30,000 GPD) which is considered in the calculations. Considering the same data as above in the calculation, it is recommended that the used and useful for the storage tank should be 100% (Attachment A, Page 2 of 5).

Water Distribution System

The water distribution system had the potential of serving 58 customers (estimated to be 58 ERCs) in 2005. The average number of customers served during the test year was 52 customers (estimated to be 52 ERCs). A regression analysis of growth over the past five years indicates that next years' growth would be 1.4 ERC per year. When the 1.4 ERCs are applied to the statutory growth period, the future growth is calculated to be 7 ERCs. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, page 3 of 5).

Wastewater Treatment Plant

The existing WWTP is permitted to operate at a capacity of 15,000 gallons per day annual average daily flow (AADF), utilizing the extended aeration activated sludge process. The utility claimed the WWTP operator did not submit the DEP discharge monitoring report (DMR) for the month of February 2005. Therefore, the utility submitted 11 DMRs to staff. According to the provided DMRs, the utility's operator claimed that in the month of July, 589,000 gallons of the wastewater entered the WWTP which was an average daily flow of 19,000 gpd. The operator claimed this high flow in the month of July was due to a float switch malfunction. Because the average daily flow, without considering the month of July, was 7,570 gpd, staff believes that 19,000 gpd of wastewater in the month of July is an anomaly. In order to get more accurate data for the annual average daily flow, staff removed the 19,000 gpd flow that was an anomaly in July from the total flow in the year 2005 and substituted an annual average daily flow of 7,570 gpd.

As a result, the annual average daily flow for the historical test year for the WWTP was measured and calculated to be 5,842.73 gpd. The anticipated growth for the following year (2006) was calculated by regression analysis to be 1.4 ERCs. As discussed in Issue 11, the utility will experience an extremely high level of growth over the next 5 or 6 years. Staff anticipates 50 customers being added in the year 2007. Since this growth rate exceeds the 5% per year limit provided by Section 367.081(2)(a)2.b., F.S., the customer growth in ERCs was calculated by using the statuary 5% per year cap of the average connections in 2005 (52 ERCS) for the subsequent 4-year period. The customer growth for the 4-year period was determined to be 2.6 ERCs (52 x 5%). As a result, the total growth was calculated to be 1,325.85 gpd. There does not appear to be an excessive infiltration problem occurring within the collection system. Therefore, it is recommended that the used and useful for the wastewater treatment plant should be 47.79% (Attachment A, Page 4 of 5).

Wastewater Collection System

The utility's potential customer base is 58 ERCs. The average number of customers for the test year is 52 ERCs. Future growth for the next five years is calculated to be 7 ERCs. In accordance with the formula method used (Attachment A, Page 5 of 5); the used and useful is calculated to be 100%. It is recommended that the wastewater collection system be considered 100% used and useful.

RATE BASE

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

Recommendation: The appropriate average test year rate base for this utility is $50,195 for water and $28,734 for wastewater. (Merta, Fletcher)

Staff Analysis: The utility's rate base was established by Order No. PSC-05-0147-PAA-WS, issued February 7, 2005.[4]

Staff has selected an average test year ended December 31, 2005 for this rate case. Rate base components established in Order No. PSC-05-0147-PAA-WS have been updated through December 31, 2005, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follow:

Utility Plant in Service (UPIS): The utility recorded UPIS of $377,987 for water and $188,366 for wastewater for the test year ending December 31, 2005. Staff decreased water UPIS by $2,140 to reclassify capitalization of the repair of baffles in the chlorine contract chamber to Account 736, Contractual Services – Other, and amortized this non-recurring expense over five years. In addition, staff decreased water UPIS by $2,418 for an averaging adjustment. There were no adjustments made to wastewater UPIS. Staff recommends a UPIS balance of $373,429 for water and $188,366 for wastewater.

Non-used and Useful Plant: Staff has determined the used and useful percentages for the utility's plant accounts. Applying the non-used and useful percentages to the water treatment plant results in average non-used and useful plant of $46,867. The average non-used and useful accumulated depreciation is $25,562. There are no adjustments necessary for non-used and useful wastewater plant because the wastewater treatment plant to which this percentage is applied is fully depreciated and the resulting net non-used and useful plant is zero.

Accumulated Depreciation: The utility recorded accumulated depreciation balances of $264,730 for water and $131,898 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation on December 31, 2005, is $264,675 for water and $131,898 for wastewater. Therefore, staff decreased water accumulated depreciation by $55 to reflect depreciation calculated by staff. In addition, staff decreased accumulated depreciation by $6,586 for water and $1,834 for wastewater for averaging adjustments. These adjustments result in accumulated depreciation balances of $258,089 for water and $130,064 for wastewater.

Accumulated Amortization of CIAC: The utility recorded accumulated amortization of CIAC balances of $32,864 for water and $57,362 for wastewater for the test year. Staff recalculated amortization of CIAC using rates prescribed in Rule 25-30.140, F.A.C., in lieu of composite rates, because the CIAC can be specifically identified by account. Based on this recalculation, staff increased accumulated amortization of CIAC by $7,405 to reflect a balance of $40,269 for

[4] Docket No. 031042-WS, In re: Application for transfer of Certificate Nos. 611-W and 527-S in Charlotte County from Hunter Creek Utilities, LLC to MSM Utilities, LLC, in Charlotte County.

water and by $5,336 to reflect a balance of $62,698 for wastewater. In addition, staff decreased this account by $1,852 for water and by $1,334 for wastewater to reflect averaging adjustments. Staff recommends accumulated amortization of CIAC of $38,418 for water and $61,364 for wastewater.

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 used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of $7,582 for water (based on O&M of $60,657) and $5,234 for wastewater (based on O&M of $41,876). Working capital has been increased by $7,582 and $5,234 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is $50,195 for water and $28,734 for wastewater.

A calculation of rate base is shown on Schedule Nos. 1-A, 1-B and 1-C.

COST OF CAPITAL

Issue 5: 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 8.97% with a range of 7.97% - 9.97%. The appropriate overall rate of return is 8.55%. (Merta, Fletcher)

Staff Analysis: The utility's capital includes common equity of $610,000. There is no record of debt. The parent company, MSM Land Investments, also shows only equity in its statement of net worth. Staff included customer deposits for the 50 new customers discussed in Issue 9.

The utility's capital structure has been reconciled with staff's recommended rate base. Using the leverage formula approved by Order No. PSC-06-0476-PAA-WS, issued June 5, 2006,[5] staff's recommended return on equity is 8.97% with a range of 7.97% - 9.97% and an overall rate of return of 8.55%.

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

[5] Docket No. 060006-WS, In Re: Water and Wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

NET OPERATING INCOME

Issue 6: What are the appropriate test year revenues?

Recommendation: To reflect the correct meter readings for residential customers, to impute the appropriate amount for general service customers, and to mitigate high rates and produce more reasonable ones for the existing customers by including 50 additional customers, revenues should be increased by $34,166 for water and by $15,606 for wastewater revenues. (Fletcher)

Staff Analysis: According to Audit Exception No. 3, staff auditors stated that the utility recently changed its billing program. As a result, the program changed or deleted some of the records, and the revenue recorded by the system changed. Further, in Audit Disclosure No. 3, the auditors stated there are three general service customers which the utility was not billing.

MSM provided the staff with the meter readings for all residential and general service customers. For the residential customer consumption, the utility made a few mathematical errors. For instance, it confused a reading of a new installed meter in the middle of the billing cycle as the total consumption for the month and did not include the consumption from the old meter that was replaced. Staff computed revenues based on the actual meter readings.

When the current owner took over operating the utility, it stated that it could not find some of the meters. The clubhouse was not billed until February 2005. A boat dock was metered, but the meter was not read until October 2005. Further, a new meter at the RO plant was installed in September 2005, where there are facilities for the operator's use.

The clubhouse had a leak in the line that went to the pool that was fixed in September 2005. The usage went from the 30,000 to 50,000 gallon range to 11,590 in September to 3,160 in October. Staff believes the gallons for the clubhouse should be normalized because of the pool leak. In response to a staff data request, the utility estimated that the gallons attributed to the pool leak totaled 25,000 gallons per month. Staff believes this amount is reasonable because the difference in the usage in February 2005 and February 2006 is 24,800 gallons. Further, to impute revenue, the usage for January and February of 2006 were used.

Regarding the boat dock, MSM asserts that the boat dock has just a faucet, but there is no consumption there. To estimate the annual consumption for the new meter at the RO plant, staff used the actual readings from September 2005 to February 2006, and, then, staff imputed 900 gallons a month which is average monthly gallons of actual consumption from September 2005 to February 2006.

MSM's tariff does not authorize a general service rate. However, in its response to the audit, the utility agreed that it is proper to charge general service customers. To impute revenues for the general service customers, staff used the residential service BFC rates and gallonage rate to calculate general service revenue from gallons sold for wastewater. General Service rates do not usually contain a cap on the number of gallons used by wastewater customers. As such, for revenue imputation purposes, staff did not use the residential wastewater gallonage cap.

For reasons discussed in Issue 11, the utility and staff have agreed to include 50 additional customers in the 2005 test year in order to mitigate high rates and produce more reasonable ones for the existing customers. Staff computed revenues of $46,644 for water and $21,947 for wastewater. In its general ledger, the utility recorded revenues of $12,478 for water and $6,341 for wastewater. Based on the above, staff recommends that revenues should be increased by $34,166 for water and by $15,606 for wastewater.

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

Recommendation: The appropriate amount of operating expense for the utility is $72,678 for water and $52,097 for wastewater. (Merta, Fletcher)

Staff Analysis: The utility recorded operating expenses of $83,157 for water and $56,972 for wastewater for the test year ending December 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:

Operation and Maintenance Expenses (O&M)

The utility classified several of its O&M expenses incorrectly and staff has reclassified the expenses into the appropriate accounts. The reclassifications have a zero effect on O&M expenses and are discussed below.

Salaries and Wages – Employees – (601/701) - The utility recorded $480 for water and $480 for wastewater in this account. Staff decreased these accounts by $480 each to reclassify a component of the management fee to Account Nos. 636 and 736.

Purchased Power – (615/715) – The utility recorded $2,505 for water and $1,823 for wastewater in this account for the test year. Staff increased water by $525 and decreased wastewater by $524 to correct the allocation. The staff engineer concluded that 70 percent of total purchased power should be allocated to water and 30 percent to wastewater because the water treatment plant requires more electrical power than the wastewater plant. Staff increased this account by $12,941 for water and by $4,702 for wastewater to project the expense for the projected usage of 50 additional customers. Staff also decreased water by five percent, or $799, to reflect excessive unaccounted for water as discussed in Issue 2. Further, staff decreased this account by $1,776 for water and $550 for wastewater for a repression adjustment. Therefore, staff recommends purchased power of $13,397 for water and $5,451 for wastewater.

Chemicals – (618/718) – The utility recorded $620 in this account for water and $624 for wastewater for the test year. However, according to the engineer, the utility paid $654 and $627 for chemical purchases for water and wastewater, respectively. No adjustment was made to these accounts because this difference is immaterial. Staff increased this account by $2,648 for water and by $2,260 for wastewater to project the expense for additional treatment required by the increased gallonage for 50 additional customers. Staff decreased water by five percent or $163 to reflect excessive unaccounted for water as discussed in Issue 2. Further, staff decreased this account by $363 for water and $264 for wastewater for a repression adjustment. Therefore, staff recommends chemical expense of $2,741 for water and $2,619 for wastewater.

Materials and Supplies – (620/720) – The utility recorded $2,123 for water and $1,251 for wastewater in this account for the test year. Staff made the following adjustments: increased water by $933 to reclassify costs from Account No. 631; and decreased water by $520 to

amortize non-recurring supplies over five years ($650/5 years). Staff recommends materials and supplies expense of $2,536 for water and $1,251 for wastewater.

Contractual Services – Billing – (630/730) – The utility recorded $450 for water in this account for the test year. Staff reduced this account by $450 to reclassify a component of the management fee to Account No. 636. Staff recommends zero expense for this account.

Contractual Services – Professional – (631/731) – The utility recorded $2,527 for water and $2,202 for wastewater in this account for the test year. Staff decreased water by $158 and increased wastewater by $158 to allocate accounting fees to wastewater ($315/2). In addition, staff made the following adjustments: decreased wastewater by $250 to reclassify a component of the management fee to Account No. 736; decreased water by $1,134 and wastewater by $1,807 to reclassify engineering costs for plant expansion to Account No. 103, Property Held for Future Use; and decreased water by $933 to reclassify costs to Account No. 620. Further, the utility recorded $3,000 in legal fees for the territory expansion docket in Account No. 186, Miscellaneous Deferred Debits. As a result, these costs were not included in expenses. Thus, staff increased water and wastewater by $300 each to amortize non-recurring legal fees over five years ($3,000/2/5years). Therefore, based on the above, staff recommends contractual services – professional expense of $603 for water and $603 for wastewater.

Contractual Services – Testing – (635/735) – The utility recorded $1,600 for water and $2,763 for wastewater in this account for the test year. Staff decreased this account by $700 for water and $700 for wastewater to reclassify operator fees to Account Nos. 636/736.

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

Water

Rule	Description	Frequency	Cost per year
62-550.518 F.A.C.	Microbiological	monthly	$420
62-550.310(1) F.A.C.	Primary Inorganics	36 months.	$52
62-550.320(1) F.A.C	Secondary Inorganics	36 months.	$30
62-550.511 F.A.C.	Asbestos	1/9 year	$35
62-550.512(1) F.A.C.	Nitrate & Nitrite	monthly	$180
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		**$1,513**

Wastewater

Rule	Description	Frequency	Cost
62-600 F.A.C.	CBOD/TSS (influent)	monthly	$552/yr
62-600 F.A.C.	CBOD/TSS (effluent)	monthly	$552/yr
62-600 F.A.C.	Fecal Coliform	monthly	$180/yr
62-600 F.A.C.	Nitrate, Nitrite	quarterly	$168/yr
62-600 F.A.C.	Sludge Analysis	yearly	$517/yr
		Total	$1,969/yr

In addition to the tests shown above for water, because MSM has a R/O water plant, DEP also requires that concentrate discharge be separately sampled monthly for pH, chloride, sulfate, temperature, radiological constituents and several other parameters and that the monitor wells around the concentrate spray fields be sampled for the same parameters. Based on invoices, the utility paid $1,167 for the R/O concentrate discharge lab tests and $123 for bacteriological analysis at wells. Therefore, staff increased water by $1,903 and decreased wastewater by $94 to reflect annual DEP testing. Staff recommends contractual services – testing expense of $2,803 ($1,513 + $1,167 + $123) for water and $1,969 for wastewater.

Contractual Services – Other (636/736) – The utility recorded $47,943 for water and $23,801 for wastewater in these accounts for the test year.

1 – Reclassifications

Staff made the following adjustments: increased wastewater by $2,140 to reclassify baffle repairs from Account No. 320; increased water and wastewater by $700 each to reclassify operator fees from Account Nos. 635/735; increased water and wastewater by $480 each to reclassify management fee salaries from Account Nos. 601/701; decreased wastewater by $350 to reclassify engineering for the plant expansion to Account No. 103; increased wastewater by $250 to reclassify management fees from Account No. 731; and increased water by $450 to reclassify management fees from Account No. 630.

2 - Management Fee

The utility recorded $29,008 for water and $15,214 for wastewater in management fees for the test year. The management fee includes the services of the managing partner, a project manager, a bookkeeper, an office assistant and a portion of the common costs of the office.

The managing partner is responsible for the overall management of MSM. He meets weekly with a contracted maintenance person to inspect the water and wastewater plants. The meetings sometimes include the operator to discuss operation and maintenance of the facilities. The managing partner also reviews the monitoring reports. The managing partner estimates that he spends 20 to 25 hours per month on utility operations and his overall billing rate is $100 per hour.

The project manager spends 20 to 25 hours per month on utility operations and her billing rate is $17.79 per hour. She is responsible for the PSC application process for the rate case and the application for territory expansion. She is also responsible for assisting in due diligence through the pre-construction phase of projects including planning, scheduling, budgeting and marketing. In addition, she manages contracts specific to project development, manages government agency permitting requirements, manages contracts for office equipment and outside vendor contracts, and prepares and monitors project budgets. Between January and May of 2005, she also was responsible for the financial accounts and billings.

The bookkeeper spends 30 hours per month on utility operations and her billing rate is $20 per hour. She maintains the financial accounts for MSM, including confirming the accuracy of the meter readings, posting bills, writing checks, reconciling monthly bank statements, creating invoices for customers, and posting customer payments.

The administrative assistant spends two hours per month on utility operations and her billing rate is $15.63 per hour. She records the meter readings and calculates usage, mails invoices to customers and is responsible for customer communications.

Audit Disclosure No. 1 presents an analysis of the management fee. Estimates of the time spent on utility business were determined by each employee and their salary allocated to the utility based on the hours spent on utility business times their billing rate. The costs related to those employees such as taxes, benefits, and office space, telephone and electric were also included and allocated based on the percent of the employee's time spent on the utility. The utility calculated its management fee based on an hourly rate of $100 for its managing partner, which included his salary plus commissions for land sales. The staff auditor calculated an hourly rate of $24.04 which excludes the commissions and yields a monthly management fee of $985 for water and $603 for wastewater. Staff believes the managing partner's hourly rate should exclude land sales commissions because land sales are not part of utility operations. The project manager's time was excluded from the management fee and included in regulatory commission expense, as discussed below, because her work focuses mainly on the proceedings before the PSC, and future projects and not on normal, recurring operations.

Staff believes that a management fee of $44,222 per year is excessive for a utility of MSM's size. As the expansion and replacement of its water and wastewater facilities are completed in 2007, staff believes the utility will require less oversight and direction by the managing partner. Based on Audit Disclosure No. 1, staff recommends $11,819 ($984.93 x 12) as reasonable for the annual water management fee and $7,240 ($603.33 x 12) annually for wastewater, which represents a total annual management fee of $19,059. Therefore, staff decreased these accounts by $17,189 for water and $7,974 for wastewater.

3 – Operator fee

MSM contracted with Key Wastewater Treatment Plants Operational Services to operate both the water and wastewater plants for a fee of $1,400 per month. The utility included $15,400 for operator fees for the test year. Based on the contract, the annual fee is $16,800. Therefore, staff increased water and wastewater by $700 each to include 12 months of operator fees ($16,800 - $15,400 /2).

4 – Non-recurring Repairs

The utility recorded $12,890 for water and $4,107 for wastewater repairs and maintenance for the test year. Staff believes this is excessive for a utility of MSM's size. However, the facilities have been in service since 1982, and, according to a maintenance employee, were in a state of disrepair when they were purchased by the present owner. Therefore, staff believes that some of the costs for repair and maintenance is work to bring the plant up to standards and will not be recurring. Staff decreased these accounts by $982 for water and $2,195 for wastewater to amortize non-recurring expenses over five years in accordance with Rule 25-30.433(8), F.A.C. The non-recurring repairs include flow meter monitor, flow switch on high service pumps, chlorine pump and stenner repair. In addition, staff decreased this account by $1,350 for water to remove labor unsupported by documentation. Staff recommends repair and maintenance expense of $10,558 for water and $1,912 for wastewater.

In summary, staff recommends $30,752 for water and $17,552 for wastewater for contractual services – other expense.

Transportation Expense – (650/750) – The utility recorded $1,500 for water and $564 for wastewater for these accounts for the test year. Staff decreased water by $112 and increased wastewater by $824 to reflect the travel allowance. An average of 120 miles per week is required in travel. In accordance with allowances for state travel, an allowance of $0.445 per mile is considered prudent for utility travel in personal vehicles. Therefore, staff recommends $1,388 for water and $1,388 for wastewater (120 miles x 52 weeks x $0.445 /2).

Regulatory Commission Expense – 665/765 - The utility recorded $325 for water and $325 for wastewater for these accounts for the test year. The $325 is composed of a $2,000 filing fee for a territory expansion docket, amortized over five years for an expense of $400 with $200 allocated to water and $200 to wastewater. This treatment is consistent with the Commission's

decision in a recent rate case for Alafaya Utilities, Inc.[6] In addition, the utility paid a $700 filing fee in this rate case and consultant fees of $550 for a total of $1,250. Amortizing this amount over five years results in an annual expense of $250, which is allocated $125 to water and $125 to wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. The utility incorrectly amortized its rate case expense over five years. The utility should have recorded $313 in rate case amortization ($1,250/4) allocating $156 to water and to wastewater. Therefore, staff has increased this account by $31 for water and $31 for wastewater ($156 - $125).

Further, the utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers and by Rule 25-30.475(1)(a), F.A.C., to mail notices of any rate increase to its customers. Staff believes that $106 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case (54 customers x $0.39 postage + 6 pages x 54 customers x $0.10 paper and envelopes = $53 x 2 mailings = $106). Staff increased this account by $13 for water and $13 for wastewater to amortize the notice expenses over four years. Staff recommends that total rate case expense is $1,356 ($1,250 + $106) amortized over four years is $339, allocating $170 each for water and wastewater.

In addition, staff increased water and wastewater by $637 each to amortize the project manager's salary, benefits, taxes and common costs over five years ($531 x 12 /5/2) because her duties relate primarily to the territory expansion docket and this rate case.

Based on the above, staff recommends regulatory commission expense of $1,007 ($200 + $170 + $637) for water and $1,007 for wastewater.

Operation and Maintenance Expense (O&M) Summary – The total O&M adjustment is a decrease of $4,846 for water and a decrease of $1,993 for wastewater. Staff recommends O&M expenses of $60,657 for water and $41,876 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded depreciation expense of $13,227 for water and $3,668 for wastewater, and CIAC amortization of $3,702 for water and $2,668 for wastewater for the test year. Amortization of CIAC has a negative impact on depreciation expense. The utility incorrectly added the depreciation and amortization expense instead of subtracting amortization from depreciation. Thus, the utility recorded net depreciation expense of $16,929 for water and $6,336 for wastewater.

Depreciation has been calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff increased water by $46 to reflect staff's calculated depreciation of $13,273. In addition, staff decreased this account by $1,737 for water to reflect non-used and useful depreciation expense. Staff agrees with the utility's calculation of $3,668 for wastewater depreciation expense. Staff calculated amortization of CIAC based on rates prescribed in Rule

[6] See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

25-30.140, F.A.C., because the CIAC can be specifically identified by account. Staff further decreased these accounts by $7,405 for water and $5,337 for wastewater to reflect staff's calculated amortization of CIAC of $3,703 for water and $2,668 for wastewater. Amortization of CIAC and non-used and useful depreciation have a negative impact on depreciation expense. Therefore, staff recommends annual net depreciation expense of $7,833 for water and $1,000 for wastewater.

Taxes Other Than Income – The utility recorded property taxes of $725 for water and $6,766 for wastewater for the test year. MSM did not record regulatory assessment fees (RAF) for 2005. Staff increased this account by $2,099 for water and $988 for wastewater to include the appropriate RAFs on test year revenues.

Income Tax – MSM is a partnership, therefore this utility pays no income taxes.

Operating Revenues – Revenues have been increased by $30,325 for water and $32,606 for wastewater 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 $1,365 for water and $1,467 for wastewater to reflect RAF of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the audit test year operating expenses results in staff's calculated operating expenses of $72,678 for water and $52,097 for wastewater.

Operating expenses are shown on Schedules 3-A through 3-E.

REVENUE REQUIREMENT

Issue 8: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is $76,969 for water and $54,553 for wastewater. (Merta, Fletcher)

Staff Analysis: The utility should be allowed an annual increase of $30,325 (65.01%) for water and $32,606 (148.57%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn an 8.55 percent return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$50,195	$28,734
Rate of Return	x .0855	x .0855
Return on Rate of Return	$4,291	$2,456
Adjusted O & M expense	$60,657	$41,876
Depreciation expense (Net)	$7,833	$1,000
Amortization	$0	$0
Taxes Other Than Income	$4,189	$9,221
Income Taxes	$0	$0
Revenue Requirement	$76,969	$54,553
Adjusted Test Year Revenues	$46,644	$21,947
Percent Increase/(Decrease)	65.01%	148.57%

Revenue requirements are shown on Schedule Nos. 3-A and 3-B.

RATES AND CHARGES

Issue 9: Are continuations of the utility's current rate structures for its water and wastewater systems appropriate in this case, and, if not, what are the appropriate rate structures for the respective systems?

Recommendation: No. The utility's current three-tier inclining block water system rate structure for residential service should be changed to reflect usage blocks of: a) 0-7,000 gallons (7 kgal); b) 7.001-14 kgal; and c) usage in excess of 14 kgal. The usage block rate factors should be changed to 1.0, 1.25 and 1.5, respectively, with the post-repression base facility charge (BFC) cost recovery percentage set at 35%. As the utility has no approved, tariffed water charges for the general service class, staff recommends that the rate structure be based on the traditional BFC/gallonage charge cost recovery methodology, with the kgal charge based on a uniform water kgal charge. The utility's current wastewater system rate structure should also be changed to include charges for general service customers, based on the traditional BFC/gallonage charge cost recovery methodology. The general service kgal charge should have no cap on billed usage, and should be 1.2 times greater than the corresponding residential wastewater kgal charge. The BFC cost recovery should be set at 60%. (Lingo)

Staff Analysis: Staff's analysis and recommendations on this issue are contained on Attachment B.

Issue 10: Are adjustments to reflect repression of consumption due to the price changes and changes in rate structure appropriate in this case, and, if so, what are the appropriate repression adjustments for the water and wastewater systems?

Recommendation: Yes, repression adjustments are appropriate for both the water and wastewater systems. Residential consumption should be reduced by 11.9%, resulting in a consumption reduction of approximately 817.2 kgal. The resulting total water consumption for ratesetting is 6,165.5 kgal. Residential wastewater usage, capped at 10 kgal, should be reduced by 7.2%, resulting in a consumption reduction of approximately 504.7 kgal. The resulting total wastewater consumption for ratesetting is 4,964.9 kgal. In order to monitor the effects of both the changes in rate structures and revenues, the utility should prepare monthly reports for the water and wastewater systems, detailing the number of bills rendered, the consumption billed by usage block, and the revenues billed. These reports should be provided to staff. In addition, these reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: Staff recommends a reduction in both water and wastewater consumption for ratesetting to reflect the effects of repression. In this instance, staff believes it is appropriate to base its analysis using the proportional formula approved by the Commission in prior cases[7]. Staff's analysis of this issue, including its resulting conclusions and recommendations, is contained on Attachment C.

[7] See Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pp. 26-27; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002 in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc., pp. 39-40; Order No. PSC-03-0647-PAA-WS, issued May 28, 2003 in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 34-36.

Issue 11: What are the appropriate monthly rates for each system?

Recommendation: The appropriate water and wastewater monthly rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of $76,969 for water and $54,553 for wastewater. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Rendell, Merta, Fletcher, Lingo)

Staff Analysis: The utility's current water rates consist of a BFC of $10.50 for a 5/8" meter, plus a three-tier inclining block charge per 1,000 gallons (kgal) of $3.25 for usage of 0 to 5 kgal, $4.88 for usage of 5,001 to 8 kgal, and $7.32 for usage in excess of 8 kgal. The corresponding wastewater BFC for a 5/8" meter is $6.50. Residential service wastewater customers are charged $2.50 for each kgal used, with a cap on monthly billed usage of 10 kgal. Currently, the utility does not have tariffed general service rates. The recommended rates should be designed to produce revenue of $76,969 for water and $54,553 for wastewater.

Staff originally designed rates based on the $63,763 and $48,145 revenue requirements calculated for water and wastewater, which produced a 425.81 percent increase for water and a 563.44 percent increase for wastewater. These revenue requirements produced exceedingly high base facility and gallonage charges – a base facility charge of $50.29 for water and $44.19 for wastewater, and gallonage charges of $22.16 and $15.97, respectively. A comparison of customer bills under these rates versus the existing rates is shown below:

Combined Monthly Water and Wastewater Bill

Consumption	Existing Rates	Staff's Original Rates
Average Usage	$27.00	$160.97
3,000 Gallons	$34.25	$208.88
5,000 Gallons	$45.75	$285.14
10,000 Gallons	$87.53	$475.81

The new rates are extremely high for several reasons. The first reason is the small number of customers over which to spread the costs – approximately 54 customers at present. The second is that this utility has never had a rate case. The utility's current rates were established by the original developer in 1982 and have remained unchanged. These rates have not been sufficient to cover the costs of the utility for several years, and the utility has experienced net operating losses. As stated in the case background, the annual report showed a combined net operating loss of $108,673 for 2005. The third reason is that the aging facilities are requiring increased repair and maintenance expenses. Thus, the small number of customers, the insufficient rates to begin with and increasing O&M expenses have contributed to a very high rate increase in this rate case.

Another concern with implementing these rates is that an overearning situation could develop in a year or so. The utility is growing very rapidly. MSM projects the addition of approximately 545 customers over the next five years. The utility plans to expand and relocate the water and wastewater plants; however, staff does not believe that expenses will change a great deal. The new facilities will require more chemicals and electric power, for example, but there will be less spent for repairs. Therefore, the utility could experience overearnings and rates would need to be adjusted downward. In order to achieve rate stability it would be prudent to avoid this likelihood, if possible.

Staff discussed these concerns with the utility's owner. The owner shares our concerns with the high rates and, because he is a developer, wants to keep rates reasonable in order to attract buyers for the homes being built. Staff worked closely with the owner and reached an agreement. By spreading the 2005 costs over a larger customer base, rates can be decreased. The owner stated that the existing plant can serve 100 to 150 new water and 50 new wastewater customers. Therefore, staff has agreed to include 50 new customers in the 2005 test year to mitigate the high rates. Staff believes the rates produced will be more reasonable for the existing customers. In addition, overearnings may be avoided because over the next five years the utility will be adding approximately $1.4 million and $1.7 million to rate base for the new water and wastewater plants, respectively. The new rates will become effective approximately August 29, 2006, if there are no protests. Currently, there are new homes being built with many more expected next year when these rates are in place. Therefore, staff believes it is reasonable to include these new customers. A comparison of customer bills under these rates versus the existing rates is shown below:

Combined Monthly Water and Wastewater Bill

Consumption	Existing Rates	Staff's Revised Rates
Average Usage	$50.74	$99.70
3,000 Gallons	$34.25	$82.16
5,000 Gallons	$45.75	$105.70
10,000 Gallons	$87.53	$170.10

Based on staff's recommended rates, the utility would recover approximately 35% of the water and 60% of the wastewater revenue requirement through the base facility charge, with the remaining 65% of the water and 40% of the wastewater revenue requirement being recovered through the gallonage charge.

MSM currently has an approved three-tier inclining block rate structure. Staff's recommendation is a continuation of this rate structure with a modification of the usage blocks and rate factors. The recommended water and wastewater rates are shown on Schedules 4-A and 4-B, respectively.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed

customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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.

A comparison of the utility's original rates and staff's recommended water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively.

Issue 12: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall 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), Florida Administrative Code, 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. (Merta, Fletcher)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall 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 $43,395. 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.

Issue 13: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, 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. (Merta, Fletcher)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $170 annually for water and $170 for wastewater. 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 Nos. 4-A and 4-B.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. 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 14: Should the utility be authorized to collect service availability charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The Commission should approve plant capacity charges per ERC of $638.10 for water and $1,762.40 for wastewater, and approve a main extension policy which provides that, for new developments, the water distribution and wastewater collection systems be contributed. In addition, the utility should be authorized to collect meter installation fees of $180 for 5/8" x 3/4" meters and actual cost for all others. If there is no timely protest by a substantially affected person, the utility should file the appropriate tariff sheets within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff should be given administrative authority to approve the tariff sheets upon staff's verification the tariff is consistent with the Commission's decision. If the tariff sheets are filed and approved, the tariff sheets should become effective on or after the stamped approval date. Within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and meter installation fee and the authorization to collect donated property. The notice should be approved by Commission staff prior to distribution. The utility should provide proof the appropriate customers or developers have received notice within ten days of the date of the notice. In the event of a protest, the utility should be allowed to collect staff's recommended charges, subject to refund. The utility should file revised tariff sheets and proposed customer notice prior to implementation. These charges should be implemented on a temporary basis pending resolution of the protest. (Fletcher)

Staff Analysis: On January 23, 2006, MSM requested service availability charges because it intends to expand its water and wastewater facilities and due to its requested expansion of its service territory in Docket No. 050820-WS. The utility asserted it is essential that these charges be approved prior to new customers coming online. MSM provided a cost expansion estimate to develop service availability charges based on the engineer's cost estimates and estimated growth and flow projections. Based on this information, the utility believes the appropriate charges are a system capacity charge per ERC of $638.10 for water and $1,762.40 for wastewater. In addition, MSM believes $180 is an appropriate meter installation fee for a 5/8" x 3/4" meter. As discussed below, staff has recommended approval of this requested $180 meter installation fee. Further, the utility requests a main extension policy which provides the water distribution and wastewater collection systems be contributed for new developments. Last, MSM asserted all of the above factors were assumed in the development of its proposed charges. Shown below are the utility requested and staff recommended service availability charges.

Service Availability Charges

	Utility Requested		Staff Recommended	
	Water	Wastewater	Water	Wastewater
System Capacity Charge	$638.10	$1,762.40	N/A	N/A
Plant Capacity Charge	N/A	N/A	$638.10	$1,762.40

Meter Installation Fee		
5/8" x 3/4" Meter	$180	$180
All Others	Actual Cost	Actual Cost

A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the plant. A main installation charge represents the reimbursement by a developer or a customer to offset the cost of the lines.

When calculating service availability charges, staff believes that it is more reasonable to have separate charges for the cost of plant and the cost of lines, instead of one system capacity charge. One reason for this delineation is to avoid a possible over contribution by a customer. For instance, when a utility accepts donated lines from a developer and only has an authorized system capacity charge, this could create a situation in which the utility would not only accept the donated lines but also collect system capacity charges from customers for those lines that had been donated. Thus, the utility's CIAC associated with the donated lines would essentially be accounted for twice, which would reduce the utility's rate base on an accelerated basis. To avoid this, staff believes it is prudent to approve plant charges as discussed below.

According to Rule 25-30.580, F.A.C., the guidelines for designing a utility's service availability policy are as follows:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% 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; and
> (2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

Based on staff's review of the utility's cost information, the proposed service availability charges are reasonable. First, MSM provided an itemized breakdown of meter installation, which included the meter, meter box, couplings, curb stop, dual check valve, sale tax, and labor. Second, in order to establish the appropriate plant capacity charge, staff divided plant other than transmission and distribution mains for water and collection mains for wastewater by the total ERC capacity that the proposed new water and wastewater plants are capable of serving.[8] These calculations rendered plant capacity charges that are greater than the charges proposed by the utility and that would place the utility above the 75% maximum CIAC guideline level. However, staff notes that the amount of the utility's proposed charges would put the utility at a designed capacity CIAC level of approximately 70% for water and 75% for wastewater. Therefore, staff recommends the Commission should approve plant capacity charges per ERC of

[8] This is the same method that the Commission used to determine the plant capacity charge for Wedgefield Utilities, Inc. in Order No. PSC-00-1528-PAA-WU, issued August 23, 2000, In Docket No. 991437-WU.

$638.10 for water and $1,762.40 for wastewater, and approve a main extension policy which provides the water distribution and wastewater collection systems be contributed for new developments.

Currently, MSM has no tariffed meter installation charges. The utility requested a fee of $180 for the installation of 5/8" x 3/4" meters and actual cost for all other meter sizes. Section 367.091(6), F.S., authorizes the utility to file an application to establish, increase, or change a rate or charge other than monthly rates or service availability charges, which must be accompanied by a cost justification. As justification, the utility provided the following actual costs:

Description	5/8" x 3/4" Meter
Materials	
Meter	$ 28.64
Meter box	13.62
Couplings	6.76
Curbstop	26.90
Dual Check Valve	29.54
Sales Tax	7.59
Total Materials	$113.05
Labor	
Labor & Supervision	$ 50.00
Misc. – 10%	16.61
Total Labor	$ 66.61
Total Materials & Labor	$179.66

Staff believes that the utility's cost documentation justifies the requested installation fees.

The Commission approved a meter installation fee of $250 by Order No. PSC-03-0740-PAA-WS, issued June 23, 2003,[9] and a $200 fee by Order No. PSC-04-1256-PAA-WU, issued December 20, 2004,[10] In addition, a $190 fee was approved by Order No. PSC-02-1831-TRF-WS, issued December 20, 2002.[11] Therefore, staff believes the meter installation fees requested by MSM are reasonable and consistent with meter installation fees for other utilities. Based on the above, staff recommends a meter installation fee of $180 for 5/8" x 3/4" meters and actual cost for all other meter sizes be approved.

9 Docket No. 021067-WS, In re: Application for staff assisted rate case in Polk County by River Ranch Water Management, L.L.C.
10 Docket No. 041040-WU, In re: Application for certificate to operate water utility in Baker and Union Counties by B & C Water Resources, L.L.C.
11 Docket No. 020388-WS, In re: Request for approval to increase meter installation fees to conform to current cost in Lake County by Sun Communities Finance, LLC d/b/a/ Water Oak Utility.

If there is no timely protest by a substantially affected person, the utility should file the appropriate revised tariff sheets within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariff is consistent with the Commission's decision. If the tariff sheets are filed and approved, the tariff sheets should become effective on or after the stamped approval date. Within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes, the utility should also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and meter installation fee and the authorization to collect donated property. The notice should be approved by Commission staff prior to distribution. The utility should provide proof the appropriate customers or developers have received noticed within ten days of the date of the notice. In the event of a protest, the utility should be allowed to collect staff's recommended charges, subject to refund. The utility should file revised tariff sheets and proposed customer notice prior to implementation. These charges should be implemented on a temporary basis pending resolution of the protest.

Issue 15: Should the utility be authorized to collect customer deposits, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to collect customer deposits. The appropriate customer deposit should be the recommended charge as specified in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Merta, Fletcher)

Staff Analysis: The utility currently does not have a tariffed charge for customer deposits. The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new utility customers. Rule 25-30.311, F.A.C., provides guidelines for collecting, administering, and refunding customer deposits. The rule also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on the recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended deposits follows:

Residential Customer Deposits

Meter Size	Staff Recommended Water Deposit	Staff Recommended Wastewater Deposit
5/8" x ¾"	$113.70	$85.70
All over 5/8" x ¾"	2 x average bill	2 x average bill

General Service Customer Deposits

5/8" x ¾"	$90.02	$101.62
All over 5/8" x ¾"	2 x average bill	2 x average bill

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility should refund the customer's deposit pursuant to Rule 25-30.311(5), F.A.C. The utility should pay interest on customer deposits pursuant to Rule 25-30.311(4), F.A.C.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

Issue 16: Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Merta, Fletcher)

Staff Analysis: The miscellaneous service charges were approved for MSM on April 19, 1999, and have not changed since that date. The approved charges have been the standard charge since at least 1990 – a period of 16 years. Staff believes these charges should be updated to reflect current costs. Staff recommends that MSM be allowed to increase its water and wastewater miscellaneous service charges from $15 to $20 and from $15 to $40 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility requires multiple actions. The current and recommended charges are shown below.

Water Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	N/A	$20	N/A
Normal Reconnection	$15	N/A	$20	$40
Violation Reconnection	$15	N/A	$20	$40
Premises Visit (in lieu of disconnection)	$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	$20	$40

Wastewater Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	N/A	$20	N/A
Normal Reconnection	$15	N/A	$20	$40
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	$20	$40

Miscellaneous service charges have not been updated in over 16 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 60% in that period of time. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996,[12] the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2005 to MSM's $15 miscellaneous service charge and the result was a charge of $21.00. Therefore, staff believes a $20 charge is reasonable and is cost based. By Order No. PSC-05-0775-TRF-WS, issued July 26, 2005,[13] and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,[14] the Commission approved a $20 charge for connection and reconnections during normal hours and a $40 after hours charge. Therefore, staff recommends these increases be approved to allow the utility to recover the costs of its increased expenses for connection, reconnection, and after hours calls.

MSM's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should be replaced with what will be called a "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for a complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,[15] the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's request for complaint and the problem is found to be the customer's responsibility. Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge is reasonable and should be approved.

In summary, staff recommends the utility's miscellaneous service charges of $20 and after hours charges of $40, should be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The

[12] Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.
[13] Docket 050368-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Paradise Lakes Utility, L.L.C.
[14] Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.
[15] Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

approved charges should 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 staff. Within ten days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within ten days after the date the notice was sent.

Issue 17: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively. (Jaeger, Merta, Fletcher)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, this docket should be closed administratively.

MSM Utility **Attachment A, Page 1 of 5**
Docket No: 050587-WS **Historical Test Year Jan. 05- Dec. 05**

WATER TREATMENT SYSTEM - USED AND USEFUL DATA

1)		**Capacity of R/O Plant**	40,000	gallons per day
2)	**a)**	**Maximum Day From Maximum Month**	27,600	gallons per day
3)		**Average Daily Flow**	4,921	gallons per day
4)		**Fire Flow Capacity (FF)** Required Fire Flow in Charlotte County: 500 gallons per minute for one hour	0	gallons per day
5)		**Growth**	6,263	gallons per day
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2005 - Dec 2005	52	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year (for 2006)	1.4	ERCs
	c)	Customer Growth in ERCs using 5% per year Cap for subsequent 4- year period (52x5%)	2.6	ERCs
	d)	Statutory Growth Period	5	Years
	e)	Growth = [(5b)x(2a)/(5a)]+{ [(5c)x(2a)/(5a)]x4}	6,263	gallons per day
6)		**Excessive Unaccounted for Water (EUW)**	250	gallons per day
	a)	Percentage of Excessive amount	5%	gallons per day
	b)	Total Unaccounted for Water	742	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	492	gallons per day
	d)	Excessive Amount	250	gallons per day

USED AND USEFUL FORMULA

(Max days - EUW + FF + Growth) / Capacity of R/O Plant
(27,600 - 250 + 0 + 6,263) / 40,000 = 84% Used & Useful

MSM Utility **Attachment A, Page 2 of 5**
Docket No: 050587-WS **Historical Test Year Jan. 05- Dec. 05**

STORAGE TANK - USED AND USEFUL DATA

1)		**Capacity of Storage Tanks**	30,000	gallons per day
2)	a)	**Maximum Day From Maximum Month**	27,600	gallons per day
3)		**Average Daily Flow**	4,921	gallons per day
4)		**Fire Flow Capacity (FF)** Required Fire Flow in Charlotte County: 500 gallons per minute for one hour	30,000	gallons per day
5)		**Growth**	6,263	gallons per day
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2005 - Dec 2005	52	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year (for 2006)	1.4	ERCs
	c)	Customer Growth in ERCs using 5% per year Cap for subsequent 4- year period (52x5%)	2.6	ERCs
	d)	Statutory Growth Period	5	Years
	e)	Growth = [(5b)x(2a)/(5a)]+{ [(5c)x(2a)/(5a)]x4}	6,263	gallons per day
6)		**Excessive Unaccounted for Water (EUW)**	250	gallons per day
	a)	Percentage of Excessive amount	5%	gallons per day
	b)	Total Unaccounted for Water	742	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	492	gallons per day
	d)	Excessive Amount	250	gallons per day

USED AND USEFUL FORMULA

(Max days - EUW + FF + Growth) / Capacity of Storage Tank
(27,600 - 250 + 30,000 + 6,263) / 30,000 = 100% Used & Useful

MSM Utility **Attachment A, Page 3 of 5**
Docket No: 050587-WS **Historical Test Year Jan 05-Dec 05**

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)		**Capacity of System (ERCs)**	58	ERCs
2)		**Test Year Connections** Average Test Year	52	ERCs
3)		**Growth**	7	ERCs
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	1.4	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	7	ERCs

USED AND USEFUL FORMULA

[2+3]/(1) = 101.7% =100% Used and Useful

MSM Utilities **Attachment A, Page 4 of 5**
Docket #: 050587-WS **Test Year Jan 05 - Dec 05**

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

1)		**Permitted Capacity of Plant (AADF)**	15,000	gallons per day
2)	a)	**Average Daily Flow (AADF)**	5,842.73	gallons per day
3)		**Growth**	1,325.85	gallons per day
	a)	Average Connection in ERCs: Projected Test Year: Jan 2005 - Dec 2005	52	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year (for 2006)	1.4	ERCs
	c)	Customer Growth in ERCs using 5% per year Cap for subsequent 4- year period (52x5%)	2.6	ERCs
	d)	Statutory Growth Period	5	Years
	e)	Growth = [(3b)x(2a)/(3a)]+{ [(3c)x(2a)/(3a)]x4}	1,325.85	gallons per day
4)		**Excessive Infiltration or Inflow (I&I)**	0	gallons per day
	a)	Total I&I	2,603	gallons per day
	b)	Percent of Excessive	0	
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	2,710	gallons per day
	d)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[Average Daily Flow + Growth – Excessive Amount] / Permitted Capacity of Plant

[5,842.73+ 1,325.85– 0 / 15,000 = 47.79% Used & Useful

MSM Utility **Attachment A, Page 5 of 5**
Docket No: 050587-WS **Test Year Jan 05 - Dec 05**

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

1)		**Capacity of System** (Number of Potential in ERCs)	58	ERCs
2)		**Test Year Connections** (Customers) Average Test Year in ERC	52	ERCs
3)		**Growth**	7	
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	1.4	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	7	ERCs

USED AND USEFUL FORMULA

[(2)+(3)] / (1) = 100% Used and Useful

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MSM UTILITIES, LLC **ATTACHMENT B**
TEST PERIOD ENDED 12/31/05 **PAGE 1 OF 5**

DETERMINATION OF APPROPRIATE RATE STRUCTURES

CURRENT RATES FOR THE WATER SYSTEM:

(1) The utility's current rate structure is a three-tier inclining block rate structure, with usage block rate factors of 1.0, 1.5 and 2.25, respectively. The current rates are $10.50 for a 5/8" x 3/4" meter, with gallonage charges of $3.25 for usage of 0 – 5 kgal, $4.88 for usage from 5.001to 8 kgal, and $7.32 for usage in excess of 8 kgal. These rates were set by the original developer in 1982 and have remained unchanged since that time. Charlotte County did not come under Commission jurisdiction until September 27, 1994.[16]

WATER SYSTEM RATE STRUCTURE:

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.[17] Based on the Commission's MOU with the Districts, the Commission tries to follow this guideline as often as possible.[18]

(3) 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.[19]

(4) The utility is located in the Southwest Florida Water Management District (SWFWMD or District), in the Southern Water Use Caution Area (SWUCA). This area includes all of DeSoto, Hardee, Manatee, Sarasota, and portions of Charlotte, Highlands, Hillsborough and Polk Counties.[20]

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[16] See Order No. PSC-99-0756-FOF-WS, issued April 19, 1999 in Docket No. 980731-WS, In re: Application for certificate to provide water and wastewater service in Charlotte County by Hunter Creek Utilities, LLC, pp. 2, 7.

[17] See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., p. 81; Order No. PSC-03-1440-FOF-WS, 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, p. 144.)

[18] See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pp. 23, 28; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc., p. 27; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82.)

[19] See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003 in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 31-32; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000 in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), p. 37; Order No. PSC-01-0327-PAA-WU, issued February 6, 2001 in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., p. 25; Order No. PSC-02-1733-PAA-WU, issued December 9, 2002 in Docket No. 011677-WU, In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company, p. 19.

[20] Southwest Florida Water Management District, Southern Water Use Caution Area Recovery Strategy, Revised Draft, March 2006, pp. 10, 84.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

THEORY BEHIND INCLINING BLOCK RATE STRUCTURES:

(5) The goal of the inclining block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block.

(6) There are several factors to consider when designing inclining block rates, including, but not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors.

USAGE BLOCKS AND RATE FACTORS:

(7) The utility has a very seasonal customer base, as evidenced by the exceptionally low average monthly residential usage of 1.84 kgal. Furthermore, approximately 95% of the customers' bills and 88% of the corresponding kgal are captured at 5 kgal or less, while 98% of the bills and 95% of the kgal are captured at 10 kgal or less.

(8) As discussed in no. (1) on the previous page, the water system's current rate structure is a three-tier inclining block rate structure that has been in place since 1982. The rate structure is not based on an analysis of current usage patterns, and, based on the information in no. (7) above, staff would ordinarily recommend that the current three-tier inclining block structure be revised to a two-tier inclining block rate structure.

(9) However, based upon information obtained from the utility, there are plans to develop homes in the service area in the near term. These additions would result in three distinct usage patterns in the service area, which would warrant no change in the current three-tier structure. Two sizes of homes are planned: 1) homes of 1500 square feet to 1700 square feet, with estimated monthly usage of 7.5 kgal; and 2) homes of approximately 3000 square feet, with estimated monthly usage of 12 kgal. Homes of this size, when compared to the homes in the utility's current customer base, will typically exhibit a greater percentage of discretionary water (and wastewater) usage per household.

(10) As discussed in Issue 11, staff recommends adding the bills and kgal associated with 22 of the smaller homes and 28 of the larger homes to the customer base for ratesetting purposes. Based on staff's professional judgment, the homes sized at 3000 square feet, which will be situated on larger lots than other homes in the utility's service area, will use approximately 15 kgal per month, rather than the 12 kgal estimated by the utility.

(11) Staff recalculated a billing analysis, based on a combination of historical data plus information from no. (10) above. The historical and proforma bills and kgal are shown in Table 1 below.

TABLE 1

BILLS AND PRE-REPRESSION KGAL FOR RATESETTING

	Bills				Pre-Repression Kgal		
	(a)	(b)	(c)=(a)+(b)		(d)	(e)	(f)=(d)+(e)
WATER:	**Historical**	**Proforma**	**TOTAL**		**Historical**	**Proforma [1]**	**TOTAL**
	648	22 new homes x 12 bills/yr			1,192.631	22 homes x 12 bills x 7.5 kgal/home	
		28 new homes x 12 bills/yr				28 homes x 12 bills x 15 kgal/home	
TOTAL	**648**	**600 additional bills**	**1,248**		**1,192.631**	**7,020.000 additional kgals**	**8,212.631**
WASTE-	**Historical**	**Proforma**	**TOTAL**		**Historical**	**Proforma [1]**	**TOTAL**
WATER:	636	22 new homes x 12 bills/yr			1,059.801	22 homes x 12 bills x 7.5 kgal/home	
		28 new homes x12 bills/yr				28 homes x 12 bills x 15 kgal/home	
TOTAL:	**636**	**600 additional bills**	**1,236**		**1,059.801**	**7,020.000 additional kgal/home**	**8,079.801**

[1] Before adjusting for seasonality and the residential wastewater gallonage cap.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

USAGE BLOCKS AND RATE FACTORS (cont.):

(12) An analysis of the historical test year billing analysis indicates that average monthly consumption per customers is slightly less than 2 kgal. However, the inclusion of the 50 new customers creates three distinct average monthly usage patterns, arising from: 1) the current customers; 2) 22 customers at 7.5 kgal per month; and 3) 28 customers at 15 kgal per month. Therefore, staff recommends that the water system rate structure continue to have three tiers.

(13) As discussed in no. (1) above, the current rate structure has been in place since 1982 and is not based on an evaluation of the current usage distributions. By revising the usage blocks to 0-7 kgal, 7-14 kgal and 14+ kgal, those customers whose anticipated average monthly usage is 7.5 kgal will have incentive to reduce consumption so that their usage falls in the 0-7 kgal block. Similarly, those customers who were added at an anticipated monthly consumption of 15 kgal will have incentive to reduce their consumption so that their usage falls in the 7.001 to 14 kgal block.

(14) Staff has no historical information upon which to base the additional customers' anticipated usage. Therefore, staff does not believe aggressive rate factors are warranted. The recommended rate factors are 1/1.25/1.5.

PRE-REPRESSION BFC COST RECOVERY:

(15) As discussed in no. (2) above, the Commission tries as often as possible to comply with the WMDs' guideline that no more than 40% of the revenue be recovered from the BFC. As mentioned in no. (4) above, the utility is located in the SWFWMD's Southern Water Use Caution Area. These factors led staff to examine the feasibility of setting the BFC cost recovery percentage between 25% and 40%.

(16) As will be discussed in Issue 10 and shown on Attachment C, staff recommends that repression adjustments to water and wastewater system consumption are appropriate.

POST-REPRESSION BFC COST RECOVERY:

(17) Based on the recalculated billing analysis to reflect 50 additional customers, usage blocks of 0-7 kgal, 7.001-14 kgal and 14+ kgal, with corresponding usage block rate factors of 1.0, 1.25 and 1.5, respectively, coupled with repression adjustments to be discussed in Issue 10, staff's revenue stability (sufficiency) analysis indicates that at a BFC cost recovery percentage of 35%, the utility will have sufficient cash inflows to meet its expenses during the month of lowest anticipated consumption. This analysis is shown on Attachment D.

UTILITY'S RATE STRUCTURE CONCERNS:

(18) In the discussion below, staff addresses specific rate design concerns raised by the utility's consultant after staff completed its preliminary report dated may 5, 2006. After the utility's consultant analyzed staff's preliminary report (used for the customer meeting), staff received a letter from the consultant dated May 16, 2006, which contained primarily rate structure concerns..

STAFF'S RESPONSES TO UTILITY'S RATE STRUCTURE CONCERNS:

(19) The first point raised by the utility's consultant based on staff's preliminary recommended rate structure, which recommended a BFC cost recovery percentage of 25%. As discussed in no. (10) above, staff added 50 customers to the historical customer base, thereby increasing both bills rendered and kgal sold for ratesetting purposes. Staff has reallocated some of the additional customers and consumption to monthly consumption levels of 0 and 1 kgal, to reflect anticipated seasonality of the new (50) customers. This greatly changed the billing distribution, such that staff now recommends a BFC cost recovery percentage of 35%.

The second point raised by the consultant stated that approximately 30% of the billing distribution reflects consumption billed at 0 kgal, indicating a great deal of seasonality. This was based on the historical analysis before the addition of the 50 additional customers. Based on the revised billing analysis, it appears that approximately 20% of the customers will be billed at 0 consumption, rather than 30% of the customers.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

STAFF'S RESPONSES TO UTILITY'S RATE STRUCTURE CONCERNS (cont.):

(19) (cont.) The remaining three points – the level of the BFC, its impact on seasonal customers, and revenue stability – are interrelated; therefore, staff will respond to these points together. Staff believes the majority of the utility revenue stability (and sufficiency) concerns have heen addressed by the recalculation of the billing analysis and subsequent increase in recommended BFC cost recovery percentate from 25% to 35%. Staff (and the WMDs) believes that, as long as the recommended rate structure does not result in revenue insufficiency or instability, it is preferable to lower the BFC and increase the kgal charge(s). This rate structure affords customers greater flexibility in mitigating their rate increase because a greater portion of their total bill is a variable charge.

(20) Staff performed a revenue sufficiency analysis to determine whether the utility would have sufficient cash inflows to meet its expenses during months of lowest consumption. Based on staff's analysis, the utility will be in a positive cash flow position even during months with lowest consumption.

WATER SYSTEM RATE STRUCTURE RECOMMENDATION:	The utility's current three-tier inclining block water system rate structure for residential service should be changed to reflect usage blocks of: a) 0-7,000 gallons (7 kgal); b) 7.001-14 kgal; and c) usage in excess of 14 kgal. The usage block rate factors should be changed to 1.0, 1.25 and 1.5, respectively, with the post-repression base facility charge (BFC) cost recovery percentage set at 35%. As the utility has no approved, tariffed water charges for the general service class, staff recommends that the rate structure be based on the traditional BFC/gallonage charge cost recovery methodology, with the kgal charge based on a uniform water kgal charge.

WASTEWATER SYSTEM RATE STRUCTURE:

CURRENT RATES FOR THE WASTEWATER SYSTEM:

(21) The wastewater residential rate structure consists of a traditional BFC/gallonage charge rate structure. The BFC is $6.50, with a uniform kgal charge of $2.50, capped at 10 kgal of use per month. There are no approved, tariffed general service wastewater charges.

COMMISSION PRACTICE:

(22) It is Commission practice to set the residential wastewater gallonage cap such that approximately 80% of the kgals are captured at or below the cap, with the cap falling between 6 kgal and 10 kgal.

(23) Based on the additional 50 customers as previously discussed, staff recommends that the wastewater cap remain at 10 kgal, which will capture approximately 80% of the billed kgal.

(24) As discussed in (21) above, there are no approved, tariffed general service wastewater charges. Therefore, staff recommends that charges for general service wastewater customers be approved, based on the traditional BFC/gallonage charge cost recovery methodology. The general service kgal charge should have no cap on billed consumption, and should be 1.2 times greater than the corresponding residential wastewater kgal charge.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

(25) Based on initial accounting allocations, the BFC cost recovery percentage was 54%. As discussed in no. (26) above, staff performed a revenue stability (sufficiency) analysis to ensure that the recommended rate structures would not result in cash shortfalls during months of lowest consumption. By increasing the BFC cost recovery percentage to 60%, the utility is within $100 of breakeven (in terms of cash flow) during the month of least consumption.

WASTEWATER SYSTEM RATE STRUCTURE RECOMMENDATION:	The utility's current wastewater system rate structure should also be changed to include charges for general service customers, based on the traditional BFC/gallonage charge cost recovery methodology. The general service kgal charge should have no cap on billed usage, and should be 1.2 times greater than the corresponding residential wastewater kgal charge. The BFC cost recovery should be set at 60%.

MSM UTILITIES, LLC **ATTACHMENT C**
TEST PERIOD ENDED 12/31/05 **PAGE 1 OF 1**

APPROPRIATE REPRESSION (PRICE ELASTICITY) ADJUSTMENTS

Line	Calculation of Ratesetting Kgals	Water	Wastewater
1	All Residential (RS) Kgals	6,850.631	5,337.451
2	RS Kgals Not Repressed	(2,375.040)	(2,339.040)
3 = 1 + 2	RS Kgals Available for Repression	4,475.591	2,998.411
4	RS Kgals Repressed	(817.150)	(504.654)
5 = 2 + 3 - 4	RS Ratesetting Kgals	6,033.477	4,832.797
6	Plus General Service Kgals	132.070	132.070
7 = 5 + 6	Total Kgals for Ratesetting	6,165.547	4,964.867
8 = 4 / (1 + 6)	Total Kgals Repressed %	-11.7%	-9.2%
9 = 4 / 1	Total RS Kgals Repressed %	-11.9%	-9.5%

MSM UTILITIES, LLC **SCHEDULE NO. 1-A**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
SCHEDULE OF WATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$377,987	($4,558)	$373,429
2	LAND & LAND RIGHTS	0	0	$0
3	NON-USED AND USEFUL COMPONENTS	0	(21,305)	($21,305)
4	CIAC	(89,840)	0	($89,840)
5	ACQUISITION ADJUSTMENT	0	0	$0
6	ACCUMULATED DEPRECIATION	(264,730)	6,641	($258,089)
7	AMORTIZATION OF CIAC	32,864	5,554	$38,418
8	AMORTIZATION OF ACQUISITION ADJ.	0	0	$0
9	WORKING CAPITAL ALLOWANCE	0	7,582	$7,582
10	WATER RATE BASE	$56,281	($6,086)	$50,195

MSM UTILITIES, LLC **SCHEDULE NO. 1-B**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
SCHEDULE OF WASTEWATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	$188,366	$0	$188,366
2	LAND & LAND RIGHTS	0	0	$0
3	NON-USED AND USEFUL COMPONENTS	0	0	$0
4	CIAC	(96,166)	0	($96,166)
5	ACQUISITION ADJUSTMENT	0	0	$0
6	ACCUMULATED DEPRECIATION	(131,898)	1,834	($130,064)
7	AMORTIZATION OF CIAC	57,362	4,002	$61,364
8	AMORTIZATION OF ACQUISITION ADJ.	0	0	$0
9	WORKING CAPITAL ALLOWANCE	0	5,234	$5,234
10	WASTEWATER RATE BASE	$17,664	$11,070	$28,734

	MSM UTILITIES, LLC		SCHEDULE 1-C
	TEST YEAR ENDING 12/31/05		DOCKET NO. 050587-WS
	ADJUSTMENTS TO RATE BASE		
	UTILITY PLANT IN SERVICE	**WATER**	**WASTEWATER**
1	Reclassify baffle repair from 320 to 736 and amortize	($2,140)	
2	Averaging adjustment	(2,418)	0
	Total	($4,558)	$0
	LAND AND LAND RIGHTS		
	1	$0	$0
	NON-USED AND USEFUL PLANT		
1	To reflect non-used and useful plant.	($46,867)	($35,085)
2	To reflect non-used and useful accumulated depreciation.	25,562	35,085
	Total	($21,305)	$0
	CIAC		
1		$0	$0
2		0	0
	Total	$0	$0
	ACCUMULATED DEPRECIATION		
1	Accumulated depreciation per Rule 25-30.140, FAC	$55	($0)
2	Averaging adjustment	6,586	1,834
3			
	Total	$6,641	$1,834
	AMORTIZATION OF CIAC		
1	To adjust Amortization of CIAC based on staff's calculation	$7,405	$5,336
2	Averaging adjustment	(1,852)	(1,334)
	Total	$5,554	$4,002
	WORKING CAPITAL ALLOWANCE		
1	To reflect 1/8 of test year O & M expenses.	$7,582	$5,234

MSM UTILITIES, LLC
TEST YEAR ENDING 12/31/05
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 050587-WS

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1	COMMON STOCK	$0	$0	$0					
2	RETAINED EARNINGS	0		0					
3	PAID IN CAPITAL	610,000	0	610,000					
4	OTHER COMMON EQUITY	0	0	0					
	TOTAL COMMON EQUITY	$610,000	$0	$610,000	(542,362)	67,638	85.69%	8.97%	7.69%
	LONG TERM DEBT								
5				0	0		0.00%		0.00%
6				0	0	0	0.00%		0.00%
7				0	0	0	0.00%		0.00%
	TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%		
8	CUSTOMER DEPOSITS	0	11,292	11,292	0	11,292	14.31%	6.00%	0.86%
9	TOTAL	$610,000	$11,292	$621,292	($542,362)	$78,930	100.00%		8.55%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.97%	9.97%
OVERALL RATE OF RETURN	7.69%	9.41%

MSM UTILITIES, LLC **SCHEDULE 3-A**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$12,478	$34,166	$46,644	$30,325	$76,969
					65.01%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	65,503	(4,846)	60,657	0	60,657
3.	DEPRECIATION (NET)	16,929	(9,096)	7,833	0	7,833
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	725	2,099	2,824	1,365	4,189
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$83,157	($11,843)	$71,314	$1,365	$72,678
8.	**OPERATING INCOME/(LOSS)**	($70,679)		($24,669)		$4,291
9.	**WATER RATE BASE**	$56,281		$50,195		$50,195
10.	**RATE OF RETURN**	-125.58%		-49.15%		8.55%

MSM UTILITIES, LLC **SCHEDULE 3-B**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
SCHEDULE OF WASTEWATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$6,341	$15,606	$21,947	$32,606	$54,553
					148.57%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	43,869	(1,993)	41,876	0	41,876
3.	DEPRECIATION (NET)	6,337	(5,337)	1,000	0	1,000
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	6,766	988	7,754	1,467	9,221
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$56,972	($6,343)	$50,629	$1,467	$52,097
8.	**OPERATING INCOME/(LOSS)**	($50,631)		($28,683)		$2,456
9.	**WASTEWATER RATE BASE**	$17,664		$28,734		$28,734
10.	**RATE OF RETURN**	-286.63%		-99.82%		8.55%

MSM UTILITIES, LLC | **Schedule No. 3-C**
TEST YEAR ENDING 12/31/05 | **DOCKET NO. 050587-WS**
ADJUSTMENTS TO OPERATING INCOME | **Page 1 of 2**

		WATER	WASTEWATER
	OPERATING REVENUES		
1	a. To adjust utility revenues to staff's calculated test year amount.	$34,166	$15,606
2		0	0
	Subtotal	$34,166	$15,606
	OPERATION AND MAINTENANCE EXPENSES		
1	Salaries and Wages - Employees (601/701)		
	a. Reclassify mgmt fee salaries to Acct. No. 636/736	($480)	($480)
2	Purchased Power (615/ 715)		
	a. To allocate 70/30	$525	($524)
	b. To project expense for 50 additional customers.	12,941	4,702
	c. Decrease for excessive unaccounted for water	(799)	0
	d. Decrease for repression	(1,776)	(550)
	Subtotal	$10,892	$3,628
3	Chemicals (618/718)		
	a. To project expense for 50 additional customers.	$2,648	$2,260
	b. Decrease for excessive unaccounted for water	(163)	0
	c. Decrease for repression	(363)	(264)
	Subtotal	$2,121	$1,995
4	Materials and Supplies (620/720)		
	a.Reclassify from 631 to 620	933	
	b. Decrease for non-recurring and amortize over 5 yrs. ($650/5)	($520)	
	Subtotal	$413	$0
5	Contractual Services - Billing (630/ 730)		
	a.Reclassify management fee to 636	($450)	$0
6	Contractual Services - Professional (631/ 731)		
	a. Allocate accounting to wastewater ($315/2)	($158)	$158
	b. Reclassify management fee to 736		(250)
	c. Reclassify expansion work to PHFU 103	(1,134)	(1,807)
	d. Reclassify from 631 to 620	(933)	
	e. Amortize Legal Fees for Expansion Over 5 yrs ($3000/2/5)	300	300
	Subtotal	($1,925)	($1,600)
7	Contractual Services - Testing (635/ 735)		
	a. Reclassify operator fee to 636/736	($700)	($700)
	b. Increase/(decrease) to engineering report analysis	1,903	(94)
	Subtotal	$1,203	($794)
8	Contractual Services - Other (636/ 736)		
	a. Reclassify repairs from 320 to 736		$2,140
	b. Reclassify operator fees from 635/735	$700	700
	c. Reclassify mgmt fee salaries from Acct. No. 601/701	480	480
	d. Reclassify expansion work to PHFU 103	0	(350)
	e. Reclassify management fee from 731		250
	f. Reclassify management fee from 630	450	
	g. Reduce management fee	(17,189)	(7,974)
	h. Increase operator fees to include 12 months	700	700
	i. Amortize non-recurring repairs over 5 yrs ($1,228/5 and $2,744/5)	(982)	(2,195)
	J. Decrease for labor that was not supported	(1,350)	0
	Subtotal	($17,191)	($6,249)

(O & M EXPENSES CONTINUED ON NEXT PAGE)

MSM UTILITIES, LLC | **Schedule No. 3-C**
TEST YEAR ENDING 12/31/05 | **DOCKET NO. 050587-WS**
ADJUSTMENTS TO OPERATING INCOME | **Page 2 of 2**

	(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
9	Rents (640/740)		
	a.	$0	$0
10	Transportation Expense (650/750)		
	a.Decrease transportation to staff calculation 120 miles x 52 weeks x $.445	($112)	$824
11	Insurance Expenses (655/ 755)		
	a.	$0	$0
12	Regulatory Expense (665/ 765)		
	a. Amortize Rate Case expense over 4 years ($1,250/4)	$31	$31
	b. Amortize notice expenses over 4 years ($106/4)	13	13
	c. Include project manager's salary, etc; amortize over 5 yrs.	637	637
	Subtotal	$682	$682
13	Miscellaneous Expense (675/ 775)		
	a.	$0	$0
	b.		0
		0	0
	Subtotal	$0	$0
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**($4,846)**	**($1,993)**
	DEPRECIATION EXPENSE		
1	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$46	$0
2	Non-used and useful depreciation	(1,737)	0
3	To reflect test year CIAC amortization calculated by staff	(7,405)	(5,337)
4			
	Total	($9,096)	($5,337)
	TAXES OTHER THAN INCOME		
1	To include RAFs on Annualized Revenue	$2,099	$988
2			
	Total	$2,099	$988
	INCOME TAX		
1		$0	$0

MSM UTILITIES, LLC **SCHEDULE NO. 3-D**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
ANALYSIS OF WATER OPERATION
AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$480	(480)	$0
(603) SALARIES AND WAGES - OFFICERS	0	0	$0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	$0
(610) PURCHASED WATER	0	0	$0
(615) PURCHASED POWER	2,505	10,892	$13,397
(616) FUEL FOR POWER PRODUCTION	0	0	$0
(618) CHEMICALS	620	2,121	$2,741
(620) MATERIALS AND SUPPLIES	2,123	413	$2,536
(630) CONTRACTUAL SERVICES - BILLING	450	(450)	$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,527	(1,925)	$603
(635) CONTRACTUAL SERVICES - TESTING	1,600	1,203	$2,803
(636) CONTRACTUAL SERVICES - OTHER	47,943	(17,191)	$30,752
(640) RENTS	1,700	0	$1,700
(650) TRANSPORTATION EXPENSE	1,500	(112)	$1,388
(655) INSURANCE EXPENSE	2,372	0	$2,372
(665) REGULATORY COMMISSION EXPENSES	325	682	$1,007
(670) BAD DEBT EXPENSE	0	0	$0
(675) MISCELLANEOUS EXPENSES	1,358	0	$1,358
	65,503	(4,846)	60,657

MSM UTILITIES, LLC **SCHEDULE NO. 3-E**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
ANALYSIS OF WASTEWATER OPERATION
AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$480	(480)	$0
(703) SALARIES AND WAGES - OFFICERS	0	0	$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	$0
(710) PURCHASED WASTEWATER TREATMENT	0	0	$0
(711) SLUDGE REMOVAL EXPENSE	1,024	0	$1,024
(715) PURCHASED POWER	1,823	3,628	$5,451
(716) FUEL FOR POWER PRODUCTION	0	0	$0
(718) CHEMICALS	624	1,995	$2,619
(720) MATERIALS AND SUPPLIES	1,251	0	$1,251
(730) CONTRACTUAL SERVICES - BILLING	0	0	$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	2,202	(1,600)	$603
(735) CONTRACTUAL SERVICES - TESTING	2,763	(794)	$1,969
(736) CONTRACTUAL SERVICES - OTHER	23,801	(6,249)	$17,552
(740) RENTS	1,800	0	$1,800
(750) TRANSPORTATION EXPENSE	564	824	$1,388
(755) INSURANCE EXPENSE	6,600	0	$6,600
(765) REGULATORY COMMISSION EXPENSES	325	682	$1,007
(770) BAD DEBT EXPENSE	0	0	$0
(775) MISCELLANEOUS EXPENSES	612	0	$612
	43,869	(1,993)	41,876

MSM UTILITIES, LLC **SCHEDULE NO. 4-A**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
MONTHLY WATER RATES

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL AND GENERAL SERVICE			
Base Facility Charge by Meter Size*			
5/8"X3/4"	$10.50	$21.17	$0.05
3/4"	N/A	$31.76	$0.07
1"	N/A	$52.93	$0.12
1-1/2"	N/A	$105.85	$0.24
2"	N/A	$169.36	$0.39
3"	N/A	$338.72	$0.78
4"	N/A	$529.25	$1.22
6"	N/A	$1,058.50	$2.44
RESIDENTIAL GALLONAGE CHARGE (per 1,000 Gallons)			
0 - 5,000 Gallons	$3.25	N/A	
5,001 - 8,000 Gallons	$4.88	N/A	
Over 8,000 Gallons	$7.32	N/A	
0 - 7,000 Gallons	N/A	$7.38	$0.02
7,001 - 14,000 Gallons	N/A	$9.23	$0.02
Over 14,000 Gallons	N/A	$11.07	$0.03
GENERAL SERVICE GALLONAGE CHARGE			
Per 1,000 Gallons	N/A	$8.08	$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
0 Gallons	$10.50	$21.17	
3,000 Gallons	$20.25	$43.31	
5,000 Gallons	$26.75	$58.07	
10,000 Gallons	$56.03	$100.52	

* Currently, the utility has no tariff for General Service

MSM UTILITIES, LLC **SCHEDULE NO. 4-B**
TEST YEAR ENDING 12/31/05 **DOCKET NO. 050587-WS**
MONTHLY WASTEWATER RATES

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL SERVICE			
Base Facility Charge All Meter Sizes	$6.50	$25.68	$0.08
Gallonage Charge Per 1,000 Gallons (10,000 Gallon Cap)			
1 - 10,000 Gallons	$2.50	$4.39	$0.01
GENERAL SERVICE			
Base Facility Charge by Meter Size: *			
5/8"X3/4"	N/A	$25.68	$0.08
3/4"	N/A	$38.52	$0.13
1"	N/A	$64.20	$0.21
1-1/2"	N/A	$128.40	$0.42
2"	N/A	$205.44	$0.67
3"	N/A	$410.88	$1.34
4"	N/A	$642.00	$2.09
6"	N/A	$1,284.00	$4.18
Gallonage Charge Per 1,000 Gallons	N/A	$5.27	$0.02
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
0 Gallons	$6.50	$25.68	
3,000 Gallons	$14.00	$38.85	
5,000 Gallons	$19.00	$47.63	
10,000 Gallons	$31.50	$69.58	

* Currently, the utility has no tariff for General Service

MSM UTILITIES, LLC
DOCKET NO. 050587-WS **SCHEDULE NO. 5**
Water Operation

Staff Recommended:	
Plant Capacity Charge:	**$638.10**
Meter Installation	**$180.00**
Main Installation Charge:	**$0.00**

	2005	2006	2007	2008	2009	2010	2011
Capacity	40,032	40,032	150,000	150,000	150,000	150,000	150,000
Demand	40,032	40,032	70,032	100,032	130,032	160,032	176,282
% Used	100.00%	100.00%	46.69%	66.69%	86.69%	106.69%	117.52%
Growth (in ERCs)			120	120	120	120	65
Utility Plant	375,847	375,847	1,302,687	1,429,527	1,556,367	1,683,207	1,751,912
Accumulated Depreciation	-264,653	-278,740	-310,468	-362,590	-420,217	-483,349	-550,724
Net Plant	111,194	97,107	992,219	1,066,937	1,136,150	1,199,858	1,201,188
CIAC	89,840	89,840	216,320	419,372	622,424	825,476	970,558
Accumulated Amortization	-40,269	-43,972	-50,472	-62,566	-80,253	-103,534	-131,127
Net CIAC	49,571	45,868	165,848	356,806	542,171	721,942	839,431
Net Investment	61,623	51,239	826,371	710,130	593,979	477,916	361,756
CIAC Ratio:	**44.58%**	**47.23%**	**16.71%**	**33.44%**	**47.72%**	**60.17%**	**69.88%**

MSM UTILITIES, LLC
DOCKET NO. 050587-WS
Wastewater Operation

SCHEDULE NO. 6

Staff Recommended:	
Plant Capacity Charge:	**$1,762.40**
Meter Installation	**$0.00**
Main Installation Charge:	**$0.00**

	2005	2006	2007	2008	2009	2010	2011
Capacity	15,000	15,000	90,000	90,000	90,000	90,000	90,000
Demand	5,846	5,846	29,846	53,846	77,846	84,846	84,846
% Used	38.98%	38.98%	33.16%	59.83%	86.50%	94.27%	94.27%
Growth (in ERCs)			120	120	120	35	0
Utility Plant	188,366	188,366	1,630,166	1,781,966	1,933,766	1,978,041	1,978,041
Accumulated Depreciation	-131,898	-135,567	-166,553	-226,963	-291,586	-358,928	-426,885
Net Plant	56,468	52,799	1,463,613	1,555,003	1,642,180	1,619,113	1,551,156
CIAC	96,166	96,166	201,046	517,414	833,782	1,150,150	1,268,644
Accumulated Amortization	-62,698	-65,367	-69,490	-76,524	-86,468	-99,321	-114,419
Net CIAC	33,468	30,799	131,556	440,890	747,314	1,050,829	1,154,225
Net Investment	23,000	22,000	1,332,057	1,114,113	894,866	568,284	396,931
CIAC Ratio:	**59.27%**	**58.33%**	**8.99%**	**28.35%**	**45.51%**	**64.90%**	**74.41%**