

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-

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**DATE:** July 6, 2006

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

**FROM:** Division of Economic Regulation (Revell, Edwards, Rendell, Springer)  
Office of the General Counsel (Fleming)

**RE:** Docket No. 060257-WS – Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.  
County: Polk

**AGENDA:** 07/18/06 – Regular Agenda - Decision on Suspension of Rates and on Interim Rates – Participation is at the Discretion of the Commission

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Arriaga

**CRITICAL DATES:** 07/18/06 (60-Day Suspension Date)

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\060257.RCM.DOC

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### Case Background

Cypress Lakes Utilities, Inc. (Cypress Lakes or utility) is a Class B utility providing water and wastewater service to approximately 1,287 residential and 43 general service customers in Polk County. Cypress Lakes is a wholly-owned subsidiary of Utilities, Inc. The utility's water and wastewater rates were last established in its 2002 rate proceeding.<sup>1</sup>

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<sup>1</sup> See, Order No. PSC-03-0747-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. Consummating Order No. PSC-03-0738-CO-WS, issued June 20, 2003, made Order No. PSC-03-0747-WS final and effective.

On May 15, 2006, the utility filed its application for approval of final and interim rate increases in this docket and requested that the Commission process the case under the Proposed Agency Action (PAA) procedure. After review of the Minimum Filing Requirements (MFRs), staff determined that the MFRs contained a large number of deficiencies that will require extensive revisions by the utility. These revisions will not be received until after the statutory 60-day timeframe to suspend the requested interim rate increase; therefore the official filing date has not been established.

The test year for interim and final purposes is the historical test year ended December 31, 2005. Cypress Lakes requested interim water and wastewater revenues of \$296,344 and \$454,155, respectively. The interim revenue request represented increases of \$47,988, or 19.32%, and \$93,919, or 26.07%, for water and wastewater, respectively. The utility has requested final water and wastewater revenues of \$338,449 and 493,530, respectively. This represents increases of \$90,092, or 36.28%, and \$133,293, or 37.00%, for water and wastewater, respectively.

The 60-day statutory deadline for the Commission to suspend the utility's requested final rates was originally July 14, 2006. However, by letter dated June 5, 2006, the utility agreed to extend the statutory timeframe by which the Commission is required to address Cypress Lakes' interim rate request. This recommendation addresses the suspension of Cypress Lakes' final rates and staff's recommended interim rate increase. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

### **Discussion of Issues**

**Issue 1:** Should the proposed water and wastewater rates be suspended?

**Recommendation:** Yes. Cypress Lake's proposed water and wastewater rates should be suspended. (Revell)

**Staff Analysis:** Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within sixty days after filing unless the Commission votes to withhold consent of implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff recommends that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

**Issue 2:** Should an interim revenue increase be granted?

**Recommendation:** Yes. On an interim basis, the utility should be authorized to collect annual water and wastewater revenues as indicated below: (Revell, Edwards)

|            | <u>Test Year<br/>Revenues</u> | <u>\$ Increase</u> | <u>Revenue<br/>Requirement</u> | <u>% Increase</u> |
|------------|-------------------------------|--------------------|--------------------------------|-------------------|
| Water      | \$248,357                     | \$23,640           | \$271,997                      | 9.52%             |
| Wastewater | \$360,237                     | \$76,918           | \$437,155                      | 21.35%            |

**Staff Analysis:** In its MFRs, Cypress Lakes requested interim rates designed to generate annual revenues of \$296,344 and \$454,155 for water and wastewater, respectively. This represents a water revenue increase of \$47,988 (19.32%), and a wastewater revenue increase of \$93,919 (26.07%). The utility has filed rate base, cost of capital, and operating statements to support its requested increases.

Pursuant to Section 367.082(5)(b)1, Florida Statutes, the achieved rate of return for interim purposes must be calculated by applying appropriate adjustments consistent with those made in the utility's most recent rate proceeding. Staff has reviewed the utility's interim request, as well as prior orders concerning the utility's rate base. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Schedule Nos. 1-A and 1-B, with adjustments shown on Schedule No. 1-C; the capital structure schedule is Schedule No. 2, and the operating income schedules for water and wastewater, respectively, are labeled as Schedule Nos. 3-A and 3-B, with the adjustments shown on Schedule No. 3-C.

#### RATE BASE

The utility has filed simple average water and wastewater rate bases for the calendar year ended December 31, 2005. The utility made adjustments to its revenue, amortization and provision for income taxes account balances for interim purposes. Staff has reviewed the utility's rate base, and its adjustments, including working capital, and is recommending two adjustments to the utility's rate base.

In its last rate proceeding, the utility had a net balance of \$267,107 for acquisition adjustments in its water rate base. For interim and final purposes, the utility removed this amount from rate base, leaving a balance of zero in this account for rate making purposes. The Commission accepted these adjustments. In the present case, the utility shows a balance of \$9,204 of accumulated amortization of acquisition adjustments in its water rate base. Since the total net balance, which included accumulated amortization, was removed in the last rate proceeding, staff is recommending that \$9,204 be removed for interim purposes in this case.

The utility also made non used and useful adjustments to Accounts 380 and 389 in its wastewater plant. However, the adjustment to Account 389 is inconsistent with adjustments made in the last case, since an adjustment to that account was not made in determining final wastewater rates. After the removal of this adjustment, and a correction of a minor error in the utility's adjustment to Account 380, staff recommends that \$5,574 of the utility's non used and useful plant be removed for the calculation of interim rates. Corresponding reductions should be made to reduce depreciation expense by \$446, and property tax expense by \$93.

Based on the above adjustments, staff recommends that Cypress Lakes' interim rate bases should be \$761,151 for water, and \$1,092,690 for wastewater.

### COST OF CAPITAL

In its MFRs, Cypress Lakes used a simple average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the parent) and actual accumulated deferred income taxes and customer deposits. Staff has reviewed the utility's requested capital structure and determined that the utility erred in using the leverage formula set by Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in calculating its cost rate for common equity. Section 367.882(5)(b)3, Florida Statutes, states that in calculating an interim increase, the minimum of the range of the last authorized ROE shall be used. In Cypress Lakes' last rate case, the midpoint of the authorized ROE was established as 10.93%, with a range of 9.93% to 11.93%.<sup>2</sup> Accordingly, for interim purposes, staff recommends a cost of equity of 9.93%. Based on the above, staff's recommended cost of capital for interim purposes is 7.68%.

### NET OPERATING INCOME

#### Operating Revenues

Section 367.082(5)(b)1, Florida Statutes, states that the achieved rate of return is calculated by applying adjustments consistent with the utility's last rate proceeding and annualizing any rate changes occurring during the interim test year. For purposes of the interim application, Cypress Lakes chose the test period ended December 31, 2005. Cypress Lakes implemented a price index and pass through rate adjustment on October 2, 2005, and annualized its revenues accordingly. The utility's adjusted test year revenues were \$248,357 and \$360,237 for water and wastewater, respectively. Staff has reviewed the utility's revenues and recommends no adjustments.

#### Operating Expenses

The utility made several adjustments to operating expenses for interim purposes. Staff has reviewed the utility's operating expenses and the adjustments, and recommends no additional adjustments. On MFR Schedule B-15, Cypress Lakes reflected per book regulatory assessment fees (RAFs) of \$10,928 for water and \$15,700 for wastewater. Using the 4.5% RAF pursuant to Section 367.145, F.S., and Rule 25-30.120, F.A.C., staff calculated RAFs of \$11,064 for water

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<sup>2</sup> See Order No. PSC-03-0647-PAA-WS, p.21.

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and \$15,895 for wastewater. As such, the utility's historical per book RAFs are understated and should be increased by \$136 for water and \$195 for wastewater.

### Net Operating Income

Based on the adjustment discussed above, staff recommends that the appropriate test year operating income, before any revenue increase, is income of \$44,366 for water and \$38,089 for wastewater.

### REVENUE REQUIREMENT

Based on the above, staff recommends interim revenue requirements of \$271,997 and \$437,155 for water and wastewater, respectively. This represents an interim increase in annual revenues of \$23,640, or 9.52%, for water and \$76,918, or 21.35% for wastewater. This will allow the utility the opportunity to recover its operating expenses and earn a 7.68% return on its rate base.

**Issue 3:** What are the appropriate interim water and wastewater rates?

**Recommendation:** The service rates for Cypress Lakes in effect as of December 31, 2005, should be increased by 9.60% for water and 21.53% for wastewater to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. Also, the rates should not be implemented until the required security has been filed. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice. (Revell)

**Staff Analysis:** Staff recommends that interim service rates for Cypress Lakes be designed to allow the utility the opportunity to generate annual operating revenues of \$271,997, or 9.52%, and \$438,089, or 21.61%, for water and wastewater, respectively, over the adjusted 2005 test year revenues. To determine the appropriate increase to apply to the service rates, miscellaneous service and other revenues should be removed from the test year revenues. The calculation is as follows:

|   | <u>Water</u>    | <u>Wastewater</u> |
|---|-----------------|-------------------|
| 1 Total Test Year Revenues                | \$248,357       | \$360,237         |
| 2 Less: Miscellaneous Revenues            | <u>2,017</u>    | <u>2,898</u>      |
| 3 Test Year Revenues from Service Rates   | \$246,340       | \$357,339         |
| 4 Revenue Increase                        | <u>\$23,640</u> | <u>\$76,918</u>   |
| 5 % Service Rate Increase (Line 4/Line 3) | <u>9.60%</u>    | <u>21.53%</u>     |

The rate increases of 9.60% and 21.53%, for water and wastewater, respectively, should be applied as across the board increases to the service rates in effect as of December 31, 2005. The approved rates should be effective as of the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C., provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed notice to the customers is adequate, and that the required security discussed in Issue 4 has been filed. The utility should provide proof to staff of the date notice was given within 10 days after the date of notice.

The utility's current and proposed interim and final rates, and staff's recommended interim rates, are shown on Schedule No. 4.

**Issue 4:** What is the appropriate security to guarantee the interim increase?

**Recommendation:** A corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI), and written confirmation of UI's continued attestation that it does not have any outstanding guarantees on behalf of UI-owned utilities in other states. UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of revenues collected under interim conditions. UI's total guarantee should be a cumulative amount of \$718,575, which includes an amount of \$58,956 subject to refund in this docket. Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. (Revell, Springer)

**Staff Analysis:** Pursuant to Section 367.082, Florida Statutes, revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking subject to refund with interest at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$100,558 for water and wastewater. In accordance with Rule 25-30.360, F.A.C., staff has calculated the potential refund of revenues and interest collected, under interim conditions to be \$58,956. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule No. 4.

Cypress Lakes is a wholly-owned subsidiary of UI, which provides all investor capital to its subsidiaries. UI has requested a corporate undertaking to secure any interim increases granted in Dockets Nos. 060254-SU, 060255-SU, 060256-SU, 060257-WS, 060258-WS, 060260-WS, 060261-WS, and 060262-WS. As such, staff reviewed the financial statements of the parent company. As a result of staff's interim recommendations in all of the above dockets, the total requested cumulative corporate undertaking amount is \$718,575, which includes \$58,956 subject to refund for this docket.

The criteria for a corporate undertaking includes sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff has reviewed UI's financial statements from 2003 to 2005 to determine the financial condition of the parent company. Staff's analysis shows that UI has experienced a significant decline in liquidity and interest coverage during 2005 compared to prior years. However, UI's average equity ratio over the three-year period has been 40%. Additionally, net income has been on average six times greater than the requested cumulative corporate undertaking amount. UI's financial performance has demonstrated adequate levels of both profitability and equity capitalization to offset the recent decline in liquidity and interest coverage. Based upon this analysis, staff recommends that a cumulative corporate undertaking of \$718,575 is acceptable contingent upon the receipt of the written guarantee of UI and written confirmation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

Pursuant to Rule 25-30.360(6), F.A.C., the utility shall provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.



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In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

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**Issue 5**: Should this docket be closed?

**Recommendation**: No. The docket should remain open pending the Commission's final action on the utility's requested rate increase (Revell, Fleming)

**Staff Analysis**: The docket should remain open pending the Commission's final action on the utility's requested rate increase.

| Cypress Lakes Utilities, Inc.<br>Schedule of Water Rate Base<br>Test Year Ended 12/31/05 |                             | Schedule No. 1-A<br>Docket No. 060257-WS |                                      |                           |                                |  |
|--|-----------------------------|--|--------------------------------------|---------------------------|--------------------------------|--|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments              | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year |  |
| 1 Plant in Service   | \$1,394,454                 | \$6,161                                  | \$1,400,615                          | \$0                       | \$1,400,615                    |  |
| 2 Land and Land Rights   | 509                         | 0  | 509                                  | 0                         | 509                            |  |
| 3 Non-used and Useful Components   | 0                           | 0  | 0                                    | 0                         | 0                              |  |
| 4 Accumulated Depreciation   | (441,149)                   | 0  | (441,149)                            | 0                         | (441,149)                      |  |
| 5 CIAC   | (288,599)                   | 0  | (288,599)                            | 0                         | (288,599)                      |  |
| 6 Amortization of CIAC   | 73,149                      | 0  | 73,149                               | 0                         | 73,149                         |  |
| 7 Accum. Amort. Of Acq. Adjustments  | 9,204                       | 0  | 9,204                                | (9,204)                   | 0                              |  |
| 8 Advances for Construction  | 0                           | 0  | 0                                    | 0                         | 0                              |  |
| 9 Working Capital Allowance  | 0                           | 16,626                                   | 16,626                               | 0                         | 16,626                         |  |
| 11 Rate Base   | <u>\$747,568</u>            | <u>\$22,787</u>                          | <u>\$770,355</u>                     | <u>(\$9,204)</u>          | <u>\$761,151</u>               |  |

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| Cypress Lakes Utilities, Inc.<br>Schedule of Wastewater Rate Base<br>Test Year Ended 12/31/05 |                    | Schedule No. 1-B<br>Docket No. 060257-WS |                          |                  |                       |
|---|--------------------|--|--------------------------|------------------|-----------------------|
| Description   | Test Year          | Utility                                  | Adjusted                 | Staff            | Staff                 |
|   | Per<br>Utility     | Adjust-<br>ments                         | Test Year<br>Per Utility | Adjust-<br>ments | Adjusted<br>Test Year |
| 1 Plant in Service  | \$2,323,319        | \$5,741                                  | \$2,329,060              | \$0              | \$2,329,060           |
| 2 Land and Land Rights  | 2,610              | 0  | 2,610                    | 0                | 2,610                 |
| 3 Non-used and Useful Components  | 0                  | (9,310)                                  | (9,310)                  | (5,574)          | (14,884)              |
| 4 Construction Work in Progress   | 200,004            | (200,004)                                | 0                        | 0                | 0                     |
| 5 Accumulated Depreciation  | (701,311)          | 0  | (701,311)                | 0                | (701,311)             |
| 6 CIAC  | (711,034)          | 0  | (711,034)                | 0                | (711,034)             |
| 7 Amortization of CIAC  | 155,692            | 0  | 155,692                  | 0                | 155,692               |
| 8 CWIP  | 0                  | 0  | 0                        | 0                | 0                     |
| 9 Working Capital Allowance   | 0                  | 32,557                                   | 32,557                   | 0                | 32,557                |
| 10 <b>Rate Base</b>   | <u>\$1,269,280</u> | <u>(\$171,016)</u>                       | <u>\$1,098,264</u>       | <u>(\$5,574)</u> | <u>\$1,092,690</u>    |

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| <b>Cypress Lakes Utilities, Inc.</b>                |                  | <b>Schedule No. 1-C</b>     |                  |
|---|------------------|-----------------------------|------------------|
| <b>Adjustments to Rate Base</b>                     |                  | <b>Docket No. 060257-WS</b> |                  |
| <b>Test Year Ended 12/31/05</b>                     |                  |                             |                  |
| <b>Explanation</b>                                  | <b>Water</b>     | <b>Wastewater</b>           |                  |
| <u>Non-used and Useful</u>                          |                  |                             |                  |
| To reflect net non-used and useful adjustment       |                  | <u>\$0</u>                  | <u>(\$5,574)</u> |
| <u>Accumulated Amortization of Acq. Adjustments</u> |                  |                             |                  |
| To remove balance.                                  | <u>(\$9,204)</u> |                             | <u>\$0</u>       |

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|                          |                    | Cypress Lakes Utilities, Inc.<br>Capital Structure-Simple Average<br>Test Year Ended 12/31/05 |                                 |                             |  |                        |              | Schedule No. 2<br>Docket No. 060257-WS |  |  |
|--------------------------|--------------------|---|---------------------------------|-----------------------------|--|------------------------|--------------|--|--|--|
| Description              | Total<br>Capital   | Specific<br>Adjust-<br>ments  | Subtotal<br>Adjusted<br>Capital | Prorata<br>Adjust-<br>ments | Capital<br>Reconciled<br>to Rate<br>Base | Ratio                  | Cost<br>Rate | Weighted<br>Cost                       |  |  |
| <b>Per Utility</b>       |                    |   |                                 |                             |  |                        |              |  |  |  |
| 1 Long-term Debt         | \$1,001,064        | \$0   | \$1,001,064                     | \$0                         | \$1,001,064                              | 53.57%                 | 6.81%        | 3.65%                                  |  |  |
| 2 Short-term Debt        | 91,573             | 0   | \$91,573                        | 0                           | \$91,573                                 | 4.90%                  | 2.00%        | 0.10%                                  |  |  |
| 3 Preferred Stock        | 0                  | 0   | \$0                             | 0                           | \$0                                      | 0.00%                  | 0.00%        | 0.00%                                  |  |  |
| 4 Common Equity          | 732,675            | 0   | \$732,675                       | 0                           | \$732,675                                | 39.21%                 | 11.77%       | 4.61%                                  |  |  |
| 5 Customer Deposits      | 12,150             | 0   | \$12,150                        | 0                           | \$12,150                                 | 0.65%                  | 6.00%        | 0.04%                                  |  |  |
| 6 Deferred Income Taxes  | 31,157             | 0   | \$31,157                        | 0                           | \$31,157                                 | 1.67%                  | 0.00%        | 0.00%                                  |  |  |
| 10 <b>Total Capital</b>  | <u>\$1,868,619</u> | <u>\$0</u>  | <u>\$1,868,619</u>              | <u>\$0</u>                  | <u>\$1,868,619</u>                       | <u>100.00%</u>         |              | <u>8.40%</u>                           |  |  |
| <b>Per Staff</b>         |                    |   |                                 |                             |  |                        |              |  |  |  |
| 11 Long-term Debt        | \$1,001,064        | \$0   | \$1,001,064                     | (\$8,105)                   | \$992,959                                | 53.56%                 | 6.81%        | 3.65%                                  |  |  |
| 12 Short-term Debt       | 91,573             | 0   | \$91,573                        | (\$741)                     | 90,832                                   | 4.90%                  | 2.00%        | 0.10%                                  |  |  |
| 13 Preferred Stock       | 0                  | 0   | \$0                             | \$0                         | 0  | 0.00%                  | 0.00%        | 0.00%                                  |  |  |
| 14 Common Equity         | 732,675            | 0   | \$732,675                       | (\$5,932)                   | 726,743                                  | 39.20%                 | 9.93%        | 3.89%                                  |  |  |
| 15 Customer Deposits     | 12,150             | 0   | \$12,150                        | \$0                         | 12,150                                   | 0.66%                  | 6.00%        | 0.04%                                  |  |  |
| 16 Deferred Income Taxes | 31,157             | 0   | \$31,157                        | \$0                         | 31,157                                   | 1.68%                  | 0.00%        | 0.00%                                  |  |  |
| 20 <b>Total Capital</b>  | <u>\$1,868,619</u> | <u>\$0</u>  | <u>\$1,868,619</u>              | <u>(\$14,778)</u>           | <u>\$1,853,841</u>                       | <u>100.00%</u>         |              | <u>7.68%</u>                           |  |  |
|                          |                    |   |                                 |                             |  | <b>LOW</b>             | <b>HIGH</b>  |  |  |  |
|                          |                    |   |                                 |                             |  | 9.93%                  | 11.93%       |  |  |  |
|                          |                    |   |                                 |                             |  | 7.68%                  | 8.46%        |  |  |  |
|                          |                    |   |                                 |                             |  | RETURN ON EQUITY       |              |  |  |  |
|                          |                    |   |                                 |                             |  | OVERALL RATE OF RETURN |              |  |  |  |

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| Cypress Lakes Utilities, Inc.<br>Statement of Water Operations<br>Test Year Ended 12/31/05 |                             | Schedule No. 3-A<br>Docket No. 060257-WS |                                      |                           |                                |                          |                        |
|--|-----------------------------|--|--------------------------------------|---------------------------|--------------------------------|--------------------------|------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments              | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase      | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>   | <u>\$245,865</u>            | <u>\$50,480</u>                          | <u>\$296,345</u>                     | <u>(\$47,988)</u>         | <u>\$248,357</u>               | <u>\$23,640</u><br>9.52% | <u>\$271,997</u>       |
| <b>Operating Expenses</b>  |                             |  |                                      |                           |                                |                          |                        |
| 2 Operation & Maintenance  | \$134,677                   | (\$1,669)                                | \$133,008                            | \$0                       | \$133,008                      | \$0                      | \$133,008              |
| 3 Depreciation   | 35,647                      | 0  | 35,647                               | 0                         | 35,647                         | 0                        | 35,647                 |
| 4 Amortization   | 0                           | 0  | 0                                    | 0                         | 0                              | 0                        | 0                      |
| 5 Taxes Other Than Income  | 22,994                      | 4,980                                    | 27,974                               | (2,023)                   | 25,951                         | 1,064                    | 27,014                 |
| 6 Income Taxes   | <u>7,289</u>                | <u>26,484</u>                            | <u>33,773</u>                        | <u>0</u>                  | <u>9,385</u>                   | <u>8,495</u>             | <u>17,880</u>          |
| 7 <b>Total Operating Expense</b>   | <u>200,607</u>              | <u>29,795</u>                            | <u>230,402</u>                       | <u>(2,023)</u>            | <u>203,991</u>                 | <u>9,559</u>             | <u>213,550</u>         |
| 8 <b>Operating Income</b>  | <u>\$45,258</u>             | <u>\$20,685</u>                          | <u>\$65,943</u>                      | <u>(\$45,965)</u>         | <u>\$44,366</u>                | <u>\$14,081</u>          | <u>\$58,447</u>        |
| 9 <b>Rate Base</b>   | <u>\$747,568</u>            |  | <u>\$770,355</u>                     |                           | <u>\$761,151</u>               |                          | <u>\$761,151</u>       |
| 10 <b>Rate of Return</b>   | <u>6.05%</u>                |  | <u>8.56%</u>                         |                           | <u>5.83%</u>                   |                          | <u>7.68%</u>           |

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**Cypress Lakes Utilities, Inc.  
 Statement of Wastewater Operations  
 Test Year Ended 12/31/05**

**Schedule No. 3-B  
 Docket No. 060257-WS**

|                                  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase       | Revenue<br>Requirement |
|----------------------------------|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---------------------------|------------------------|
| 1 <b>Operating Revenues:</b>     | <u>\$353,217</u>            | <u>\$100,939</u>            | <u>\$454,156</u>                     | <u>(\$93,919)</u>         | <u>\$360,237</u>               | <u>\$76,918</u><br>21.35% | <u>\$437,155</u>       |
| 2 <b>Operating Expenses</b>      |                             |                             |                                      |                           |                                |                           |                        |
| Operation & Maintenance          | \$260,454                   | \$0                         | \$260,454                            | \$0                       | \$260,454                      |                           | \$260,454              |
| 3 Depreciation                   | 28,710                      | 0                           | 28,710                               | (446)                     | 28,264                         |                           | 28,264                 |
| 4 Amortization                   | 87                          | 0                           | 87                                   | 0                         | 87                             |                           | 87                     |
| 5 Taxes Other Than Income        | 32,579                      | 6,861                       | 39,440                               | (4,124)                   | 35,316                         | 3,461                     | 38,777                 |
| 6 Income Taxes                   | <u>(23,234)</u>             | <u>54,687</u>               | <u>31,453</u>                        | <u>(33,425)</u>           | <u>(1,972)</u>                 | <u>27,642</u>             | <u>25,670</u>          |
| 7 <b>Total Operating Expense</b> | <u>298,596</u>              | <u>61,548</u>               | <u>360,144</u>                       | <u>(37,996)</u>           | <u>322,148</u>                 | <u>31,103</u>             | <u>353,252</u>         |
| 8 <b>Operating Income</b>        | <u>\$54,621</u>             | <u>\$39,391</u>             | <u>\$94,012</u>                      | <u>(\$55,923)</u>         | <u>\$38,089</u>                | <u>\$45,815</u>           | <u>\$83,903</u>        |
| 9 <b>Rate Base</b>               | <u>\$1,269,280</u>          |                             | <u>\$1,098,264</u>                   |                           | <u>\$1,092,690</u>             |                           | <u>\$1,092,690</u>     |
| 10 <b>Rate of Return</b>         | <u>4.30%</u>                |                             | <u>8.56%</u>                         |                           | <u>3.49%</u>                   |                           | <u>7.68%</u>           |



| <b>Cypress Lakes Utilities, Inc.<br/>Adjustment to Operating Income<br/>Test Year Ended 12/31/05</b> |                   | <b>Schedule 3-C<br/>Docket No. 060257-WS</b> |  |
|--|-------------------|--|--|
| <b>Explanation</b>   | <b>Water</b>      | <b>Wastewater</b>                            |  |
| <u>Operating Revenues</u>  |                   |  |  |
| Remove requested final revenue increase  | <u>(\$47,988)</u> | <u>(\$93,919)</u>                            |  |
| <u>Depreciation Expense - Net</u>  |                   |  |  |
| To remove non-U&U adjustment.  | <u>\$0</u>        | <u>(\$446)</u>                               |  |
| 1 RAFs on revenue adjustments above  | (\$2,159)         | (\$4,226)                                    |  |
| 2 To reflect correct historical test year RAFs.  | 136               | 195  |  |
| 3 To adjust property tax for NU&U.   | <u>0</u>          | <u>(93)</u>                                  |  |
| Total  | <u>(\$2,023)</u>  | <u>(\$4,124)</u>                             |  |

| <b>Cypress Lakes Utilities, Inc.<br/>Water Monthly Service Rates<br/>Test Year Ended 12/31/05</b> |                                      | <b>Schedule No. 4-A<br/>Docket No. 060257-WS</b> |  |                                      |  |
|---|--------------------------------------|--|--|--------------------------------------|--|
|   | <b>Rates<br/>Prior to<br/>Filing</b> | <b>Utility<br/>Requested<br/>Interim</b>         | <b>Utility<br/>Requested<br/>Final</b> | <b>Staff<br/>Recomm.<br/>Interim</b> |  |
| <b><u>Residential and Multi-Residential</u></b>   |                                      |  |  |                                      |  |
| Base Facility Charge  |                                      |  |  |                                      |  |
| All Meter Sizes:  |                                      |  |  |                                      |  |
| 5/8" x 3/4"   | \$6.49                               | \$6.59   | \$8.43                                 | \$7.11                               |  |
| Gallonge Charge (per 1,000 gallons)   |                                      |  |  |                                      |  |
| 0-6,000 gallons   | \$2.47                               | \$2.63   | \$3.35                                 | \$2.71                               |  |
| 6,001-12,000 gallons  | \$3.72                               | \$3.96   | \$5.03                                 | \$4.08                               |  |
| over 12,000 gallons   | \$4.95                               | \$5.27   | \$6.70                                 | \$5.43                               |  |
| <b><u>General Service</u></b>   |                                      |  |  |                                      |  |
| Base Facility Charge  |                                      |  |  |                                      |  |
| Meter   |                                      |  |  |                                      |  |
| Size:   |                                      |  |  |                                      |  |
| 5/8" x 3/4"   | \$6.49                               | \$6.59   | \$8.43                                 | \$7.11                               |  |
| 1"  | \$16.22                              | \$16.48  | \$21.09                                | \$17.78                              |  |
| 1-1/2"  | \$32.44                              | \$32.97  | \$42.17                                | \$35.55                              |  |
| 2"  | \$51.89                              | \$52.72  | \$67.44                                | \$56.87                              |  |
| 3"  | \$103.78                             | \$98.85  | \$126.45                               | \$113.74                             |  |
| 4"  | \$162.15                             | \$164.75   | \$210.75                               | \$177.71                             |  |
| 6"  | \$324.31                             | \$329.50   | \$421.50                               | \$355.43                             |  |
| Gallonge Charge (per 1,000 gallons)   |                                      |  |  |                                      |  |
|   | \$2.69                               | \$2.87   | \$3.68                                 | \$2.95                               |  |
| <b><u>Typical Residential Bills</u></b>   |                                      |  |  |                                      |  |
| 5/8" x 3/4" Meter Size  |                                      |  |  |                                      |  |
| 3,000 Gallons   | \$13.90                              | \$14.48  | \$18.48                                | \$15.24                              |  |
| 6,000 Gallons   | \$21.31                              | \$22.37  | \$28.53                                | \$23.37                              |  |
| 10,000 Gallons  | \$36.19                              | \$38.21  | \$48.65                                | \$47.91                              |  |

| <b>Cypress Lakes Utilities, Inc.<br/>Wastewater Monthly Service Rates<br/>Test Year Ended 12/31/05</b> |  | <b>Schedule No. 4-B<br/>Docket No. 060257-WS</b> |  |  |                                      |
|--|--|--|--|--|--------------------------------------|
|  |  | <b>Rates<br/>Prior to<br/>Filing</b>             | <b>Utility<br/>Requested<br/>Interim</b> | <b>Utility<br/>Requested<br/>Final</b> | <b>Staff<br/>Recomm.<br/>Interim</b> |
| <b><u>Residential and Multi-Residential</u></b>  |  |  |  |  |                                      |
| Base Facility Charge   |  |  |  |  |                                      |
| All Meter Sizes:   |  |  |  |  |                                      |
|  |  | \$14.36  | \$10.17                                  | \$8.43                                 | \$17.45                              |
| Gallonge Charge (per 1,000 gallons)  |  |  |  |  |                                      |
| (Gallonge Cap - 8,000 Gallons)   |  |  |  |  |                                      |
|  |  | \$2.92   | \$5.14                                   | \$3.35                                 | \$3.55                               |
| <b><u>General Service</u></b>  |  |  |  |  |                                      |
| Base Facility Charge   |  |  |  |  |                                      |
| All Meter Sizes:   |  |  |  |  |                                      |
| 5/8" x 3/4"  |  | \$14.36  | \$10.77                                  | \$12.88                                | \$17.45                              |
| 1"   |  | \$35.92  | \$26.92                                  | \$32.21                                | \$43.65                              |
| 1-1/2"   |  | \$71.86  | \$53.83                                  | \$64.41                                | \$87.33                              |
| 2"   |  | \$114.97   | \$86.16                                  | \$103.04                               | \$139.72                             |
| 3"   |  | \$229.93   | \$161.55                                 | \$193.20                               | \$279.42                             |
| 4"   |  | \$359.26   | \$269.25                                 | \$322.00                               | \$436.59                             |
| 6"   |  | \$718.52   | \$538.50                                 | \$644.00                               | \$873.18                             |
| Gallonge Charge (per 1,000 gallons)  |  |  |  |  |                                      |
|  |  | \$3.50   | \$6.17                                   | \$7.38                                 | \$4.25                               |
| <b><u>Typical Residential Bills</u></b>  |  |  |  |  |                                      |
| 5/8" x 3/4" Meter Size   |  |  |  |  |                                      |
| 3,000 Gallons  |  | \$23.12  | \$25.59                                  | \$18.48                                | \$28.10                              |
| 6,000 Gallons  |  | \$31.88  | \$41.01                                  | \$28.53                                | \$38.75                              |
| 8,000 Gallons  |  | \$37.72  | \$51.29                                  | \$35.23                                | \$45.85                              |