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: December 27, 2006

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

FROM: Division of Economic Regulation (Hudson, Fletcher, Springer, Kyle, Massoudi, Rendell)
Office of the General Counsel (Brown)

RE: Docket No. 060255-SU – Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.

AGENDA: 01/09/07 – Regular Agenda – Proposed Agency Action, Except for Issue 24 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Arriaga

CRITICAL DATES: 01/23/07 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060255.RCM.DOC

Table of Contents

Case Background

Utilities, Inc. (UI or parent), is an Illinois corporation which owns approximately 80 utility subsidiaries throughout 16 states including 16 water and wastewater utilities within the State of Florida. Currently UI has 10 separate rate case dockets pending before the Public Service Commission (Commission). These dockets are as follows:

Docket No.	Utility Subsidiary
060253-WS	Utilities Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities Inc. of Sandalhaven

This recommendation addresses Docket No. 060255-SU, Tierra Verde Utilities, Inc.

Tierra Verde Utilities, Inc. (Tierra Verde or utility) is a Class B utility providing wastewater service to approximately 1,003 customers in Pinellas County. The utility is a wholly-owned subsidiary of Utilities, Inc. (UI). Wastewater rates were last established for Tierra Verde in a 1985 rate proceeding.[1] On June 30, 1992, UI purchased the assets of Seagull Utility Company (Seagull) and transferred them to a separate wholly-owned subsidiary (Tierra Verde).[2] In the transfer proceeding, the utility's rate base was established. Further, in a 2001 earnings investigation, the Commission approved a settlement agreement ordering refunds; however, rates were not changed.[3]

On May 15, 2006, Tierra Verde filed its Application for Rate Increase at issue in the instant docket. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

Tierra Verde requested interim rates designed to generate annual wastewater revenues of $728,171, an increase of $109,767 or 17.75%. On July 18, 2006, the Commission approved

---

[1] See Order No. 16781, issued October 27, 1986, in Docket No. 850883-SU, In Re: Application of Seagull Utility Company for increased sewer rates to its customers in Pinellas County, Florida.
[2] See Order No. PSC-93-0364-FOF-SU, issued March 9, 1993, in Docket No. 920716-SU, In Re: Application For Transfer of Certificate No. 58-S from Seagull Utility Company to Tierra Verde Utilities, Inc. in Pinellas County
[3] See Order No. PSC-02-0778-PAA-SU, issued June 10, 2002, in Docket No. 011190-SU, In re: Investigation of possible overearnings by Tierre Verde Utilities, Inc. in Pinellas County.

interim rates designed to generate annual wastewater revenues of $728,171, an increase of $109,767 or 17.75%.[4] The utility requested final rates designed to generate wastewater revenues of $833,103, an increase of $214,699 or 34.72%.

The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

[4] See Order No. PSC-06-0675-PCO-SU, issued August 7, 2006, in Docket No. 060255-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.

Discussion of Issues

Quality of Service

Issue 1: Should the quality of service provided by Tierra Verde Utilities, Inc. be considered satisfactory?

Recommendation: Yes. The quality of service provided by Tierra Verde Utilities, Inc. should be considered satisfactory. (Massoudi)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by the utility by evaluating the quality of the product, the operating conditions of the plant and facilities, and the utility's attempt to address customer satisfaction.

Quality of the Product and Operating Condition

The utility only has a wastewater collection system and there are no treatment facilities. The utility purchases all wastewater treatment services from the City of St. Petersburg. Jurisdiction over the utility's collection system is regulated by the Department of Environmental Protection (DEP). According to the DEP, the utility is in compliance status for its collection system and is considered satisfactory. Therefore, the quality of product and the operational conditions should be considered satisfactory.

The Utility's Attempt to Address Customer Satisfaction

An informal customer meeting was held on November 1, 2006, in the City of St. Petersburg Beach City Hall, City Commission Chambers in St. Petersburg Beach, Florida. The meeting was open to all customers at 6:00 p.m. None of the customers attended this meeting. All things considered, staff believes that the owner of the utility is putting forth a sufficient good faith effort to resolve customer complaints. It is recommended that the utility's attempt to address customer satisfaction be considered satisfactory.

Based on the above analysis, staff recommends the quality of service provided by Tierra Verde Utilities, Inc. should be considered satisfactory.

Rate Base

Issue 2: Does the utility have excessive infiltration and inflow of its wastewater collection systems, and if so, what adjustments should be made?

Recommendation: Yes. The utility had approximately 18.6% excessive infiltration and inflow (I & I) of its wastewater collection systems during the test year period. Staff recommends that the total purchased wastewater should be reduced by $69,721 due to excessive I & I. (Massoudi)

Staff Analysis: The utility only has a wastewater collection system and there are no treatment facilities. The utility purchases all wastewater treatment services from the City of St. Petersburg. Infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. Inflow results from water entering a wastewater collection system through manholes or lift stations.

The total treated wastewater was compared with the total estimated flow returned to the wastewater treatment plant. Based on the data provided by the utility, the total estimated I & I was determined to be 66,078,000 gallons per year. It is Commission practice that the allowance for infiltration should be 500 gallons per day per inch diameter pipe per mile and an additional 10% of water sold should be allowed for inflow.[5] Therefore, the total allowable amount for I & I was determined to be 27,429,917 gallons per year. The excessive I & I was calculated to be 38,648,083 gallons per year which was 18.6%. The utility's consultant has verified and agreed to this calculation of the I & I amount.

According to the City of St. Petersburg invoices to the utility, the City charged the utility $1,804 per million gallons of wastewater consumed during the test year period. Since there is 38,648,083 gallons per year (18.6%) excessive I & I, staff recommends that the total purchased wastewater should be reduced by $69,721 due to excessive infiltration and inflow.

[5] See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Issue 3: Should the audit rate base adjustments to which the utility agrees be made?

Recommendation: Yes. Based on audit adjustments with which the utility agrees, accumulated depreciation should be increased by $122,840 and accumulated amortization of CIAC should be increased by $164,682. (Hudson)

Staff Analysis: In its response to Staff's Audit Report, Tierra Verde agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to average rate base:

Audit Adjustments	Accumulated Depreciation	Accumulated Amortization of CIAC
Audit Finding No. 1 – Adjustment to Correct Transfer Balance	$122,840	$100,473
Audit Finding No. 2 – 2003 CIAC Adjustment		$64,209
Adjustment Totals	$122,840	$164,682

The utility agrees with the above audit adjustments. Therefore, staff recommends that accumulated depreciation be increased by $122,840 and accumulated amortization of CIAC should be increased by $164,682.

Issue 4: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Tierra Verde?

Recommendation: The appropriate WSC net rate base allocation for Tierra Verde is $9,925 which represents an increase to the utility's rate base. The appropriate WSC depreciation expense should be $969 which represents a reduction of $284. Further, the appropriate UIF rate base allocation for Tierra Verde is $20,435. This results in plant and accumulated depreciation increases of $25,774 and $5,929, respectively. In addition, depreciation expense should be decreased by $106. (Fletcher)

Staff Analysis: The utility did not reflect any WSC rate base allocation. However, Tierra Verde did reflect $1,136 of WSC allocated depreciation expense. The utility also reflected $590 for its UIF rate base allocation which represents plant of $3,482 and accumulated depreciation of $2,892. Further, the utility reflected UIF allocated depreciation expense of $1,075.

Staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Tierra Verde and its sister companies. WSC is a subsidiary service company of UI that supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF is a subsidiary of UI that provides administrative support to its sister companies in Florida. As discussed below, staff believes several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor's recommended adjustments to WSC's rate base are consistent with Order No. PSC-03-1440-FOF-WS[6]. First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate simple average WSC rate base before any allocation is $2,122,628. Further, there was no audit finding in the AT audit regarding UIF's rate base. Thus, staff recommends that the appropriate simple average UIF rate base before any allocation is $1,113,433, as reflected in UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, the Commission found that WSC's method of allocating its common costs based on CEs was unsupported and unreasonable.

[6] 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.

Further, the Commission found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one half; (2) If the customer is an availability customer only, the customer is counted as one half; (3) If the water company is a distribution company only, the customer is counted as one half; and (4) If the wastewater company is a collection company only, the customer is counted as one half." Staff believes that these additional four factors unnecessarily complicate the allocation process, versus the use of an ERC-only methodology. With this additional methodology, staff notes that WSC's ERC count will not conform to the ERC count in each Florida subsidiary's' annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by the Commission to set rates for water and wastewater utilities. Accordingly, staff recommends that UI should use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the above, staff recommends that the appropriate WSC net rate base allocation for Tierra Verde is $9,925 which represents an increase to the utility's rate base. The appropriate WSC depreciation expense should be $969 which represents a reduction of $284. Further, staff recommends that the appropriate UIF rate base allocation for Tierra Verde is $20,435. This results in a plant increase of $25,774 ($29,256 less $3,482), and an accumulated depreciation increase of $5,929 ($8,821 less $2,892), respectively. In addition, depreciation expense should be decreased by $106 ($969 less $1,075).

Issue 5: Should adjustments be made to the utility's pro forma plant and expense additions?

Recommendation: Yes. The utility's pro forma plant additions should be reduced by $14,502 resulting in total pro forma plant of $22,083. Accordingly, accumulated depreciation and depreciation expense should both be decreased by $345. (Hudson)

Staff Analysis: Tierra Verde's MFRs reflected pro forma plant additions of $36,585. Staff reviewed the support documentation and prudence for these pro forma plant additions. According to data request responses, all pro forma plant was completed and in service in 2006. Based on our review, staff believes adjustments are necessary to Tierra Verde's requested pro forma plant and expense additions.

Of the amount recorded in the utility's MFRs for pro forma plant additions, the utility included $29,000 for a gravity sewer main. However, the utility provided an invoice reflecting that the gravity sewer main was $21,000. With capitalized time and AFUDC added, staff has calculated that the actual cost of the gravity sewer main is $22,083. Therefore, staff has made an adjustment to decrease the utility's pro forma plant by $6,917.

The utility recorded $7,585 for the remaining pro forma plant addition consisting of $897, $2,005 and $4,683 for sewer service lines, sewer mains and sewer plant, respectively. The utility did not provide any invoices for the remaining pro forma additions. Therefore, staff has made an adjustment of $7,585 to remove the unsupported pro forma plant additions. Staff's net adjustments to pro forma plant is a decrease of $14,502 ($6,917 + $897 + $2,005 + $4,683).

Staff has also made an adjustment to reduce accumulated depreciation and depreciation expense. In its MFRs, the utility increased accumulated depreciation and depreciation expense by $644, which is associated with its $29,000 gravity sewer main pro forma plant addition. Staff has recommended $22,083 for the gravity sewer main and staff has determined that the accumulated depreciation and depreciation expense for the gravity sewer main is $491. Therefore, staff has decreased accumulated depreciation and depreciation expense by $153. The utility also recorded a total increase of $192 to accumulated depreciation and depreciation expense for the other pro forma plant additions. Staff has recommended that the other pro forma additions be remove due to the lack of support documentation. Therefore, staff has made an adjustment to decrease accumulated depreciation and depreciation expense by $192. Staff's net adjustment to accumulated depreciation and depreciation expense is a decrease of $345.

Issue 6: Should an adjustment be made to accumulated depreciation to remove organization costs?

Recommendation: Yes. An adjustment of $7,005 should be made to accumulated depreciation to reflect the removal of organization costs. (Hudson)

Staff Analysis: On Schedule A-10, in the MFRs, the utility recorded a test year average balance of $7,005 in Acct No. 351.1 Accumulated Depreciation – Organization. However, the utility did not have an average test year balance for the plant Acct No. 351.1 – Organization. In a data request, staff asked the utility to explain why it recorded an accumulated depreciation balance without a plant balance. The utility indicated in its response that a journal entry was made to remove organization costs from plant, but the corresponding adjustment to accumulated depreciation was incorrect. The adjustment should have resulted in the account balance being zero. Therefore, staff is recommending a decrease of $7,005 to Acct No. 351.1 – Accumulated Depreciation – Organization.

Issue 7: What are the used and useful percentages of the utility's wastewater collection system?

Recommendation: The wastewater collection system should be considered 100% used and useful. (Massoudi)

Staff Analysis:

Wastewater Collection Systems

The utility only has a wastewater collection system and there are no treatment facilities. The utility purchases all wastewater treatment services from the City of St. Petersburg (City). The City provides water service to the utility's customers, reads the water meters, sets and keeps track of the water meters, calculates the bills for wastewater service based on Tierra Verde's tariff and renders a bill on behalf of Tierra Verde. In the utility's last two rate cases, the Commission determined that the collection system was 100% used and useful.[7] In its current filing, the utility stated that the collection system should be considered 100% used and useful.

In the utility's deficiency response dated July 7, 2006, in its MFRs (Schedule, F10a, p. 1 of 1), the utility provided growth information based on the historic meter equivalents residential connections (ERCs) in the annual reports. The utility indicated that since the City sets and keeps track of the water meters, the information regarding the meter sizes emanated from the City. Based on this information, the regression analysis of growth over the past five years indicates that next year's growth would be a decrease of 130 ERCs per year, while the information in the annual reports showed the number of meters or number of customers increased over the past five years. In response to staff's request for additional data regarding this issue, the utility stated that the reduction of the ERCs, which caused a negative growth, was due to the changes of the size of meters in the annual reports during the past five years. For example, the number of 6 inch meters (50 ERCs) declined in year 2003, and the number of 1" meters (2.5 ERCs) and 2" meters (8 ERCs) declined in year 2004. However, the number of 5/8" meters (1 ERC) increased from 714 to 940 in 2004. The utility further stated that the changes in the size of meters were due to the improperly categorized and incorrectly recorded data in the annual reports. The utility stated that since the data in the annual reports was not an accurate input and the changes in the meter sizes affected the ERCs, the meter equivalent is not a valid basis for measuring growth changes. The utility believes the growth is more accurate and valid if it is calculated based on the historic number of water meters.

Typically, used and useful for collection systems are based upon the number of potential ERCs versus the number of ERCs served. However, in this case the number of ERCs are not representative of the actual number or customers the utility serves. The number of customers served by the utility has not decreased, even though the number of the ERCs have diminished. Since the City has recently changed the size of current customers' water meters, this misrepresents the actual number of customers served. Therefore, staff agrees with the utility

[7] See Order No. 11857, in Docket No. 810433-S, In re: Petition of Seagull Utility Company for an increase in sewer rates to its customer in Pinellas County, Florida. and Order No. 16781, in Docket No. 850883-SU, in Docket No. 850883-SU, In re: Application of Seagull Utility Company for increased sewer rates to its customers in Pinellas County, Florida.

that since the data in the negative growth was due to the changes in the meters sizes and was not associated with the changes in the number of meters, the growth would be more accurate and valid if the calculation was based on the historic number of meters or the historic number of water bills. This would represent the actual number of customers for the utility. Staff notes that this methodology is slightly different than how used and useful has been calculated in the past; however, staff believes this is a reasonable methodology. The change in the number and size of the water meters was beyond the control of the utility, and the actual number of customers represented by the number of meters actually has increased, not decreased. The City made these changes to its water distribution system. While the size of the water meters changed, the actual customers did not. Therefore, in this case, staff calculated growth and used and useful based on the number of meters, not ERCs. The meter reflects a customer on a lot being served by the utility.

The utility's potential customer base is 1,059 lots or meters. The average number of meters during the test year was 1,003 meters. Further, as indicated by the utility's consultant, a lot for Tierra Verde does not necessarily represent a potential customer count. This is due to the fact that many multi-unit buildings may be master metered or individually metered and they may exist on a single lot or on multiple lots plated as single family. In this case a lot count may not necessarily represent a potential customer count. The regression analysis of growth over the past five years indicates that future years' growth would be 12 meters or customers per year. When these 12 meters/customers are applied to the statutory growth period, the future growth is calculated to be 60 meters or customers. In accordance with the formula method (Attachment A, Page 1 of 1), the used and useful is calculated to be 100%. Therefore, staff agrees with the utility and recommends that the wastewater collection system should be considered 100% used and useful.

Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $71,658. (Hudson)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. Staff has recommended adjustments in other issues to the utility's O&M expenses. Due to these adjustments, staff recommends that working capital of $71,658 should be approved. This reflects a decrease of $13,986 to the utility's requested working capital allowance of $85,644.

Issue 9: What is the appropriate rate base for the December 31, 2005, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2005, is $928,989. (Hudson, Fletcher)

Staff Analysis: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 31, 2005, is $928,989. Staff's rate base is shown on Schedule 1. The adjustments are shown on Schedule 1-A.

Cost of Capital

Issue 10: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.45% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Springer)

Staff Analysis: The return on equity (ROE) included in the utility's filing is 11.77%. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 40.14%.[8]

As noted in Audit Finding No. 9, Utilities, Inc.'s average common equity balance of $90,787,422 should be adjusted upward by $3,093,004 to $93,880,426. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 40.14% to 40.95%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.95%, the appropriate ROE is 11.45%.[9] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[8] Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

[9] Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in 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), Florida Statutes.

Issue 11: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005 is 7.45%. (Springer, Kyle)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.45%. The weighted average cost of capital included in the utility's filing is 7.84%. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Tierra Verde's MFR filing revised Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 9, Utilities, Inc.'s average common equity balance should be adjusted upward by $3,093,004. In addition, staff made an adjustment of $14,388 to increase the balance of deferred income taxes. Staff auditors noted in Audit Finding No. 10 that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by $16,192. Further, the auditors discovered that deferred taxes for intangible plant were understated by $189 for state tax purposes and overstated by $1,993 for federal tax purposes. Accordingly, staff recommends that the balance of deferred taxes be increased by $14,388, the net of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.45% is discussed in Issue 10. In addition, the staff auditor's Audit Finding No. 9 recommended an adjustment to the cost rates for long-term debt and short-term debt. The long-term debt cost rate was reduced from the utility proposed rate of 7.14% to 6.73%. The short-term cost rate was reduced from the utility proposed rate of 2.64% to 2.00%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.45%. Schedule No. 2 details staff's recommendation.

<u>Net Operating Income</u>

<u>Issue 12</u>: Should an adjustment be made to purchased wastewater treatment?

<u>Recommendation</u>: Yes. Staff is recommending a net decrease of $63,374 to purchased wastewater treatment. (Hudson)

<u>Staff Analysis</u>: Pursuant to Audit Finding No. 5, the staff auditor indicated that the utility recorded an estimated accrual of $34,000 for purchased wastewater in December 2004. The accrual was properly reversed in January 2005. The utility recorded $41,837 for the actual invoice that was related to the accrual in January 2005. The difference between the accrual's reversal and the actual invoice caused the purchased wastewater expense balance to be overstated by $7,337 ($41,837-$34,000) for the 12-month ended December 31, 2005. The Staff auditor recommended that purchased wastewater be decreased by $7,337.

In its response to the audit, the utility disagreed with the methodology used in staff's audit finding. The utility agreed that the reversal of the December 2004 accrual and the recording of the actual December 2004 creates an overstatement of $7,337. The utility indicated that the effects of the December 2005 accrual and the actual December invoice booked in January 2006 should be examined as well. The utility recorded an accrual of $37,000 for December 2005. The actual December 2005 invoice was $50,684. When the actual amount for the December 2005 invoice is reflected instead of the accrual, the balance in purchased wastewater treatment is understated $13,684. The utility indicated that the net effect of the $7,337 overstatement and the $13,684 understatement is a $6,347 understatement of purchased wastewater treatment. Staff agrees with the utility's methodology and is recommending that purchased wastewater treatment be increased by $6,347.

As discussed in Issue No. 2, the utility has an excessive infiltration and inflow problem. Therefore, staff is making an adjustment to decrease purchased wastewater treatment by $69,721. Based on the above, staff's net adjustment to purchased wastewater treatment is a decrease of $63,374 ($6,347 - $69,721).

Issue 13: What is the appropriate amount of allocated WSC and UIF expenses for Tierra Verde?

Recommendation: Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Tierra Verde are $33,852 and $1,537, respectively. As such, O&M expenses should be increased by $6,352 and taxes other than income should be decreased $2,430. Further, the appropriate UIF O&M expenses for Tierra Verde is $3,696. As such, O&M expense should be increased by $903. (Fletcher)

Staff Analysis: On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of $27,500 and taxes other than income of $3,967. Tierra Verde also recorded total UIF allocated O&M expenses of $2,791. As discussed below, staff believes adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor's recommended adjustments to WSC's expenses are consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. First, the auditor recommended removal of insurance premiums for former employee directors' life insurance policies and fiduciary policies protecting directors, officers and pension funds because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate WSC expenses before any allocation are $7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, staff recommends that the appropriate UIF O&M expenses before any allocation are $266,650.

As recommended in an earlier issue, UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, staff recommends that the appropriate WSC O&M expenses and taxes other than income for Tierra Verde are $33,852 and $1,537, respectively. As such, O&M expenses should be increased by $6,352 and taxes other than income should be decreased $2,430. Further, the appropriate UIF O&M expenses for Tierra Verde is $3,696. As such, O&M expense should be increased by $906.

Issue 14: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Tierra Verde's salaries and wages should be decreased by $15,870. Accordingly, pensions and benefits and payroll taxes should be reduced by $1,563 and $1,390, respectively. (Fletcher)

Staff Analysis: On MFR Schedule B-5, Tierra Verde reflected historical wastewater salaries and wages and pensions and benefits of $46,174 and $10,798, respectively. On MFR Schedule B-15, Tierra Verde reflected historical payroll taxes of $3,779. On MFR Schedule B-3, the utility requested pro forma increases in salaries and wages, pensions and benefits, and payroll taxes of $17,952, $2,050, and $1,560, respectively. The pro forma salaries and wages represents an increase of 38.88%. The pro forma pensions and benefits represents an increase of 18.98%.

In Staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight Florida employees from 2005 to 2006. The total average salaries from 2005 to 2006 increased $74,616; however, staff notes, the total requested pro forma salary increases in UI's current docketed rate cases in Florida is $332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, staff notes the pro forma salary increases for all of UI's current docketed cases would be $105,776.

From the information provided by UI, staff is unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See <u>Florida Power Corp. v. Cresse</u>, 413 So. 2d 1187, 1191 (1982). Staff believes that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 effect the respective rate cases.

With the exception of Sandalhaven (a negative pro forma salary adjustment of $573), staff believes the requested pro forma salary increases in UI's other respective rate cases are excessive. The historical 5-year average salary increase of 4.51% is 177 basis points above the Commission's 2006 Price Index of 2.74%. As such, with the exception of Sandalhaven, staff recommends that pro forma salary increases in all of UI's respective cases should be limited to the 4.51% above the 2005 historical salary amounts. The Commission has previously limited pro forma salaries adjustments to a utility's historical average salary increases.[10] Thus, staff recommends that Tierra Verde's salaries and wages be decreased by $15,870. Accordingly, pensions and benefits should be reduced by $1,563, and payroll taxes should be reduced by $1,390.

[10] By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

Issue 15: Should an adjustment be made to remove the utility's CPI adjustments to O&M expenses?

Recommendation: Yes. O & M expenses should be reduced by $14,968 to reflect the removal of the utility's adjustments for CPI. (Hudson)

Staff Analysis: In the utility's test year approval letter dated March 20, 2006, the utility stated that its historic test year ending December 31, 2005 is representative of a normal full year operation. However, on Schedule B-3, the utility made adjustments to increase its purchased wastewater treatment, sludge hauling, purchase power, materials and supplies, contractual services – acct, contractual services – legal, contractual services – other, transportation, insurance-other and miscellaneous expense by applying the Commission's current index of 2.74%.[11]

Since the utility stated the test year ending December 31, 2005, is representative of a normal full year of operation, staff asked the utility to provide an explanation as to why it made a pro forma adjustment to the O&M expenses except for bad debt expenses. The utility responded that bad debt expenses should have been included as well. The utility failed to address why any of the O&M expenses should be increased by the index. The utility was also asked if it was aware of any known and measurable changes to the above-mentioned expenses. The utility provided randomly picked invoices for 2005 and 2006 sludge removal costs to show that sludge removal costs were increasing. The utility also provided invoices indicating that purchased power has decreased for 2006. Staff does not believe the utility has adequately supported its CPI adjustments to the O & M expenses. Staff notes that increases in purchased wastewater and purchased power are pass-through items pursuant to 367.081(4)(b), F.S., and are not subject to the Commission's current index.

Further, staff asked the utility to provide actual bills for purchased wastewater treatment since any increase to this expense is the result of the annual difference of consumption at new rates and the consumption at old rates. The utility provided billing information which indicated the utility's consumption through August 2006. The utility further indicated that the City of St. Petersburg rates would be increasing shortly. Staff contacted the City of St. Petersburg to obtain what the new rate increase will be and also to get the billing information for September, October and November of 2006. The utility was billed $500,251 for purchased wastewater treatment by the City of St. Petersburg in 2005. Based on the utility's 2006 consumption billing (an 11 month average was used for December 2006), staff has determined, while the rate has increased, Tierra Verde's average 2006 purchased wastewater treatment has decreased since 2005. The net result of the increase in rate and decrease in purchased wastewater treatment is a decrease in purchased wastewater treatment expense to $497,363 for 2006. Therefore, staff does not believe an adjustment to purchased wastewater is warranted at this time.

Based on the above, staff is recommending that the utility's O&M expenses be decreased by $14,968 to reflect the removal of the utility's CPI adjustments.

---

[11] See Order No. PSC-06-0075-PAA-WS, issued January 31, 2006, in Docket No. 060005-WS, In re: Annual reestablishment of price increase or decrease index of major categories of operating costs incurred by water and wastewater utilities pursuant to Section 367.081(4)(a), F.S.

Issue 16: Should the expense adjustment to which the utility agrees be made?

Recommendation: Yes. Based on audit adjustments with which the utility agrees, net depreciation expense should be increased by $1,983. (Hudson)

Staff Analysis: In its response to Staff's Audit Report, Tierra Verde agreed to the audit finding and audit adjustment amount listed below. Staff recommends the following adjustments to net depreciation expense:

Audit Adjustments	Net Depreciation Expense
Audit Finding No. 2 – 2003 CIAC Adjustment	$1,983
Adjustment Totals	$1,983

The utility agrees with the above audit adjustment. Therefore, staff recommends that net depreciation expense be increased by $1,983.

Issue 17: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is $94,089. This expense should be recovered over four years for an annual expense of $23,522. Thus, rate case expense should be reduced by $23,372. (Hudson)

Staff Analysis: In its MFRs, the utility requested total rate case expense of $187,574, which amortized over four years would be $46,894. The utility's total rate case expense included $14,415 for prior unamortized rate case expense and $173,159 for current rate case expense.

Staff has searched previous cases for the utility and found no prior determination for prior rate case expenses by the Commission. Therefore, staff is making an adjustment to decrease rate case expense by $14,415. Further, although there is no prior rate case expense for this utility, and, prior rate case expense is not added to current rate case expense.

The utility included a $173,159 estimate for current rate case expense. For current rate case expense, staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 22, 2006, the utility submitted a revised estimate of rate case expense through completion of the PAA process of $116,929. The components of the estimated rate case expense are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Filing Fees	3,500	2,000	3,500	5,500
Legal	50,000	16,540	47,250	63,790
Consultant Fees – Milian	56,000	29,863	2,440	32,303
Consultant Fees - Seidman	5,000	4,819	3,025	7,844
WSC In-house Fees	41,325	16,208	27,692	43,720
Office Temp Fees	0	3,227	16,782	20,009
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	840	11,160	12,000
Notices	2,154	345	1,880	2,225
Total Requested Current Rate Case Expense	$173,159	$73,842	$116,929	$190,591

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate. Since actual cost to date does not exceed the MFR estimated amount, staff's adjustments will be to the utility's estimate in its MFRs.

The first adjustment relates to costs incurred for the filing fee. The utility recorded \$3,500 for its filing fees. However, the actual filing fee is \$2,000. Therefore, staff has made an adjustment to reduce rate case expense by \$1,500 (\$3,500-\$2,000) to reflect the appropriate filing fee.

The second adjustment relates to the utility's estimated legal fees to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time was associated with each item. It provided only a total number of hours and the total cost. While the descriptions of the items appeared reasonable, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. As discussed below, it is the utility's burden to justify its requested costs. Staff believes that 43 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda and attend to miscellaneous post PAA matters. This is consistent with hours allowed for completion by the Commission in the Labrador Utilities, Inc. (Labrador) rate case.[12] This amounts to \$11,825 of rate case expense.

As noted in the case background, UI currently has ten pending rate cases with the Commission. In eight out of the ten rate cases, the same amount of estimated legal hours to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, staff made the assumption it included November, 2006 through February, 2007. This would allow time for review of the recommendation, attending the agenda conference, reviewing the Commission's PAA order, and submitting the appropriate customer notice and tariffs for approval. The estimate for legal services for eight out of the ten rate cases was 150 hours for each rate case. Staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, staff is aware of numerous other pending dockets, including the other two remaining UI rate cases, and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours everyday exclusively for these eight rate cases. Staff does not believe this is a reasonable assumption.

There was no breakdown provided of the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. Staff can calculate a travel allowance. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the amount of travel expense the Commission allowed for this law firm in the Labrador rate case <u>supra</u>. Staff calculated travel expenses of \$389, using the current state mileage rate (215 miles x

---

[12] <u>See</u> Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, <u>In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.</u>

2 trips x $.455 = $215), hotel rates from a website ($109) and a meal allowance ($65), but recommends $414 consistent with the Labrador case. Further, because legal counsel will also represent Utilities, Inc. of Pennbrooke, at this same agenda, staff believes that travel expenses should be allocated 50/50 between the two utilities. Therefore, staff believes $207 is the appropriate travel expense. In addition to travel expense, staff calculated an amount for miscellaneous disbursements. Staff added the actual and unbilled legal disbursements less the filing fee, divided by 10, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, staff believes $525 is a reasonable amount for miscellaneous disbursements. Staff believes $732 is a reasonable amount for travel and miscellaneous disbursements.

The utility has incurred $18,153 of legal fees. Based on the above, staff believes $12,557 ($11,825 + $732) is reasonable amount for the completion of the case. Staff is recommending $30,710 ($18,153 + $12,557) for legal fees. The utility recorded $50,000 in its MFRs. Staff has made an adjustment to decrease rate case expense by $19,290 ($50,000-$30,710).

The third adjustment addresses consultant fees for Milian, Swain and Associates (Milian). As of August 29, 2006, the utility incurred actual fees of $33,186 for the consultant fees of Milian. Staff has determined that $3,323 of the fees incurred related to work on deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[13] Therefore, staff is recognizing actual fees of $29,864 for Milian. For the completion of the case, Milian estimated 6 hours for Deborah Swain or $960, 10 hours or $1,300 for Cynthia Yapp and 1 hour or $130 for Maria Bravo: 1) to respond to staff audit report; 2) to participate in telephone conference calls with Mr. Lubertozzi, Mr. Friedman and Ms. Weeks; 3) to review staff's recommendation; and, 4) to review the PAA Order. Milian also requested $50 for miscellaneous expenses (i.e. postage, federal express and photocopying). Milian's total request for completion of the case is $2,440. Staff believes this amount is reasonable. Staff is recommending rate case expense of $32,304 ($29,864 + $2,440) for Milian's consulting services. The utility recorded $56,000, in its MFR's, for Milian. Staff has reduced rate case expense by $23,697 ($56,000 - $32,304).

The fourth adjustment relates to the consultant fees for Mr. Seidman. Mr. Seidman provided invoices through September 2006, indicating the utility incurred $4,819 of consulting fees. The invoices indicated that $313 was spent working on deficiencies. Consistent with the earlier discussion, staff has decreased Mr. Seidman's actual by $313 for total actual of $4,506 ($4,819 - $313). Mr. Seidman estimated 24 hours or $3,000 plus $25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend agenda. Staff believes that two hours is a reasonable amount of time to prepare for and attend agenda for this docket. However, staff is aware only of one subsequent data request from OPC. Staff believes that no more than one hour at $125 per hour is reasonable for this data request. Therefore, staff recommends that $400 (3 hours x $125 + $25) is a reasonable amount for Mr. Seidman to complete the case. Staff's rate

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

case expense for Mr. Seidman is $4,906 ($4,506 + $400). The utility recorded $5,000, in its MFRs, for Mr. Seidman. Staff is recommending that rate case expense be reduced by $94 ($5,000 - $4,906).

The fifth adjustment relates to the rate case expense for WSC employees. The utility has incurred $16,028 for WSC employees. Staff has determined that $638 was for work on deficiencies. For the reasons stated above, staff is allowing $15,390 ($16,028 - $638) for actual cost incurred for WSC employees. The utility has estimated an additional 513 hours and $27,692 of estimated costs to complete this case by WSC employees. The utility provided timesheets up through November. The audit was complete and there was one data request outstanding. The utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case. The utility simply stated that the $27,692 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the utility's burden to justify its requested costs. Staff divided the time worked by the number of months worked to get an average time worked per month. The average time was then multiplied by the number of months remaining. Staff believes that 80 hours is reasonable to allow the utility to respond to data requests, review the PAA recommendation and travel to agenda. By applying the individual employee rates, staff recommends that the estimated WSC fees to complete the case should be $3,494. Staff is recommending total rate case expense of $18,884 for WSC employees. Therefore, staff is making an adjustment of $22,441 ($41,325 - $18,884) to decrease rate case expense. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.[14] Staff believes this amount is very conservative and actually may be slightly higher than the actual hours required, however, staff erred on the side of caution in this instance.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

The sixth adjustment relates to WSC expenses for temporary office workers. The utility did not include this expense in its MFRs. However, in its update, the utility estimated $20,000 for office temps to assist with data and audit requests. The hours needed to complete data and audit requests were not broken down to estimate the hours needed to complete each item. Therefore, staff had no basis to determine whether the individual hours estimated were

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

reasonable. Staff reviewed these requested expenses and believes the estimates reflect an overstatement. As discussed above, it is the utility's burden to justify its requested costs. The actual costs incurred for office temps was $3,227 for services through October 4, 2006. Staff believes that the $3,227 incurred by Tierra Verde is reasonable. Staff believes that the amount requested of $16,781 to complete the case is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, staff recommends that rate case expense be increased by $3,227 to reflect the actual cost incurred for the office temps.

The seventh adjustment addresses WSC travel expenses. In its MFRs, the utility estimated $3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is $750. This was the amount of travel expense the Commission allowed for WSC in the 2004 Labrador rate case. Staff calculated travel expenses of $624, using the airfare for January 8, 2007 ($346), current rental car rates ($104), hotel rates from a website ($109) and a meal allowance ($65), but recommends $750 consistent with the Labrador case. Further, because WSC is also present on behalf of Utilities Inc of Pennbrooke at this same agenda, staff believes that travel expenses should be allocated 50/50 between the two utilities. Therefore, staff believes $375 is the appropriate travel expense. Accordingly, staff recommends that rate case expense be decreased by $2,825.

The eighth adjustment relates to WSC expenses for Fed Ex Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated $12,000 for these items. In support of this expense, the utility provided only $840 in costs from Fed Ex invoices for services through October 25, 2006. There was no breakdown or support for the remaining $11,160. Staff is also concerned with the amount of requested costs for Federal Express expense. UI has requested, and received authorization from the Commission, to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, <u>In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.</u>, the Commission found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988. Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then the documents are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by $12,000.

The ninth adjustment relates to customer notices and postage. In its MFRs, the utility estimated $254 for notices. Tierra Verde actually incurred $345 for its interim notice and the combination initial notice and customer meeting notice. The utility must also notice its customers of the final rate increase. Therefore, staff increased rate case expense by $109 for the final notice. Staff is recommending $454 for customer notices. Staff has made an adjustment to increase rate case expense by $200 ($454 - $254) for customer notices. The utility estimated $1,880 for postage. The utility has not indicated any postage incurred to date. Staff estimated the postage cost for the notices to be $1,229 (1,050 customers x $0.39 x 3 notices). Staff recommends that rate case expense be decreased by $651 ($1,880 - $1,229) for postage costs. Staff's net adjustment to notices and postage is a decrease of $451 ($200 - $651).

In summary, staff recommends that the utility's rate case expense be decreased by $93,489 for MFR deficiencies and unsupported and unreasonable rate case expense. The appropriate total rate case expense is $94,089. A breakdown of rate case expense is as follows:

	MFR Estimated	Staff Adjustments	Total
Previous unamortized rate case expense	$14,415	($14,415)	0
Filing Fee	$3,500	($1,500)	$2,000
Legal	$50,000	($19,290)	$30,710
Consultant Fees – Milian	$56,000	($23,697)	$32,304
Consultant Fees- Seidman	$5,000	($94)	$4,906
WSC In-house Fees	$41,325	($22,441)	$18,884
Office Temp Fees	0	$3,227	$3,227
WSC Travel	$3,200	($2,825)	$375
Miscellaneous	$12,000	(12,000)	$0
Notices and Postage	$2,134	($451)	$1,683
Total Current Rate Case Expense	$187,574	($93,489)	$94,089
Annual Amortization	$46,894	($23,372)	$23,522

In its MFRs, the utility requested total current rate case expense of $187,574, which amortized over four years would be $46,894. Thus, rate case expense should be decreased by $23,372.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, Florida Statutes. Based on the data provided by the utility and the staff recommended adjustments discussed above, staff recommends annual rate case expense of $23,522.

Issue 18: Should an adjustment be made to property taxes?

Recommendation: Yes. Taxes Other Than Income Taxes (TOTI) should be decreased by $673 to reflect the discount paid and the change in the property tax millage rate. (Hudson)

Staff Analysis: In its MFR's the utility recorded $2,210 for property taxes for the test year. However, the utility took advantage of the discount for its 2005 property taxes and only paid $1,919. Therefore, property taxes should be decreased by $291. According to the Pinellas County Tax Collector's website, the 2006 property tax millage rate for Tierra Verde has changed from 19.0425 to 18.1738, a decrease of .8687. Staff believes this represents a known and measurable change from 2005 expenses and is an appropriate pro forma adjustment similar to the pro forma plant and expense adjustments proposed by the utility. As mentioned in the case background, the test year for this case is the year ended December 31, 2005. As such, staff calculated the decrease in TOTI by multiplying the change in the millage rate times the 2005 assessed property value. Thus, staff has decreased property taxes by $91.

On Schedule B-3, the utility made an adjustment to increase property taxes by $608. This adjustment is related to the utility's increase in plant due to the pro forma plant additions. Staff has decreased property taxes by $291 to reflect property taxes based on staff's recommended pro forma plant additions at the new millage rate discussed above. Staff's net adjustment to property taxes is a decrease of $673.

<u>Issue 19</u>: What is the test year operating income before any revenue increase?

<u>Recommendation</u>: Based on adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is a net loss of $10,216. (Hudson)

<u>Staff Analysis</u>: As shown on attached Schedule 3, after applying staff's adjustments, the test year net operating income before any revenue increase is a net loss of $10,216. Staff's adjustments to operating income and expenses are shown on Schedule 3-A.

Revenue Requirement

Issue 20: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved: (Hudson)

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Wastewater	$618,537	$133,284	$751,821	21.55%

Staff Analysis: Tierra Verde requested final rates are designed to generate annual revenues of $751,821. This revenue exceeds historical test year revenues by $133,284.

Rates and Charges

Issue 21: What are the appropriate wastewater rates for this utility?

Recommendation: The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of $751,821 excluding miscellaneous service charge revenues. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Hudson)

Staff Analysis: As discussed in Issue 20, the appropriate revenue requirement is $751,821. The revenues to be recovered through rates are $751,821.

Tierra Verde's current wastewater rate structure is a flat rate for residential customers and a base facility charge and gallonage charge for general service customers.

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 of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original and requested rates, the Commission-approved interim rates and staff's recommended PAA rates are shown on Schedule No. 4.

Issue 22: 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. (Hudson)

Staff Analysis: The miscellaneous service charges were approved for Tierra Verde during a certificate transfer docket in 1993, and have not changed since that date.[15] 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. The utility agrees with this update. Staff recommends that Tierra Verde be allowed to increase its wastewater miscellaneous service charges from $15 to $21 and from $15 to $42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. The utility has agreed to this revision. The current and recommended charges are shown below.

Wastewater Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	N/A	$21	N/A
Normal Reconnection	$15	N/A	$21	$42
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	$21	$42

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. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,[16] 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

[15] See Order No. PSC-93-0364-FOF-SU, issued March 9, 1993, in Docket No. 920716-SU,In Re: Application For Transfer of Certificate No. 58-S from Seagull Utility Company to Tierra Verde Utilities, Inc. in Pinellas County.

[16] 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.

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 Tierra Verde's $15 miscellaneous service charge and the result was a charge of $21.00. Therefore, staff believes a $21 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,[17] and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,[18] the Commission approved a $20 charge for connection and reconnections during normal hours and a $40 after hours charge for Mad Hatter Utility, Inc.

Tierra Verde'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,[19] 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 $21 and after hours charges of $42, 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 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.

---

[17] Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

[18] 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.

[19] 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.

Issue 23: In determining whether any portion of the wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the revised revenue requirement for the interim rate collection period and comparing it to the amount of interim revenues granted. Based on this calculation, the utility should be required to refund .88% (or $6,380 of annual revenues) of wastewater revenues granted under interim rates. The utility would ordinarily be required to refund this difference. Staff believes the amount of the refund is immaterial. Therefore, staff is recommending the total amount of what would have been the interim refund plus interest be credited to CIAC. (Hudson)

Staff Analysis: By Order No. PSC-06-0675-PCO-SU, issued August 7, 2006, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements are shown below:

	Revenue Requirement	Revenue Increase	Percentage Increase
Wastewater	$728,171	$109,767	17.75%

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

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2005. Tierra Verde's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the pro forma adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be $721,791. The wastewater revenue level is less than the interim revenues which were granted in Order No. PSC-06-0675-PCO-SU. Therefore, staff recommends a refund of .88% (or $6,380 of annual revenues) of the interim rates.

In a prior docket, the Commission ordered that Key Haven Utility Corporation credit an immaterial interim refund of .68% to CIAC.[20] Staff believes the interim refund, in this instance,

[20] See Order No. PSC-03-0351-PAA-SU, issued March 11, 2003, in Docket No. 020344-SU, In re: Application for rate increase in Monroe County by Key Haven Utility Company.

is immaterial as well. Therefore, staff is recommending the total amount of what would have been the interim refund plus interest be credited to CIAC.

Issue 24: What is the appropriate amount by which rates should be reduced in 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 rates should be reduced as shown on Schedule No. 4 to remove $24,631 of rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. 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. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $24,631. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved lower rates. 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. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice.

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

Other Issues

Issue 25: Should the utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Tierra Verde should provide proof, within 90 days of an effective order finalizing this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Hudson)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Mid-County should provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 26: Should this docket be closed?

Recommendation: Yes. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket should be closed (Brown)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the docket should be closed.

Tierra Verde Utilities, Inc. **DKT #: 060255-SU**				**Attachment A, Page 1 of 1** **Test Year Jan 05 - Dec 05**
WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA				
1)		**Capacity of System** (Number of Potential Customers in Meters)	1,059	Meters
2)		**Test Year Connections** (Meters) Average Test Year in Meters	1,003	Meters
3)		**Growth**	60	Meters
	a)	Customer growth in connections for last 5 years including test yea using Regression Analysis	12	Meters
	b)	Statutory Growth Period	5	Meters
	c)	Growth = (a)x(b) Connections allowed for growth	60	Meters

USED AND USEFUL FORMULA

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

Tierra Verde Utilities, Inc.
Schedule of Wastewater Rate Base
Test Year Ended 12/31/05

Schedule No. 1
Docket No. 060255-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$3,271,506	$31,952	$3,303,458	$21,197	$3,324,655
2	Land and Land Rights	$0	$0	$0	$0	$0
3	Non-used and Useful Components	$0	$0	$0	$0	$0
4	Accumulated Depreciation	($1,749,558)	$3,797	($1,745,761)	($121,419)	($1,867,180)
5	CIAC	($1,683,577)	$0	($1,683,577)	$0	($1,683,577)
6	Amortization of CIAC	$918,751	$0	$918,751	$164,682	$1,083,433
7	CWIP	$63,296	($63,296)	$0	$0	$0
8	Acquistion Adjustments	$351,207	($351,207)	$0	$0	$0
9	Accum. Amort. Of Acq. Adjs.	($81,247)	$81,247	$0	$0	$0
10	Working Capital	$0	$85,644	$85,644	($13,986)	$71,658
11	**Rate Base**	$1,090,378	-$211,863	$878,515	$50,474	$928,989

Tierra Verde Utilities, Inc.

Adjustments to Rate Base
Test Year Ended 12/31/05

Schedule No. 1-A
Docket No. 060255-SU

	Explanation	Water	Wastewater
	Plant In Service		
1	Include net plant for WSC allocation (AF-4)	$0	$9,925
2	Reflect appropriate UIF allocated plant to wastewater.	$0	$25,774
3	To remove unsupported pro forma plant additions	$0	($7,585)
4	To reflect the actual cost of pro forma plant addition		($6,917)
	Total	$0	$21,197
	Non-used and Useful		
	To reflect net non-used and useful adjustment	$0	$0
	Accumulated Depreciation		
1	To correct transfer balance per (AF No. 1)	$0	($122,840)
2	Reflect appropriate UIF allocated plant to wastewater.	$0	($5,929)
3	To remove accumulated depreciation for organization costs	$0	$7,005
4	To remove acc. Depr associated with unsupported pro forma additions	$0	$192
5	To reflect appropriate accumulated depreciation on pro forma plant		$153
	Total	$0	($121,419)
	CIAC		
1		$0	$0
2		$0	$0
3		$0	$0
	Total	$0	$0
	Accumulated Amortization of CIAC		
1	To correct transfer balance per (AF No. 1)	$0	$100,473
2	To reflect accumulated amortization of CIAC per (AF No. 2)	$0	$64,209
3		$0	$0
4		$0	$0
5		$0	$0
	Total	$0	$164,682
	Working Capital		
		$0	($13,986)

Tierra Verde Utilities, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/05

Schedule No. 2
Docket No. 060255-SU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$124,044,203	$0	$124,044,203	-$123,613,814	$430,389	48.99%	7.14%	3.50%
2	Short-term Debt	11,347,000	0	$11,347,000	-$11,307,628	$39,372	4.48%	2.64%	0.12%
3	Preferred Stock	0	0	$0	$0	$0	0.00%	0.00%	0.00%
4	Common Equity	90,787,422	0	$90,787,422	-$90,472,417	$315,005	35.86%	11.77%	4.22%
5	Customer Deposits	0	0	$0	0	$0	0.00%	6.00%	0.00%
6	Deferred Income Taxes	93,749	0	$93,749	0	$93,749	10.67%	0.00%	0.00%
10	**Total Capital**	$226,272,374	$0	$226,272,374	-$225,393,859	$878,515	100.00%		7.84%
Per Staff									
11	Long-term Debt	$124,044,203	$0	$124,044,203	-$123,600,092	$444,111	47.81%	6.73%	3.22%
12	Short-term Debt	11,347,000	0	$11,347,000	-$11,306,375	40,625	4.37%	2.00%	0.09%
13	Preferred Stock	0	0	$0	$0	0	0.00%	0.00%	0.00%
14	Common Equity	90,787,422	3,093,004	$93,880,426	-$93,544,309	336,117	36.18%	11.45%	4.14%
15	Customer Deposits	0	0	$0	$0	0	0.00%	6.00%	0.00%
16	Deferred Income Taxes	93,749	14,388	$108,137	$0	108,137	11.64%	0.00%	0.00%
20	**Total Capital**	$226,272,374	$3,107,392	$229,379,766	-$228,450,776	$928,990	100.00%		7.45%

	LOW	HIGH
RETURN ON EQUITY	10.45%	12.45%
OVERALL RATE OF RETURN	7.08%	7.81%

Tierra Verde Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/05

Schedule No. 3
Docket No. 060255-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$606,834	$226,269	$833,103	-$214,566	$618,537	$133,284	$751,821
							21.55%	
	Operating Expenses							
2	Operation & Maintenance	$603,289	$81,864	$685,153	-$111,892	$573,261		$573,261
3	Depreciation	46,547	733	47,280	1,248	48,528		48,528
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	33,576	12,222	45,798	-14,148	31,650	5,998	37,647
6	Income Taxes	-38,588	24,640	-13,948	-10,739	-24,687	47,898	23,211
7	**Total Operating Expense**	644,824	119,459	764,283	-135,530	628,753	53,896	682,648
8	**Operating Income**	-$37,990	$106,810	$68,820	-$79,036	-$10,216	$79,388	$69,173
9	**Rate Base**	$1,090,378		$878,515		$928,989		$928,989
10	**Rate of Return**	-3.48%		7.83%		-1.10%		7.45%

Tierra Verde Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/05

Schedule 3-A
Docket No. 060255-SU

	Explanation	Water	Wastewater
	Operating Revenues		
1	Remove requested final revenue increase	$0	($214,699)
2	To reflect the appropriate amount of annualized revenues.	$0	$133
	Total	$0	($214,566)
	Operation and Maintenance Expense		
1	To reflect appropriate test year purchased wastewater treatment	$0	$6,347
2	To reduce purchased wastewater for I&I		($69,721)
3	Increase to allocate WSC expense (AF-6)	$0	$6,352
4	Reflect the appropriate UIF allocated expenses.	$0	$903
5	To reflect appropriate amount of pro forma salary and pension	$0	($17,433)
6	To remove the utility's CPI expense pro forma adjustments	$0	($14,968)
7	To decrease amortize rate case expense	$0	($19,768)
8	To remove prior unamortized rate case expense	$0	($3,604)
9	Total	$0	($111,892)
	Depreciation Expense - Net		
1	To increase net depreciation per (AF No. 2)	$0	$1,983
2	Include net plant for WSC allocation (AF-4)	$0	($284)
3	Reflect appropriate UIF allocated plant to wastewater.	$0	($106)
4	To reflect appropriate depreciation expense for pro forma plant addition	$0	($153)
5	To remove depreciation expense related to unsupported pro forma plant	$0	($192)
	Total	$0	$1,248
	Amortization-Other Expense		
		$0	$0
	Taxes Other Than Income		
1	RAFs on revenue adjustments above	$0	($9,655)
2	Decrease to allocate WSC expense (AF-6)	$0	($2,430)
3	To reflect appropriate payroll tax on pro forma salaries	$0	($1,390)
4	To reflect appropriate property tax	$0	($673)
	Total	$0	($14,148)

Tierra Verde Utilities, Inc.
Wastewater Bi-Monthly Service Rates
Test Year Ended
12/31/05

SCHEDULE NO. 4
Docket No. 060255-SU

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$66.42	$78.21	$89.48	$73.59	$2.41
	$0.00	$0.00	$0.00	$0.00	$0.00
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$33.43	$39.36	$45.04	$47.64	$1.56
1"	$83.59	$98.43	$112.61	$119.09	$3.90
1-1/2"	$167.15	$196.82	$225.18	$238.18	$7.80
2"	$267.45	$314.92	$360.30	$381.09	$12.48
3"	$534.88	$629.82	$720.64	$762.18	$24.97
4"	$835.74	$984.08	$1,125.89	$1,190.91	$39.02
6"	$1,671.47	$1,968.16	$2,251.77	$2,381.82	$78.03
8"	$0.00	$0.00	$0.00	$3,810.91	$124.85
Gallonage Charge, per 1,000 Gallons	$1.80	$2.12	$2.42	$2.34	$0.08
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	$38.83	$45.72	$52.30	$73.59	
5,000 Gallons	$42.43	$49.96	$57.14	$73.59	
10,000 Gallons	$51.43	$60.56	$69.24	$73.59	