

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:** June 27, 2007

**TO:** Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Rendell, Bulecza-Banks, Edwards, Lingo)  
Office of the General Counsel (Fleming)

**RE:** Docket No. 060246-WS – Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.

**AGENDA:** 07/10/07 – Regular Agenda – Proposed Agency Action Except for Issue 22 and 23 — Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Skop

**CRITICAL DATES:** Gold Coast has waived the 5-Month Effective Date (PAA Rate Case) of 04/02/07 until July 10, 2007

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\060246.RCM.DOC

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### **Case Background**

Gold Coast Utility Corp. (Gold Coast or utility) is a Class B utility providing water and wastewater service to approximately 131 residential and 32 general service water and wastewater customers in Polk County. (The 32 general service customers include 1,100 unmetered residential customers.) In July 2006, the Commission approved the transfer of the utility's assets from Lake Wales Utility Company.<sup>1</sup> Section 367.071, Florida Statutes (F.S.), allows the Commission to set rate base in transfer dockets. Although rate base is typically set in transfer proceedings, no audit was performed at that time because Gold Coast had planned to file the instant rate case. Rate base was last set for this utility in 1998 at \$68,638 and \$241,248 for water and wastewater, respectively.<sup>2</sup>

On August 18, 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 deficiencies that required revision by the utility. The deficiencies were corrected and the official filing date was established as November 3, 2006.

Gold Coast waived the Commission's requirement pursuant to Section 367.081(8), Florida Statutes, to process its petition within five months of the official filing date. By letter dated February 27, 2007, Gold Coast waived the case processing requirements through May 22, 2007. Subsequent to staff's original staff recommendation being filed, the utility requested a deferral of the item to supply additional support for its pro forma item. By letter dated May 21, 2007, the utility again waived the case processing requirements through July 10, 2007, to allow staff time to evaluate the supplemental data.

In its petition, Gold Coast has asked for final rates designed to generate revenues of \$366,262 for water and \$584,229 for wastewater. To achieve these revenues, the company has proposed increases of \$225,877 for water and \$369,501 for wastewater representing increases of 160.89% and 172.07%, respectively.

The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, F.S.

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<sup>1</sup> See, Order No. PSC-06-0331-PAA-WS, issued July 7, 2006, in Docket No. 050902-WS, In re: Application to transfer assets and Certificate Nos. 590-W and 508-S from Lake Haven Utility Associates, Ltd., d/b/a Lake Wales Utility Company to Gold Coast Utility Corp. Consummating Order No. PSC-06-0415-CO-WS, issued May 18, 2006, made Order No. PSC-06-0331-PAA-WS final and effective.

<sup>2</sup> Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, in Docket No. 981258-WS, In re: Investigation of water and wastewater rates of Lake Haven Utility Association, Ltd. d/b/a Lake Wales Utility Co., Ltd. In Polk County for possible overearnings.

## **Discussion of Issues**

### **Quality of Service**

**Issue 1:** Is the quality of service provided by Gold Coast Utilities Corp., satisfactory?

**Recommendation:** Gold Coast's overall quality of service should be considered satisfactory. (Edwards)

**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 a utility by evaluating three separate components of water operations. The components are (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and, (3) the utility's attempt to address customers' satisfaction. This rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Staff's analysis addresses each of these three components.

#### **Quality of Utility's Product**

Staff reviewed both the utility's and Polk County Health Department's (PCHD) records. In Polk County, the potable water program is regulated by the PCHD. The PCHD's inspector conducted a plant inspection on January 24, 2006. At that time, the monthly sample showed a positive result for coliform. Follow-up testing conducted in January and in February 2006, showed satisfactory readings. At this time, the utility's finished water product complies with the PCHD standards.

Gold Coast utility operates within the South Florida Water Management District (SFWMMD). The utility's SFWMMD permit number is #53-00030-W and the wastewater treatment facility falls under the jurisdictional purview of the Department of Environmental Protection (DEP) which is located in Tampa, Florida. The last wastewater inspection was performed by DEP on October 26, 2006. At that time, the plant was out of compliance due to four minor deficiencies not related to quality of product. DEP evaluated the utility's quality of product and found it to be satisfactory. Based on the above, it appears the quality of the finished water product and wastewater effluent is satisfactory.

#### **Operating Condition of the Water and Wastewater Treatment Facilities**

Based on inspections by PCHD, the operating condition of the water treatment facility currently complies with PCHD regulatory standards. The last DEP wastewater facility inspection indicated the following minor deficiencies:

- (a) The safety grates along the aeration and digester basins are rusted and need to be replaced.

- (b) A copy of the current flow calibrations was not included,
- (c) Information on the Discharge Monitoring Reports (DMR) is being incorrectly reported,
- (d) The May DMR was incomplete (missing values for CBOD, TSS maximum and fecal maximum),
- (e) Unacceptable turbidity values were reported.

These deficiencies relate to the condition of the plant and due to these deficiencies, DEP stated the plant was out of compliance. The utility has requested a pro forma plant item related to the cost of DEP's mandated system repairs for grates at the wastewater treatment plant in this rate proceeding. Staff is recommending allowance of this wastewater treatment plant upgrades in Issue 4. Staff has discussed the other items with DEP, and they have indicated they have been resolved. Based on the above, it appears the condition of the water treatment plant is satisfactory but the condition of the wastewater treatment is unsatisfactory. The utility, however, is taking action to correct the deficiencies.

#### The Utility's Attempt to Address Customer Satisfaction

In its filing, the utility stated that no customer complaints were received during the test year. The Commission's records indicate that from the period of January 2001 to the present no complaints were received.

On February 20, 2007, staff conducted a customer meeting in Nalcrest, Florida, within the utility's service territory. Approximately twenty-two customers and six utility representatives attended the meeting. During the customer meeting, three residents expressed their concerns regarding: ratemaking procedures, future growth, unmetered customers, the rate increase, new generators, and black specks in the toilet. Customers' concerns were addressed as follows:

- a) Rate making procedures – During the customer meeting, staff explained the ratemaking process. The majority of the customers appeared to have been satisfied with staff's comments.
- b) Future growth – Through a staff data request, staff asked the utility about potential new developments within its service territory. The utility responded that two developers are in the process of obtaining final development approval. However, given the condition of the current housing market, any anticipated customer growth is not likely to start for 5 to 7 years. In addition, staff asked the utility if it intended to increase the capacity of its plants. The utility stated there has been preliminary discussions with DEP about increasing the capacity of its wastewater treatment plant by 100%. The utility believes this is prudent planning considering there are two developers in its service territory that may require its

services. Further, staff has discovered that the utility has requested a significant increase in its SFWMD consumption permit. This is discussed in Issue 18.

- c) Unmetered customers – A customer expressed concerns that the metered customers were subsidizing the unmetered customers. Staff is addressing this in Issue 18.
- d) The utility's requested rate increase - At the customer meeting, staff explained the rate making process and how the utility proposed rates would impact the customers by increasing their monthly billings. The customers appeared to understand the changes; however, they were not supportive of any rate increase.
- e) New generator - A customer believed the new generator was improperly installed and did not have an automatic switch over. Through the utility's response to staff's data request, staff determined the generator was properly installed and has an automatic switch over.
- f) Black specks in the toilet – One of the customers stated he has black specks in his toilet. Staff, via a data request, asked the utility whether it was aware of the situation and what would be the cause. The utility stated it has not received verbal or written communication from the customer regarding poor water quality but is investigating the situation further.

In addition, staff received letters from four customers regarding their displeasure with any form of a rate increase. Staff promptly responded to each customer's letter. At the customer meeting, one of the customers commended the two plant operators for their work. After reviewing the operations and procedures of the utility, staff believes the utility is attempting to address the customers' concerns.

### Summary

Based on staff's review, the water and wastewater treatment, distribution, and collection systems appear to be operating properly and, except for the condition of the wastewater treatment plant, are in compliance with DEP and PCHD standards. Staff believes the utility is attempting to address customers' concerns and is taking action to address the problems with the wastewater treatment plant. Therefore, staff recommends the quality of service provided by Gold Coast be considered satisfactory.

**Rate Base**

**Issue 2:** Should adjustments be made to remove plant additions for which the Utility failed to provide supporting documentation?

**Recommendation:** Yes. Gold Coast's average water utility plant in service balance should be reduced by \$5,835 and its average wastewater plant in service balance should be reduced by \$4,727. Associated reductions should be made to accumulated depreciation of \$1,606 for water and \$1,538 for wastewater. Depreciation expense for water and wastewater should be reduced by \$494 and \$445, respectively. (Bulecza-Banks, Rendell)

**Staff Analysis:** In the course of conducting its audit, staff requested specific invoices as part of its audit sample. Gold Coast was unable to provide the invoices for several plant additions. Since documentation could not be provided to support the amounts recorded in Gold Coast's books and records, staff believes adjustments should be made to remove the plant additions.

To remove the unsupported amounts in the Utility's filing, the average water plant in service balance should be reduced by \$5,835 and the average wastewater plant in service should be reduced by \$4,727. Associated deductions should be made to accumulations depreciation of 1,606 for water and \$1,538 for wastewater. Depreciation expense for water and wastewater should be reduced by \$494 and \$445, respectively.

**Issue 3:** Should adjustments be made to Gold Coast's accumulated amortization of Contributions in Aid of Construction (CIAC) for water to correct the composite rate used to amortize CIAC?

**Recommendation:** Yes. Gold Coast's Accumulated Amortization of CIAC should be reduced by \$4,780 for its water system. (Bulecza-Banks, Rendell)

**Staff Analysis:** The utility used a composite rate of 4.00% to amortize CIAC. The appropriate composite rate that should have been used is 1.92%. Based on the difference between the applied rate of 4.00% and the correct amortization rate of 1.92%, Gold Coast's accumulated amortization of CIAC should be reduced by \$4,780 for its water system.



**Issue 4:** What is the appropriate amount of pro forma plant?

**Recommendation:** The appropriate amount of pro forma plant is \$312,814 for water and \$343,269 for wastewater. The appropriate pro forma land is \$25,000 for wastewater. The respective retirements associated with these pro forma plant items are \$83,612 for water and \$108,216 for wastewater. To arrive at staff's recommended amounts, net adjustments should be made to reduce water plant in the amount of \$122,590 and wastewater plant in the amount of \$195,538. Accumulated depreciation should be increased by \$4,866 for water and \$55,652 for wastewater. Depreciation expense should also be reduced by \$9,259.85 for water and \$8,286.55 for wastewater. Corresponding adjustments should also be made to reduce taxes other than income by \$1,404 for water and \$8,592 for wastewater. The utility should be required to complete all recommended pro forma items by December 31, 2007. The utility should be required file monthly reports with the Commission that identifies each pro forma plant addition, the amount and the date of completion. (Bulecza-Banks, Rendell)

**Staff Analysis:** In its MFRs, Schedule A-3, pages 1 through 4, the utility requested pro forma plant items in the amount of \$450,810 for water and \$604,569 for wastewater, representing a 94% increase in water plant and 86% increase in wastewater plant. Staff notes, in Order No. PSC-99-1742-PAA-SU, issued September 7, 1999, the Commission indicated that under the previous owner, this utility had low service rates, good customer service, and minimal water and wastewater treatment plant requirements resulting in a small rate base. The utility's proposed pro forma plant additions increase rate base substantially.

Staff requested detailed information concerning Gold Coast's proposed pro forma items through data requests. In staff's first data request, it requested supporting documentation for the utility's request, including all invoices, contracts, and bids. Staff further requested anticipated completion dates and a statement justifying the need for each pro forma item. In Gold Coast's first response, it supplied various invoices and bids. However, upon further analysis of the utility's response, staff became aware of numerous affiliated parties transactions, as well as estimates that were dated subsequent to staff's data request. Further, it appeared there were numerous requests where the utility had not requested bids for the requested capital projects. For the majority of the projects, a single source bid was obtained per project. Several pro forma projects were scheduled to be completed in 2008, three years outside the historical test period.

The utility's MFRs and application were received on August 18, 2006. As stated previously, these requested pro forma items were contained in the utility's MFRs. Typically, a utility will receive several bids and estimates for its projected capital budgets in order to determine the estimated costs. Once these estimates are received, the utility will use these amounts to compile its requested rate increase. However, in this instant case, the utility received twelve estimates for its major requested pro forma items in January, 2007 from a single source. Further, the bids were only requested after staff's first data request was issued and six months after the filing of its MFRs. Usually, utilities will obtain bids from at least three sources. Of the \$1 million in pro forma plant requested, the estimates received in January, 2007 represent approximately \$824,000 in plant. Staff has concerns with these estimates. The majority of these proposals have a 30 day acceptance period and are not signed by either party. Therefore,

there is some question whether these projects will be undertaken. The Commission has previously denied pro forma projects where there were no signed contracts.<sup>3</sup>

### Related Party Transactions

As stated in the Case Background, the Commission approved the transfer of the utility's assets from Lake Wales in July 2006. The shareholders of Gold Coast are Reginald Burge and Keith Burge. Reginald Burge is the President and Keith Burge is Vice President/Secretary/Treasurer. In addition to Gold Coast, the Burges also own Laniger Enterprises of America, Inc. in Martin County, and are former owners of Burkim Enterprises, Inc. in Brevard County. The utility provided numerous invoices and estimates from Reginald Burge, Gold Coast Utility Corporation, and Burkim Enterprises, Inc. Basically, the owners/shareholders were billing the utility or providing estimates for many of the requested pro forma plant items. According to Statement of Financial Accounting Standard No. 57, examples of related party transactions include, but are not limited to, transactions between an entity and its principal owners or members of their immediate families and affiliates.

Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable.<sup>4</sup> This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to the contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair.<sup>5</sup>

To determine if the related party transactions are at or below the current market rate, staff submitted a subsequent data request concerning the pro forma plant requests. Staff requested the utility to identify whether the bids received for the various projects had been through a bidding process. Staff also requested an explanation for the items which had not been through a bidding process. The utility indicated that it had not requested bids on all of the pro forma plant. The utility attempted to identify which projects the utility had either obtained verbal bids or proceeded with the projects on an emergency basis. However, the utility failed to address all of the related party estimates or invoices. Staff believes some of the items would have been relatively simple to justify. Copies of supporting invoices for items billed to the utility from the related parties were not submitted for review. Staff is unable to determine the fair market value of these items without the supporting invoices or similar bids from outside businesses.

Further, there were numerous invoices submitted by Reginald Burge for labor costs. These invoices related to pro forma items and included either installation costs or costs for supervision. However, there is no indication as to who the "men" or employees were that

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<sup>3</sup> See Order No. PSC-07-0205-PAA-WS, issued March 6, 2007 in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.

<sup>4</sup> Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

<sup>5</sup> See also Order No. PSC-05-0621-PAA-WU, issued, June 6, 2005 in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.; Order No. PSC-00-1513-TRF-WS, issued August 21, 2000, in Docket No. 991835-WS, In Re: Application for allowance for funds prudently invested (AFPI).

installed the items. The utility currently has three employees, as well as the Director of Utility Operations, Keith Burge. Based on the job description of the duties performed by these employees and officer of the utility, staff believes many of these items were either installed or should have been installed by the utility's employees. Staff is concerned that the men used for the labor on the various related party invoices are the same employees of Gold Coast. If the utility is capitalizing the labor costs of employees, then a likewise reduction should be made to the salary expenses. Further, for the invoices from outside parties which included installation, staff does not believe Reginald Burge's supervision was required. If supervision of the projects was required, staff believes either the Utility Director or the Facility Manager should have supervised.

Gold Coast included three trucks in its calculation of pro forma costs. The utility indicated the trucks were to replace existing leased vehicles. All three vehicles were obtained through a related party transaction. The first vehicle was a 2006 GMC in the amount of \$22,315, which was obtained through a dealership in the owners' hometown. The sales associate for this transaction was the brother of the President, and uncle of the Vice President. However, upon further review, staff does not believe the amount to be unreasonable for this type of vehicle purchase. The second vehicle was another truck in the amount of \$40,240. This truck was for the use by Keith Burge, the Vice President and Director of Utility Operations. Both of the Burges live in Jensen Beach which is not close to the service territory. This vehicle was also purchased from the same dealership. Staff has concerns as to the amount and prudence of this vehicle. Staff believes a more reasonable amount would be the same as the amount for vehicle number 1. Both of these vehicles are 2006 GMC Sierra trucks. Staff does not believe there is reasonable support for a truck for the Vice President that is almost double the cost of a similar truck. The third vehicle was a 2002 truck purchased from Burkim Enterprises, Inc., another company owned by the Burges. However, upon further request by staff, the utility was able to submit a comparable amount through a Blue Book Value which showed this purchase was at or below the market price.

Staff informed the utility that additional information and supporting documentation would need to be filed to justify the related party transactions. Gold Coast was informed that staff would need documentation as to the market prices of the related party transactions, as well as, the identity of the employees used for related party labor. To supply the information would have required an additional waiver of the statutory timeframe. The utility declined to extend the statutory timeframe further to supply this information. It is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Staff does not believe the utility has met its burden of proof. Therefore, staff recommends the items where no supporting or comparable documentation was provided be disallowed.

### Up-Charge from Related Parties

For several of the requested pro forma items, the utility requested either a 25 percent up charge or finance charges. In a previous rate case by Burkim Enterprises, which was also owned by the Burges, the Commission stated:<sup>6</sup>

In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, we found that 15% overhead was reasonable for related party invoices; however, overhead should only be applied to labor. We have reduced this invoice by \$375 to reflect 15% of overhead on labor only.

Staff has reviewed the invoices submitted in this docket and has determined the requested 25 percent up-charge was based on the cost of the item and not labor. Further, the finance charge invoiced from the related party is for the charges on a vehicle. These interest costs are not included in plant items. Recovery of debt interest is through the allowed rate of return included in the capital structure. Therefore, staff does not believe it is appropriate to accept the up charge or finance charge.

### Items to be completed in 2008

In its MFRs, there were three items which were not anticipated to be complete until 2008 - a new steel building at the wastewater plant, repairs to the road at the wastewater treatment plant, and the rehabilitation of manholes. The historical test year for this rate case is the calendar year ending December 31, 2005. Pursuant to Section 367.081(2)(a)2, Florida Statutes, the Commission shall consider utility property constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission. Staff does not believe there are sufficient reasons to justify the items anticipated to be complete beyond the 24 months, as allowed by statute. Reginald Burge, the new owner of the utility has little or no history with Gold Coast operations. Staff believes these pro forma items are included on the premise that the projects will only be undertaken if approved by the Commission. Staff believes if these items are necessary and the utility believes they should be included, it may subsequently file for a limited proceeding at a future date. Therefore, staff recommends the items the utility projected to be complete in 2008 be disallowed. This is consistent with past Commission decisions.<sup>7</sup>

Subsequent to the filing of staff's original recommendation, the utility requested a deferral for staff to consider additional information concerning its pro forma items. One of the items was for the rehabilitation of the manholes. The utility submitted a signed contract in the amount of \$21,904 for this item. Originally, the utility requested \$100,000 for this item and anticipated its completion in March, 2008. The signed proposal of \$21,904 is reasonable, and this item is scheduled to be complete in during 2007. Staff recommends this item be approved.

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<sup>6</sup> Order No. PSC-01-2511-PAA-WS, issued, December 24, 2001 in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

<sup>7</sup> See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004 in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

### Water Meters and Back Flow Prevention

In its requested pro forma items, the utility included the costs for water meters and back flow prevention devices. Staff believes this is an important project. In Issues 18 and 19, staff is recommending metered rates. There are approximately 1,108 unmetered customers. However, staff has concerns with the proposal received on this item. As previously discussed, the utility obtained proposals in January, 2007 for many of its requests. The first estimate for meters was dated January 27, 2007, in the amount of \$146,950. The proposal was received from a vendor who also submitted numerous estimates for the major projects requested by the utility. This estimate was for installation of 2 hydrant relief valves, 3 eight-inch backflow preventers, 4 eight-inch compound flow meters and 2 two-inch compound flow meters. The utility corrected this estimate in a conference call on April 25, 2007 to reflect 2 eight inch backflow preventers and 3 eight-inch compound flow meters. Staff originally believed the amount of this estimate was unreasonable and overstated. Subsequent to staff's original staff recommendation being filed, the utility requested a deferral of the item to obtain additional proposals for this pro forma item. Staff has received these additional proposals and based on these proposals, believes a reasonable amount for the meter installations is \$104,085.

### Land

In its MFRs, the utility included a pro forma land amount of \$25,000 for wastewater. Gold Coast indicated that this 11.5 acre land purchase is necessary for the percolation pond. The utility owned two-thirds of the polishing pond. The other one third of the pond was owned by the previous owner of the utility. Therefore, the utility must purchase the remaining portion of this pond for its continued use. Staff believes \$25,000 is reasonable for the land purchase and acknowledges the land necessary for the continued operation of the wastewater treatment plant. Therefore, staff recommends pro forma land in the amount of \$25,000 be allowed.

### Summary

According to Gold Coast, it allocated its plant and expenses based on its 2005 Annual Report. Gold Coast used allocation percentages of 56.7% for water and 43.3% for wastewater. For the purposes of allocating common plant items and operating expenses, staff accepted the utility's allocation factor for water and wastewater. Based on the utility's responses to staff's data request, staff recommends the pro forma items for Gold Coast in this case as detailed in Table 4-1, below. Staff's recommended Accumulated Depreciation for the pro forma plant items is detailed in Table 4-2, and staff's recommended retirement amounts related to its recommended pro forma items is detailed in Table 4-3.

As shown on Tables 4-1, 4-2, and 4-3, staff recommends the appropriate amount of pro forma plant is \$312,814 for water and \$343,269 for wastewater. The respective retirements associated with these pro forma plant items are \$83,612 for water and \$108,216 for wastewater. To arrive at staff's recommended amounts, net adjustments should be made to reduce water plant in the amount of \$122,590 and wastewater plant in the amount of \$195,538. Accumulated depreciation should be increased by \$4,866 for water and \$55,652 for wastewater. Depreciation

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expense should also be reduced by \$9,259.85 for water and \$8,286.55 for wastewater. Corresponding adjustments should also be made to reduce taxes other than income by \$1,404 for water and \$8,592 for wastewater. The utility should be required to complete all recommended pro forma items by December 31, 2007. The utility should be required file monthly reports with the Commission that identifies each pro forma plant addition, the amount and the date of completion.

**Table 4 - 1 Adjustment summary**

No.	Acct.	Utility Requested		Staff Recommended		Adjustments	
		Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	\$829	\$0	\$829	\$0	(\$0)	\$0
2	371		\$4,292	0	756	0	(3,536)
3	371		969	0	756	0	(213)
4	340/390	1,194	1,194	0	0	(1,194)	(1,194)
5	380		1,514	0	1,514	0	(0)
6	341/391	16,130	16,130	9,819	12,497	(6,311)	(3,633)
7	340	3,634		3,550	0	(84)	0
8	347/397	1,347	1,347	948	1,207	(399)	(140)
9	347/397	668	668	588	748	(80)	80
10	347/397	331	661	243	309	(88)	(352)
11	370		617	0	617	0	(0)
12	339	4,600		8,364	0	3,764	0
13	380		4,600	0	6,626	0	2,026
14	310	60,000		40,671	0	(19,329)	0
15	355		65,000	0	39,374	0	(25,626)
16	370		55,000	0	44,445	0	(10,555)
17	370		55,000	0	44,445	0	(10,555)
18	320	65,000		59,763	0	(5,237)	0
19	336	146,000		104,085	0	(41,915)	0
20	370		35,000	0	29,020	0	(5,980)
21	304/354	60,000	60,000	0	0	(60,000)	(60,000)
22	370		20,000	18,500	0	18,500	(20,000)
23	304/354	7,000	21,000	3,131	13,094	(3,869)	(7,906)
24	345/395	7,000	7,000	5,482	6,976	(1,518)	(24)
25	341/391	20,548	20,548	9,819	12,497	(10,729)	(8,051)
26	354		60,000	0	66,050	0	6,050
27	361		2,500	0	1,160	0	(1,340)
28	361		100,000	0	21,904	0	(78,096)
29	345/395	36,000	36,000	26,115	33,237	(9,885)	(2,763)
30	354		30,000	0	0	0	(30,000)
31	340/390	750	750	539	687	(211)	(63)
32	304	15,000		16,164	0	1,164	0
33	341/391	4,779	4,779	4,206	5,352	(573)	573
	Total	\$450,810	\$604,569	\$312,814	\$343,269	(\$137,996)	(\$261,300)

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Table 4-2 Accumulated Depreciation		MFR amount		Staff Recommended		Adjustments	
No.	Acct.	Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	(\$38)		(\$38)		\$0	\$0
2	371		(\$238)		(42)	0	196
3	371		(54)		(42)	0	12
4	340/390	(199)		0	0	199	199
5	380		(84)		(84)	0	(0)
6	341/391	(2,689)		(1637)	(2083)	1052	606
7	340	(242)		(89)		153	0
8	347/397	(90)		(63)	(80)	27	10
9	347/397	(45)		(39)	(50)	6	(5)
10	347/397	(22)		(16)	(21)	6	23
11	370		(21)		(21)	0	0
12	339	(184)		(335)		(151)	0
13	380		(184)		(189)	0	(5)
14	310	(3,000)		(2034)		966	0
15	355		(3,250)		(1969)	0	1281
16	370		(1,833)		(1480)	0	353
17	370		(1,833)		(1480)	0	353
18	320	(2,955)		(2719)		236	0
19	336	(9,733)		(6942)		2791	0
20	370		(1,167)		(966)	0	201
21	304/354	(1,875)		0	0	1875	1875
22	370		(677)		0	(561)	677
23	304/354	(219)		(95)	(436)	124	221
24	345/395	(584)		(457)	(581)	127	3
25	341/391	(3,425)		(1637)	(2083)	1788	1342
26	354		(1,875)		(2067)	0	(192)
27	361		(167)		(26)	0	141
28	361		(2,222)		(486)	0	1736
29	345/395	(3,000)		(2175)	(2769)	825	231
30	354		(938)		0	0	938
31	340/390	(125)		(90)	(114)	35	11
32	304	(455)		490		945	0
33	341/391	(797)		(701)	(892)	96	(95)
	Total	(\$29,677)	(\$28,073)	(\$19,137)	(\$17,963)	\$10,540	\$10,110



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Table 4-3 Pro forma retirements		Utility Requested		Staff Recommended		Adjustments	
No.	Acct.	Water	Wastewater	Water	Wastewater	Water	Wastewater
1	320	(622)		(622)		0	0
2	371		(3,219)		(567)	0	2,652
3	371		(727)		(567)	0	160
4	340/390	(896)	(896)	0	0	896	896
5	380		(1,136)		(1,135)	0	1
18	320	(48,750)		(44,822)		3,928	0
23	304/354	(5,250)	(15,750)	(2,348)	(9,821)	2,902	5,929
24	345/395	(5,250)	(5,250)	(4,111)	(5,232)	1,139	18
26	354		(45,000)		(49,538)	0	(4,538)
28	361		(75,000)		(16,428)	0	58,572
29	345/395	(27,000)	(27,000)	(19,586)	(24,928)	7,414	2,072
32	304	(11,250)		(12,123)		(873)	0
	Total	(\$99,018)	(\$173,978)	(\$83,612)	(\$108,216)	\$15,406	\$65,762

**Issue 5:** What is the appropriate used and useful percentage for the utility's water treatment plant and storage?

**Recommendation:** The utility's water treatment plant should be considered 63.67% used and useful, and the storage should be considered 100% used and useful. As a result, net water rate base should be reduced by \$119,666. Corresponding adjustments should be made to reduce water depreciation expense by \$3,650 and property taxes by \$824 for water. (Edwards)

**Staff Analysis:** In its filing, the utility stated the used and useful (U&U) percentages of its water treatment plant should be 100% U&U. The utility stated the system consists of simple chlorination and the only storage is a 100,000 gallon elevated tank. Thus, the utility calculation indicates demands must be met by well pumping capacity and used and useful was calculated on peak demand. The utility's calculation shows that its peak demand was 319 gallons per minute (gpm).

Staff has performed an analysis of the utility's facilities and its recommendations are discussed below.

#### Water Treatment Plant

The utility calculated the used and useful percentage for the water treatment plant by taking the peak demand without unusual occurrences, adding a fire flow allowance plus a statutory growth allowance minus excessive unaccounted for water, and dividing the sum by the permitted capacity of the plant. The utility's peak demand of 229,000 gallons per day (gpd) is based on the second highest day of the test year which was March 18, 2005. The required fire flow allowance is 1,000 gallons per minute (gpm) to be maintained for two hours, or 120,000 gallons per day (gpd), based on the requirements of Polk County. The utility stated that its firm reliable capacity for the water plant is 230,000 gpd. The utility based this amount on the SWFWMD water usage permit. The utility's calculation did not include excessive unaccounted for water. In addition, it calculated a growth allowance of 12,460 gpd. The utility's calculation reflected 100% used and useful. In addition, the utility states there has been no significant change made to this system since its last rate proceeding in Docket No. 981258-WS. The utility states the water system was found to be 100% used and useful in Order No. PSC-99-1742-PAA-WS, at Schedule 1-A. However, Docket No. 981258-WS was an investigation into possible overearnings. By Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, the Commission accepted an offer of settlement. The issue of used and useful was not discussed in either the settlement offer, or the Commission's order. As there was no specific finding regarding used and useful, staff does not believe the Commission determined the water and wastewater plant to be 100% used and useful simply by accepting the utility's offer of settlement.

Staff has reviewed the utility's proposed calculation, and believes it is not consistent with Commission practice. The utility did not use the Commission's methodology of calculating some of the components in the formula. Staff's analyses are as follows:

### Peak Demand

Past Commission practice of determining peak demand is based on using a single maximum day in the test year if there is no unusual occurrence on that day. If an unusual occurrence has occurred on that day, the average of the 5 highest days within a 30 day period in the test year is then used. Since there was an unusual occurrence on the single maximum day, staff believes the peak demand should be 219,000 gpd, based on the average of the 5 highest days within a 30 day period, instead of 229,000 gpd used by the utility.

### Plant Capacity

The utility has two wells with a total capacity of 1,500 gpm. Consistent with past Commission practice and in accordance with the American Waterworks Association Manual of Water Supply Practices, if a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's reliability (firm reliable capacity). By taking the largest 770 gpm well out of service, the utility reflected a firm reliable capacity of 730 gpm (540,000 gpd = 730gpm x 60 minutes x 12 hours), which is the capacity of the smaller well. Staff's calculation of firm reliable capacity is consistent with Commission practice.

### Growth Allowance

The utility's calculated projected annual growth of 6.16 % exceeded the allowable 5% per year, pursuant to Section 367.081(2)(a)2b, F.S. Staff calculated the projected annual growth by using the statutory growth allowance of 5% per year and the result is 5,665 gpd instead of 12,460 gpd.

Based on the above, staff determined the water treatment plant should be considered 63.67% used and useful. (See Attachment A)

### Storage

The utility has a 100,000 gallon elevated storage tank that was built in 1972 to accommodate the anticipated customer build out for pressure and fire flow. Staff has reviewed the utility's fire flow requirement (120,000 gpd) and the tank's useable capacity (100,000 gallons – 10%). Based on the above, staff concluded the tank should be considered 100% U&U.

### Conclusion

Based on staff's analysis, staff recommends the utility's water treatment plant should be considered 63.67% used and useful, and the storage should be considered 100% used and useful. (See Attachment A) As a result, net water rate base should be reduced by \$119,666. Corresponding adjustments should be made to reduce water depreciation expense by \$3,650 and property taxes by \$824 for water.

**Issue 6:** What is the appropriate used and useful percentage for the utility's wastewater treatment plant?

**Recommendation:** The wastewater treatment plant should be considered 62.65% used and useful. As a result, net wastewater rate base should be reduced by \$201,396. Corresponding adjustments should be made to reduce wastewater depreciation expense by \$12,531 and property taxes by \$1,903. In addition, an adjustment should be made to reduce wastewater O&M expense by \$8,759 for excessive inflow and infiltration. (Edwards, Rendell)

**Staff Analysis:** In its application, the utility calculated the U&U percentage of the wastewater treatment plant by taking the 3 maximum months average daily flow (3MADF) plus a growth allowance and dividing the sum by the permitted capacity of the plant. The utility's test year 3MADF was 212,165 gpd. The utility's calculated growth allowance is 20,190 gpd. The wastewater treatment plant's permitted capacity is 250,000 gpd. The utility's calculation reflected 93% used and useful. However, the utility believes the U&U percentage should be 100%. The utility states there has been no significant change made to this system since its last rate proceeding in Docket No. 981258-WS. The utility states the water system was found to be 100% used and useful in Order No. PSC-99-1742-PAA-WS, at Schedule 1-A. However, Docket No. 981258-WS was an investigation into possible overearning. By Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, the Commission accepted an offer of settlement. The issue of used and useful was not discussed in either the settlement offer or the Commission's order. As there was no specific finding regarding used and useful, staff does not believe the Commission determined the water and wastewater plant to be 100% used and useful simply by accepting the utility's offer of settlement.

Rule 25-30.432, F.A.C., provides the used and useful determination for a wastewater treatment plant should be based on the DEP permitted capacity, the wastewater flows using the same basis as the permitted capacity, an allowance for growth, infiltration and inflow, and whether the permitted capacity differs from the design capacity.

Staff has reviewed the utility's calculation, and believes it is not consistent with the Commission's method of calculating wastewater treatment plant U&U percent. Staff's analyses are as follows:

#### Growth Allowance

The utility's calculated projected annual growth of 6.16% exceeded the statutory allowance of 5% per year. Pursuant to Rule 25-30.431(2)(a), F.A.C., and Section 367.081(2)(a) 2b, F.S., staff calculated the projected growth by using the allowable 5% per year with the result of 4,519 gpd instead of 20,190 gpd.

#### Inflow and Infiltration (I&I)

In its application, the utility calculated 28.76% excessive I&I. This amount was based on 98% of the water purchased by both residential metered and non-metered customers as being returned to the wastewater treatment plant. This resulted in 51,344 gpd excessive I&I.

However, the utility did not include the calculated 28.76% (51,344 gpd) excessive I&I in its wastewater U&U calculation.

The industry standard the Commission relies upon is based on the assumption that 80% of the water purchased by residential customers is returned as wastewater and 96% of the water purchased by general service customers is returned as wastewater. Staff's calculation of 34.25% excessive I&I was based on using 80% and 90% of the water purchased by residential metered and residential non-metered customers be returned as wastewater, respectively. For the non-metered customers, staff increased the amount of return water by 10% because during the field inspection staff noticed numerous multi-family units that have small pebble lawns. Therefore, staff believes a more realistic amount of water returned to the wastewater system for these customers would be 90% instead of the normal 80%.

### Conclusion

Based on the above, staff recommends the wastewater treatment plant be considered 62.65% used and useful. (See Attachment B) As a result, net wastewater rate base should be reduced by \$201,396. Corresponding adjustments should be made to reduce wastewater depreciation expense by \$12,531 and property taxes by \$1,903. In addition, an adjustment should be made to reduce wastewater O&M expense by \$8,759 for excessive inflow and infiltration.

**Issue 7:** What is the appropriate used and useful percentages for the utility's water distribution and wastewater collection systems?

**Recommendation:** The wastewater collection and water distribution systems should be considered 100% used and useful. (Edwards)

**Staff Analysis:** In its application, the utility states the water distribution and wastewater collection systems serve the areas of Nalcrest, Lake Shore Club, Village Green Walden Shores, Island Oaks and Granada Condos. According to the utility, these areas are built out. Therefore, the water distribution and wastewater collection systems are 100% U&U.

Staff has reviewed the service territory and we agree all the current mains are providing service for only the existing customers. Therefore, staff recommends the U&U percentages for the water distribution and wastewater collection systems should be considered 100%.

Based on the above, staff recommends the water distribution and wastewater collection systems should be considered 100% U&U.

**Issue 8:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate amount of working capital is \$24,767 for water and \$40,146 for wastewater. (Bulecza-Banks, Rendell)

**Staff Analysis:** Pursuant to Rule 25-30.433(2), F.A.C., working capital for Class B utilities is based on the formula methodology, or one-eighth of operation and maintenance (O&M) expenses. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the utility's balance of O&M expenses. Due to the adjustments recommended in other issues, staff recommends that working capital of \$24,767 and \$40,146 should be approved for water and wastewater, respectively. This reflects a decrease of \$6,064 for water and \$8,719 for wastewater from the utility's request.

**Issue 9**: What are the appropriate water and wastewater rate bases?

**Recommendation**: The appropriate water and wastewater rate bases for the test year ending December 31, 2005 are \$218,202 and \$274,815, respectively. (Bulecza-Banks, Rendell)

**Staff Analysis**: Staff has calculated Gold Coast's water and wastewater rate bases using the utility's MFRs with adjustments as recommended in the preceding issues, as \$218,202 and \$274,815, respectively.



### **Capital Structure**

**Issue 10:** What is the appropriate return on common equity and the appropriate overall rate of return for this utility?

**Recommendation:** The appropriate return on equity is 12.00% based on the Commission leverage formula currently in effect. The overall rate of return is 7.48%. (Bulecza-Banks, Rendell)

**Staff Analysis:** In its MFRs the utility included a return on equity of 9.43%. Gold Coast's proposed return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS at an equity ratio of 78.83%. However, in arriving at this equity ratio, the utility included \$1,080,379 in requested pro forma equity contributions to fund the requested pro forma additions.

The utility has not provided any documentation as to this specific adjustment. In the absence of supporting documentation, it is Commission practice to allocate pro forma additions across all sources of capital on a pro rata basis.

The purchase of the utility was accomplished through long term debt in the amount of \$550,000 issued November 18, 2005. Staff has no reason to believe the requested pro forma items will be paid for exclusively through shareholders equity. Staff believes it is more likely that these items will be funded through a combination of both long term debt and equity and is representative of the historical test year.

Staff recommends the appropriate return on equity is 12.00% based on the most recent Commission-approved leverage.<sup>8</sup> Applying a return on equity of 12.00% results in an overall rate of return of 7.48%.

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<sup>8</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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.

**Net Operating Income****Issue 11:** What is the appropriate amount of pro forma salaries for Gold Coast?

**Recommendation:** The appropriate pro forma salaries for Gold Coast are \$130,300 for employees and \$72,000 for officers. Adjustments should be made to reduce Account 601 by \$30,668 and Account 701 by \$39,032. Further to correct a utility error, adjustments should be made to reduce Accounts 603 by \$8,483 for water and Account 703 by \$9,517. In addition, payroll taxes should be reduced by \$2,995 for water and \$3,714 for wastewater to reflect these reductions. (Bulecza-Banks, Rendell)

**Staff Analysis:** The utility recorded \$4,500 each in Accounts 603 and 703, Salaries and Wages – Officers. In addition, the utility requested pro forma salary expenses for its officer in the amount of \$35,663 for Account 603 and \$45,337 for Account 703. However, in its response to staff's data request, Gold Coast admitted it made a typographical error on Schedule B-3. According to the utility, the annual salary for the officer should be \$72,000. By including the amount requested in its MFRs, the result is a requested officer salary amount of \$90,000. The appropriate amount that should be included in Accounts 603 and 703 is \$31,700 and \$40,300, respectively. Therefore, to correct this error, staff made adjustments to reduce Account 603 by \$8,483 and Account 703 by \$9,517.

Further, in its MFRs, Schedule B-3, the utility requested pro forma salary expenses for its employees in the amount of \$36,499 for Account 601 and \$47,828 for Account 701. Staff notes, in Order No. PSC-99-1742-PAA-SU, issued September 7, 1999, the Commission indicated that under the previous owner, Gold Coast utility had been trying to keep expenses low for cost effectiveness. Staff requested additional information concerning the utility's proposed pro forma salary increases. In its response, the utility indicated it currently has three operations employees. It also requested a new position. Staff requested information concerning the position descriptions and salary history of the utility's existing employees. Based on the information provided by the utility in response to staff's data request, staff has compiled a table detailing the utility's request. Table 9-1 reflects the utility's employees, the historical salary as of December 31, 2005, the salary as of March, 2006 and the requested pro forma salary.

Employee, Position	Salary 12/31/05	Salary March, 2006	Requested Pro Forma
Nathan Eckstein Wastewater Facility technician (in training)	\$29,237	\$30,200	\$45,000
John Ridgeway Wastewater and Water Facilities Technician	\$29,237	\$35,100	\$45,000
David Pearce Facility Manager	\$53,900	\$57,200	\$65,000
New Employee Daily work / general upkeep	N/A	N/A	\$45,000

Based on an analysis of the salary history over the past five years, there is no pattern in the salary amounts for these positions. These positions have experienced years of decreases, small increases, and large increases. Staff believes it is reasonable to allow the salaries of the two current technicians based on their March 2006 salary levels. The proposed salaries represent an increase of 3.3% for Nathan Eckstein, a new employee who began employment on December 1, 2005, and an increase of 20.05% for John Ridgeway. These amounts represent actual dollar amounts for two existing employees. Staff also recommends accepting the requested increase for David Pearce. Mr. Pearce is a long term employee who has not received a substantial pay increase for a number of years. This employee has historically done the majority of the work for Gold Coast. In addition, the customers had nothing but kind and supporting comments concerning Mr. Pearce. Staff does not believe this amount is unreasonable for this employee considering his job description and performance.

Staff does not believe it is reasonable to accept the utility's request for a new employee. Staff inquired as to whether the position was advertised or filled. The utility indicated it was waiting on a decision from the Commission before it would proceed in filling the position. The position has not been advertised or filled to date. The utility indicated it has made some informal inquiries. The new owner has little experience with the operations of this particular utility. As such, there is limited historical data to rely on in conducting an analysis of the ongoing operations of the utility. Staff does not believe it is reasonable to base a decision on filling a position on whether it is approved by the Commission. It is the utility's burden to justify its requested costs. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Staff does not believe the utility has met its burden of proof and recommends the request for the new position should not be allowed. This is consistent with Commission practice.<sup>9</sup>

In its response to staff's data request, the utility indicated it used an allocation based on its 2005 annual report of 43.3% for water and 56.7% for wastewater. For the purposes of allocating common plant items and operating expenses, staff used an allocation factor of 44% for water and 56% for wastewater. Staff recommends the appropriate pro forma salaries for Gold Coast are \$130,300 for employees and \$72,000 for officers. Adjustments should be made to reduce Account 601 by \$30,668 and Account 701 by \$39,032. Further, to correct a utility error, adjustments should be made to reduce Accounts 603 by \$8,483 for water and Account 703 by \$9,517 for wastewater. In addition, payroll taxes should be reduced by \$2,995 for water and \$3,714 for wastewater to reflect these reductions.

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<sup>9</sup> Order No. 8601, issued December 15, 1978, in Docket No. 770113-WS, IN re: Application of Central V Utilities Corporation for an increase in water and sewer rates to its customers in Orange and Seminole Counties, Florida.

**Issue 12:** What, if any, adjustment should be made to pensions and benefits?

**Recommendation:** Adjustments should be made to Accounts 604 and 704, pensions and benefits to remove the pro forma request for Individual Retirement Account (IRA) contributions and to reflect the appropriate amount of insurance. The total adjustments to reduce these accounts are \$8,164 for water and \$10,520 for wastewater. (Bulecza-Banks, Rendell)

**Staff Analysis:** The utility requested pro forma increases in pensions and benefits for a retirement plan and for increase in benefits for insurance. In response to staff's data requests, the utility indicated there is currently no retirement plan for its employees and officers. Further, the utility indicated it has requested a retirement plan that would entail a contribution from the utility to the employees' IRA in the amount of \$2,000 a year.

The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) states that employee pensions and benefits shall include all accruals under pension plans to which the utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits or insurance. It also includes expenses for medical, educational or recreational activities of employees. The requested retirement plan does not meet this requirement. Thus, consistent with Commission practice, staff recommends this pro forma item be denied.<sup>10</sup> Therefore, adjustments should be made to reduce this account by \$3,463 for water and \$4,537 for wastewater.

In addition, the utility requested pro forma adjustments in the amount of \$15,011 for water and \$18,263 for wastewater for increased insurance benefits for its employees and officers. In response to staff's data request, the utility submitted documentation in reference to these insurance costs. Based on this documentation, the actual pro forma increase for this request is \$22,591 (\$10,311 for water and \$12,280 for wastewater). Therefore, staff made adjustments to reduce Accounts 604 and 704 by \$4,701 (\$15,011-\$10,310) for water and \$5,983 (\$18,263-\$12,280) for wastewater to reflect the actual costs of insurance.

Based on the above analysis, staff recommends that total reductions be made to Accounts 604 and 704 of \$8,164 (\$3,463 +\$4,701) for water and \$10,520 (\$4,537+\$5,983) for wastewater.

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<sup>10</sup> Order No. PSC-99-1883-PAA-SU, issued September 21, 1999 in Docket No. 980242-SU, IN re: Petition for limited proceeding to implement two-step increase in wastewater rates in Pasco County by Lindrick Service Corporation

**Issue 13:** Should Gold Coast's wastewater Operation and Maintenance (O&M) expense be reduced by \$128 for unsupported expenses and reduced by \$3,837 to remove non-recurring expenses related to periodic permit renewal fees and periodic permits for engineering studies?

**Recommendation:** Yes. Gold Coast's wastewater O&M expense should be reduced by \$128 for unsupported expenses and by \$3,837 for non-recurring expenses. (Bulecza-Banks, Rendell)

**Staff Analysis:** In its filing, Gold Coast included \$128 for expenses that were not supported. In addition, the utility included expenses related to obtaining sewer permits for engineering studies and permit renewal fees. As the permit is valid for five years, the cost of the permits should be amortized over a five-year period. The total cost of the permits included in the test year is \$4,796. Since one-fifth of the expense totals \$959 ( $\$4,796/5$ ), an adjustment should be made to remove \$3,837 ( $\$4,796 - \$959$ ) from Gold Coast's wastewater O&M expense.

**Issue 14:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense is \$101,923 (\$44,846 for water and \$57,077 for wastewater.) This expense should be recovered over four years for an annual expense of \$11,212 for water and \$14,269 for wastewater. Thus, rate case expense should be reduced by \$1,194 for water and increased by \$2,050 for wastewater. (Bulecza-Banks, Rendell)

**Staff Analysis:** The utility included in its MFRs an estimate of \$98,500 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 March 6, 2007, the utility submitted a revised estimated rate case expense through the completion of the PAA process of \$109,691.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense 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 adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. The consultant and attorney attempted to appropriately remove expenses associated with correcting the MFR deficiencies; however, based on staff's review of invoices, a combined amount of \$1,479 was inadvertently included for correcting the MFR deficiencies and revising the utility's filing. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.<sup>11</sup>

#### Utility Expense

The next adjustment is for the utility's estimate to complete the rate case. In its estimate, the utility included a total of 10 hours for Keith Burge, the Vice President and Utility Director, to perform telephone conferences and communications with legal counsel and rate case consultants concerning future data requests by staff. In addition, the utility also estimated 5 hours for David Pierce, the Facilities Manager to do the same. It is Commission practice to disallow salaries and wages from rate case expense as these amounts are already included in O&M expenses.<sup>12</sup> As a result, staff has made an adjustment to remove \$6,328 from rate case expense related to utility salaries. Expenses related to postage, copying, and mailing were allowed.

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 the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case

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<sup>11</sup> See Order No. PSC-05-0624-PAA-WS, issued Jun 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.

<sup>12</sup> See Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030569-GU, In re: Application for rate increase by City Gas Company of Florida.

proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1<sup>st</sup> DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

The components of the estimated rate case expense and staff's recommendation are as follows:

	<u>MFR Estimated</u>	<u>Updated Actual and Estimated</u>	<u>Staff Adjustments</u>	<u>Recommended Rate Case Expense</u>
Utility	\$0	\$8,440	(6,328)	\$2,111
Cronin, Jackson, Nixon	55,000	46,730	(190)	46,540
Rose Sundstrom Bentley	30,000	36,913	(1,289)	35,624
M&R Consultants	10,000	14,148		14,148
Filing Fee	2,000	2,000		2,000
Notices	1,500	1,500		1,500
Total	\$98,500	\$109,731	(\$7,807)	\$101,923

Staff recommends the appropriate amount of rate case expense is \$101,923 (\$44,846 for water and \$57,077 for wastewater.) This expense should be recovered over four years for an annual expense of \$11,212 for water and \$14,269 for wastewater. Thus, rate case expense should be reduced by \$1,194 for water and increased by \$2,050 for wastewater.

**Issue 15:** Should an adjustment be made to Taxes Other than Income to remove unsupported amounts and to correct the allocation of taxes between water and wastewater?

**Recommendation:** Yes. Taxes Other than Income for water should be reduced by \$1,558 and Taxes Other than Income for wastewater should be increased by \$458. (Bulecza-Banks, Rendell)

**Staff Analysis:** During review of Gold Coast's Taxes Other than Income, the staff auditor requested supporting documentation for the amounts included in the utility's MFRs. The utility was unable to provide documentation to support \$301 for water and \$466 for wastewater. Further, the utility allocated 37% of its property and tangible taxes to water and 63% to wastewater. Property and tangible taxes should have been recorded based on the actual tax invoice for each system. Based on the actual tax invoice, property taxes and tangible taxes for water should be decreased by \$1,257 and for wastewater, should be increased by \$924.

Based on the above, Taxes Other Than Income for water should be reduced by \$1,558 (\$1,257 + \$301) and for wastewater, should be increased by \$458 (\$924-\$466).



**Issue 16:** What is the test year operating income?

**Recommendation:** Based on the adjustments discussed in previous issues, the test year operating loss before any provision for increased revenues is \$45,664 and \$85,656 for water and wastewater, respectively. (Bulecza-Banks, Rendell)

**Staff Analysis:** As shown on Schedules 3-A and 3-B, after applying staff's adjustments, the test year net operating loss before any revenue increase is \$45,664 and \$85,656 for water and wastewater, respectively. Staff's adjustments to operating income and expenses are shown on Schedule 3-C.

**Issue 17:** What are the appropriate pre-repression revenue requirements for water and wastewater?

**Recommendation:** The following pre-repression revenue requirements should be approved:

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$140,385	\$104,066	\$244,451	74.13%
Wastewater	\$214,728	\$178,316	\$393,044	83.04%

(Bulecza-Banks, Rendell)

**Staff Analysis:** Gold Coast’s requested final rates are designed to generate annual revenues of \$366,262 and \$584,229 for water and wastewater, respectively. These revenues exceed test year revenues by \$225,877 (160.90%), and \$369,501 (172.21%) for water and wastewater, respectively.

Based on staff’s recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water pre-repression revenue requirement of \$244,451 and a wastewater pre-repression revenue requirement of \$393,044. These revenues are an increase to staff’s adjusted test year revenues of \$104,066, or 74.13% for water and \$178,316 or 83.04% for wastewater. These pre-repression revenue requirement amounts are shown on attached Schedules 3-A and 3-B. These amounts allow the utility the opportunity to recover its expenses and earn a 7.46% return on its investment in water and wastewater rate base.

## **Rate and Rate Structure**

**Issue 18:** What are the appropriate rate structures for the water and wastewater systems?

**Recommendation:** The appropriate rate structure for the water system is the base facility charge (BFC)/uniform gallonage charge rate structure. The current residential flat rates, as well as the 5,000 gallon (5 kgal) allotment in the residential metered base facility charge, should be discontinued. Customers located in the Nalcrest, Lakeshore and Village Green service areas should be reclassified from the residential to the multi-residential service customer class. The BFC cost recovery percentage for the water system should be set at 60%. The appropriate rate structure for the wastewater system is the BFC/gallonage charge rate structure. Residential flat rates should be eliminated, and the residential wastewater monthly gallonage cap should be set at 10 kgal. Customers located in the Nalcrest, Lakeshore and Village Green service areas should be reclassified from the residential to the multi-residential service customer class. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 64%. (Lingo)

**Staff Analysis:** The utility's current water and wastewater rate structures were approved by Polk County in July 1996. The utility's customer base is very diverse. There are residential customers living in efficiency or one bedroom apartments, others living in 2 bedroom/2 bath units, with a small number of customers living in houses. The utility also has general service customers. The current water rate structure for the great majority of residential customers (those living in small apartments in the Nalcrest, Lakeshore and Village Green service areas) is a flat, unmetered rate structure. Rates prior to filing the instant case for those customers living in Nalcrest, Lakeshore and Village Green were a flat rate of \$7.19 per month. The current rate structure for the remaining residential and general service customers is the BFC/uniform gallonage charge rate structure. Metered residential customers in the Walden Shores (a subdivision of single family houses) and Granada apartments service areas are served by 5/8" x 3/4" meters. Prior to filing the instant case, these customers also paid \$7.19 per month, which included a 5 kgal allotment. Residential monthly consumption in excess of 5 kgal was charged a uniform consumption rate of \$1.03 per kgal. General service customers on a 5/8" x 3/4" meter paid \$18.46 per month – more than 2.5 times the comparable residential rate – plus the same \$1.03 per kgal for all kgals consumed.

The utility's current wastewater rate structure for all currently-classified residential customers is a flat rate structure. The rate structure for the general service customers is the BFC/gallonage charge rate structure. The residential rate prior to filing was \$12.62 per month, while the rates for the general service customers on a 5/8" x 3/4" meter were \$24.24 per month, plus \$1.60 for all kgals used.

The utility is located in the South Florida Water Management District (District), but not within a water use caution area. Although the utility's permit expired in September 2006, the utility timely filed for permit renewal. At the request of the District, the renewal review process was to be postponed until mid-2007.

Customers in disparate, diverse housing types represent different peak demands on the system and different levels of associated fixed costs to recover. Therefore, staff believes that applying the same fixed charge to all residential-type customers represents a rate structure inequity that must be corrected. Furthermore, charging different rates for 5/8" x 3/4" meters (such as the residential vs. general service classes in this case) also represents an inequity to be corrected. Staff has recommended appropriate customer classes and equivalent residential connection (ERC) values for the different customers in order to appropriately set rates. A discussion of staff's methodology follows.

### Water Rates

The residential customer class applies to those customers living in private residences or in individually metered apartment units. As discussed above, the residential customers in the Walden Shores and Granada apartments service areas are individually metered. Based on the relative size of the apartments versus the houses (and associated yards), staff believes it is appropriate to assign the customers living in Granada apartments 0.8 ERC per customer, while the customers living in Walden Shores should be assigned 1.0 ERC per customer.

As discussed in a prior issue, the utility has requested numerous pro forma plant additions, including three 8" meters and two 2" meters. Two of the 8" meters will serve as master meters for the Nalcrest and Lakeshore service areas, while the 2" meters will serve as master meters to the Village Green service area. Based on the placement of these pro forma master meters, and the fact that the customers living in the Nalcrest, Lakeshore and Village Green apartments will not be individually metered, staff recommends that these 1,108 currently unmetered customers (500 customers each in Nalcrest and Lakeshore, and 108 customers in Village Green) be reclassified from the residential to the multi-residential service class.

In order to estimate ERC values for the master-metered customers, staff compared the average monthly consumption for the different customer types. The utility's estimated monthly usage for its unmetered customers was 1.9 kgal, or less than 40% of the average residential metered consumption per month of 5.2 kgal. It may appear appropriate to assign the unmetered customers a value of 0.4 ERC per customer. However, the unmetered customers represent a seasonal customer base, which means there are periods of the year when more customers are in residence, placing greater demand on the system during these periods. Staff believes this justifies increasing the assigned ERC value to 0.6 ERC per customer. Therefore, the 8" meters at Nalcrest and Lakeshore will be assigned 300 ERCs (500 customers per meter x 0.6 ERC per customer), while the 2" meters at Village Green will be assigned values of 32.4 ERCs each (54 customers per meter x 0.6 ERC per customer).

A utility customer has expressed his disagreement with staff's above-referenced methodology of assigning ERC values to the metered and unmetered customers. The customer believes that, since all currently-classified residential customers have paid the same BFC since 1996 with no complaints about the unfairness of such a policy, no change should be made to the ERC values. However, merely because no complaints have been raised does not mean that the current policy is equitable for the reasons stated above. The customer is also concerned that staff has based the recommended ERC value for the Nalcrest, Lakeshore and Village Green customers

based on an estimated monthly consumption of 1.9 kgal. Given the comparable size of the living space of these units compared to the Granada and Walden Shores areas, staff believes the estimated monthly usage of 1.9 kgal is reasonable. In addition, since the Nalcrest, Lakeshore and Village Green customers are not individually metered residential customers, it would be inappropriate to assign these customers an ERC value equal to those customers in Walden Shores and Granada. Given the size of the master meters and the number of customers those meters are serving, staff believes our recommended ERC values are appropriate.

Staff performed a detailed analysis of the utility's residential billing data in order to evaluate various BFC cost recovery percentages for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

Based on initial accounting allocations, the water system's BFC cost recovery percentage was 64%. The Commission typically approves BFC cost recovery allocations of 40% or less. However, there are two reasons why staff believes a cost recovery allocation greater than 40% is appropriate in this instance. First, the number of unmetered customers during the test year represents greater than 87% of the total bills rendered by the utility. These customers are seasonal in nature, which results in uneven cash flow distribution during the year.

Second, the utility had to estimate the average consumption for its unmetered customers in order to calculate its proposed consumption charges and unaccounted for water percentage. If the utility overestimated the test year consumption attributable to the unmetered customers (thereby underestimating the unaccounted for water), the utility's financial sufficiency may be harmed. Based on an analysis of different BFC cost recovery percentages and the resulting price impacts to customers, staff recommends a BFC cost recovery percentage of 60% for the water system. This will result in greater financial sufficiency and stability for the utility.

Staff examined the consumption levels of the metered customers in Walden Shores and the Granada apartments. The Commission often implements inclining-block rate structures for residential classes of service. However, as discussed above, staff is recommending a water system BFC cost recovery percentage of 60%. Based on staff's other recommended rate structure changes, plus the difficulty in designing meaningful inclining-block rates with only 40% of the cost recovery through the gallonage charge, staff does not believe an inclining-block rate structure for the residential class is appropriate at this time. A uniform gallonage charge rate structure is recommended.

The BFC/uniform gallonage charge rate structure has long been the Commission's water rate structure of choice for nonresidential classes. With this methodology, nonresidential customers continue to pay their fair share of the cost of service.

### Wastewater Rates

As discussed above, the utility's current wastewater rate structure for all residential customers is a flat rate structure, while the general service customers are subject to the BFC/gallage charge rate structure. Due to the capital intensive nature of wastewater systems, the Commission typically does not set the BFC cost recovery percentage for wastewater systems at less than 50%. Based on initial accounting allocations, the utility's BFC cost recovery percentage is 64%. The initial allocation is consistent with how the Commission has set wastewater rates in other cases; therefore, staff recommends that the 64% fixed cost allocation be approved.

Since metered data is available, staff recommends that the appropriate rate structure for the residential class be changed to the BFC/gallage charge rate structure. Absent data to the contrary, the residential wastewater monthly gallage cap is set at the lesser of: 1) 80% of the consolidated factor for residential service; or 2) 10 kgal. In this case, the consolidated factor at 10 kgal is 78%. There is no data that would lead staff to believe that a lesser residential monthly gallage cap is appropriate. Therefore, staff recommends that the residential monthly gallage cap be set at 10 kgal.

Consistent with staff's recommendation for the water system, customers located in the Nalcrest, Lakeshore and Village Green service areas should be reclassified from the residential to the multi-residential service customer class. The multi-residential and general service gallage charge should be 1.2 times greater than the corresponding residential charge, consistent with how the Commission typically sets wastewater rates.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system is the base facility charge (BFC)/uniform gallage charge rate structure. The residential flat rates, as well as the 5 kgal allotment in the residential metered base facility charge, should be discontinued. Customers located in the Nalcrest, Lakeshore, and Village Green service areas should be reclassified from the residential to the multi-residential service customer class. The BFC cost recovery percentage for the water system should be set at 60%. The appropriate rate structure for the wastewater system is the BFC/gallage charge rate structure. Residential flat rates should be eliminated, and the residential wastewater monthly gallage cap should be set at 10 kgal. Customers located in the Nalcrest, Lakeshore, and Village Green service areas should be reclassified from the residential to the multi-residential service customer class. The multi-residential and general service gallage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery for the wastewater system should be set at 64%.

**Issue 19:** Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for the water and wastewater systems, what are the corresponding expense adjustments to make, and what are the resulting final revenue requirements for the respective systems?

**Recommendation:** Yes, repression adjustments are appropriate for this utility. For the water system, test year kgals sold should be reduced by 3,267 kgals, purchased power expense should be reduced by \$1,025, chemicals expense should be reduced by \$94, and regulatory assessment fees (RAFs) should be reduced by \$53. The final post-repression revenue requirement for the water system should be \$243,280. For the wastewater system, test year kgals sold should be reduced by 2,548 kgals, purchased power expense should be reduced by \$1,133, chemicals expense should be reduced by \$59, and RAFs should be reduced by \$54. The final post-repression revenue requirement for the wastewater system should be \$391,796.

In order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

**Staff Analysis:** Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that a substantial portion (27.1%) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates a seasonal residential customer base. This analysis also showed that average residential consumption per customer, after excluding those bills below 1 kgal per month, was 7 kgal per month. This level of consumption indicates that there is a moderate amount of discretionary, or non-essential, consumption of approximately 4 kgal per month per customer while the utility's customers are in residence. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 3,267 kgal, purchased power expense should be reduced by \$1,025, chemicals expense should be reduced by \$94, and regulatory assessment fees (RAFs) should be reduced by \$53. The final post-repression revenue requirement for the water system should be \$243,280. For the wastewater system, test year kgals sold should be reduced by 2,548 kgal, purchased power expense should be reduced by \$1,133, chemicals expense should

be reduced by \$59, and RAFs should be reduced by \$54. The final post-repression revenue requirement for the wastewater system should be \$391,796.

In order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.



**Issue 20:** What are the appropriate monthly service rates for the water and wastewater systems?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4-A, and the appropriate wastewater monthly rates are shown on Schedule No. 4-B. The recommended water rates produce revenues of \$243,280, and the recommended wastewater rates produce revenues of \$391,796. The utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. 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. In addition, the approved 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. (Lingo, Rendell)

**Staff Analysis:** The appropriate pre-repression revenue requirements are \$244,451 for the water system and \$393,042 for the wastewater system. As discussed in Issue 17, staff recommends that the appropriate water system rate structure for all customer classes is the BFC/uniform gallonage charge rate structure, and that the BFC cost recovery percentage be set at 60%. As also discussed in Issue 17, staff recommends that all wastewater customers be subject to the BFC/gallonage charge rate structure. In addition, the residential wastewater gallonage cap should be set at 10 kgal, the general service gallonage charge rate should be 1.2 times greater than the corresponding residential rate, and the BFC cost recovery percentage should be set at 64%. As discussed in Issue 18, staff recommends that repression adjustments be made to the water and wastewater systems. Applying these rate design and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedules No. 4-A and No. 4-B. These rates are designed to recover a post-repression revenue requirement for the water system of \$243,280, and a post-repression revenue requirement for the wastewater system of \$391,796.

The utility should file revised water and wastewater 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 approved 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 rates, requested rates, and staff's recommended water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively.

**Issue 21:** In determining whether any portion of the interim increases 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 same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the Consummating Order in this docket, the irrevocable letter of credit should be released. (Bulecza-Banks, Rendell)

**Staff Analysis:** By Order No. PSC-06-0925-PCO-WS, issued November 6, 2006, the Commission approved an interim revenue requirement of \$152,671 for water and \$311,691 for wastewater. This represents an increase of \$12,286 or 8.75% for water and \$96,963 or 45.16% for wastewater. The interim collection period is November 2006 through May 2007.

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 and pro forma plant and O&M expense items not completed through May 2007 are examples of adjustments which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2005. Gold Coast'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 lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense and pro forma plant and O&M expense items not completed through May 2007 were excluded because those items are prospective in nature and did not occur during the interim collection period. Using the principles discussed above, because the revenue requirements of \$152,671 for water and \$311,691 for wastewater granted in Order No. PSC-06-0925-PCO-WS for the interim test year is less than the revenue requirements for the interim collection period of \$203,233 for water and \$351,332 for wastewater, staff recommends that no refund is required. Further, upon issuance of the Consummating Order in this docket, the irrevocable letter of credit should be released.

**Issue 22:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in water 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. (Bulecza-Banks, Rendell)

**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. The decreased water and wastewater revenues will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved 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 should 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 23:** Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Gold Coast should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Bulecza-Banks, Rendell)

**Staff Analysis:** To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Gold Coast provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

**Issue 24:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively. (Bulecza-Banks, Rendell)

**Staff Analysis:** No. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a Consummating Order will be issued. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. When the PAA issues are final and the tariff and notice actions are complete, this docket may be closed administratively.

**Name of Utility: Gold Coast Utility Corp.**  
**Docket No: 060246-WS**

**Attachment A**  
**Historical Test Year (2005)**

**WATER TREATMENT SYSTEM USED & USEFUL**

1)		Capacity of Plant	540,000	gallons per day
2)		Maximum 5 Days Average	219,000	gallons per day
	a)	Maximum day @ peak		gallons per day
3)		Average Daily Flow	116,244	gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	120,000	gallons per day
5)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	1,271	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	6.62	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\5a]	5,729	gallons per day
6)		Excessive Unaccounted for Water (EUW)		gallons per day
	a)	Percentage of Excessive amount	.80	
	b)	Total Unaccounted for Water	12,523	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	11,624	gallons per day
	d)	Excessive Amount	899	gallons per day

**USED AND USEFUL FORMULA**

$(5 \text{ Max days} - \text{EUW} + \text{FF} + \text{Growth}) / 1\text{Well @ 12hrs} + \text{usable storage (gpd)}$

$(219,000 - 899 + 120,000 + 5,729) / 540,000 = 63.67 \% \text{ Used \& Useful}$

**Name of Utility: Gold Coast Utility Corp.**  
**Docket No: 060246-WS**

**Attachment B**  
**Historical Test Year (2005)**

**WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA**

1)		Permitted Capacity of Plant Using (3 MADF)	250,000	gallons per day
2)		Average Daily Glow (3MADF)	212,165	gallons per day
3)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	1,260	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	6.65	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x(3c)x[2^(3a)]	5,599	Gallons per day
4)		Excessive Infiltration or Inflow (I&I)		Gallons per day
	a)	Total I & I	87,149	gallons per day
	b)	Percent of Excessive	34.25	
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	26,006	gallons per day
	d)	Excessive Amount	61,143	gallons per day

**USED AND USEFUL FORMULA**

$$[(2) + (3) - (4)] / (1) =$$

$$(212,165 + 5,599 - 61,143) / 250,000 = (62.65\%) \text{ Used \& Useful}$$

<b>Gold Coast Utility Corp.</b>				<b>Schedule No. 1-A</b>		
<b>Schedule of Water Rate Base</b>				<b>Docket No. 060246-WS</b>		
<b>Test Year Ended 12/31/05</b>						
		<b>Test Year</b>	<b>Utility</b>	<b>Adjusted</b>	<b>Staff</b>	<b>Staff</b>
	<b>Description</b>	<b>Per</b>	<b>Adjust-</b>	<b>Test Year</b>	<b>Adjust-</b>	<b>Adjusted</b>
		<b>Utility</b>	<b>ments</b>	<b>Per Utility</b>	<b>ments</b>	<b>Test Year</b>
1	Plant in Service	\$477,805	\$353,033	\$830,838	(\$128,425)	\$702,413
2	Land and Land Rights	14,473	0	14,473	0	14,473
3	Non-used and Useful Components	0	0	0	(119,666)	(119,666)
4	Accumulated Depreciation	(444,378)	76,036	(368,342)	(3,260)	(371,602)
5	CIAC	(237,190)	0	(237,190)	0	(237,190)
6	Amortization of CIAC	208,596	1,190	209,786	(4,780)	205,006
7	Working Capital Allowance	<u>18,605</u>	<u>12,226</u>	<u>30,831</u>	<u>(6,064)</u>	<u>24,767</u>
8	<b>Rate Base</b>	<u>\$37,911</u>	<u>\$442,485</u>	<u>\$480,396</u>	<u>(\$262,194)</u>	<u>\$218,202</u>



<b>Gold Coast Utility Corp.</b>				<b>Schedule No. 1-B</b>	
<b>Schedule of Wastewater Rate Base</b>				<b>Docket No. 060246-WS</b>	
<b>Test Year Ended 12/31/05</b>					
<b>Description</b>	<b>Test Year Per Utility</b>	<b>Utility Adjust- ments</b>	<b>Adjusted Test Year Per Utility</b>	<b>Staff Adjust- ments</b>	<b>Staff Adjusted Test Year</b>
1 Plant in Service	\$704,804	\$430,591	\$1,135,395	(\$200,265)	\$935,130
2 Land and Land Rights	34,247	25,000	59,247	0	59,247
3 Non-used and Useful Components	0	0	0	(201,396)	(201,396)
4 Accumulated Depreciation	(634,755)	133,358	(501,397)	(54,114)	(555,511)
5 CIAC	(189,368)	0	(189,368)	0	(189,368)
6 Amortization of CIAC	183,661	2,905	186,566	0	186,566
7 Working Capital Allowance	<u>33,304</u>	<u>15,561</u>	<u>48,865</u>	<u>(8,719)</u>	<u>40,146</u>
8 <b>Rate Base</b>	<u>\$131,893</u>	<u>\$607,415</u>	<u>\$739,308</u>	<u>(\$464,493)</u>	<u>\$274,815</u>

<b>Gold Coast Utility Corp. Adjustments to Rate Base Test Year Ended 12/31/05</b>		<b>Schedule No. 1-C Docket No. 060246-WS</b>	
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Plant In Service</u>			
1 To remove unsupported plant additions (AF No. 1)	(\$5,835)	(\$4,727)	
2 To reflect staff's recommended pro forma plant items	(137,996)	(261,300)	
3 To reflect recommended retirements on pro forma plant	<u>15,406</u>	<u>65,762</u>	
Total	<u>(\$128,425)</u>	<u>(\$200,265)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment	(\$77,464)	(\$136,431)	
To reflect net non-used and useful on pro forma	<u>(42,202)</u>	<u>(64,965)</u>	
Total	<u>(\$119,666)</u>	<u>(\$201,396)</u>	
<u>Accumulated Depreciation</u>			
1 To remove unsupported plant additions (AF No. 1)	\$1,606	\$1,538	
2 To reflect staff's recommended pro forma plant items	10,540	10,110	
3 To reflect recommended retirements on pro forma plant	<u>(15,406)</u>	<u>(65,762)</u>	
Total	<u>(\$3,260)</u>	<u>(\$54,114)</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect the use of an incorrect composite rate (AF No. 2)	<u>(\$4,780)</u>	<u>\$0</u>	
<u>Working Capital</u>			
To reflect 1/8 of the O&M expense (AF No. 3)	<u>(\$6,064)</u>	<u>(\$8,719)</u>	

Docket No. 060246-WS  
 Date: June 27, 2007

Gold Coast Utility Corp. Capital Structure-Simple Average Test Year Ended 12/31/05							Schedule No. 2 Docket No. 060246-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
<b>Per Utility</b>									
1 Long-term Debt	\$294,414	\$0	\$294,414	(\$36,203)	\$258,211	21.17%	7.24%	1.53%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	15,599	1,080,379	1,095,978	(134,485)	961,493	78.83%	9.43%	7.43%	
5 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
7 <b>Total Capital</b>	<u>\$310,013</u>	<u>\$1,080,379</u>	<u>\$1,390,392</u>	<u>(\$170,688)</u>	<u>\$1,219,704</u>	<u>100.00%</u>		<u>8.97%</u>	
<b>Per Staff</b>									
8 Long-term Debt	\$294,414	\$0	\$294,414	\$173,795	\$468,209	94.97%	7.24%	6.88%	
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Common Equity	15,599	0	15,599	9,208	24,807	5.03%	12.00%	0.60%	
12 Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%	
13 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
14 <b>Total Capital</b>	<u>\$310,013</u>	<u>\$0</u>	<u>\$310,013</u>	<u>\$183,003</u>	<u>\$493,016</u>	<u>100.00%</u>		<u>7.48%</u>	
						<b>LOW</b>	<b>HIGH</b>		
						<u>11.00%</u>	<u>13.00%</u>		
						<u>7.43%</u>	<u>7.53%</u>		
						RETURN ON EQUITY			
						OVERALL RATE OF RETURN			

		Gold Coast Utility Corp.				Schedule No. 3-A			
		Statement of Water Operations				Docket No. 060246-WS			
		Test Year Ended 12/31/05							
Description	Test Year	Utility	Adjusted	Staff	Staff	Revenue	Revenue	Revenue	Requirement
	Per Utility	Adjustments	Test Year Per Utility	Adjustments	Adjusted Test Year	Increase	Increase		
1	<b>Operating Revenues:</b>	<u>\$140,385</u>	<u>\$225,877</u>	<u>\$366,262</u>	<u>(\$225,877)</u>	<u>\$140,385</u>	<u>\$104,066</u>	<u>\$244,451</u>	
							74.13%		
	<b>Operating Expenses</b>								
2	Operation & Maintenance	\$148,840	\$97,808	\$246,648	(\$48,509)	\$198,139		\$198,139	
3	Depreciation	(4,968)	23,762	18,794	(13,404)	5,390		5,390	
4	Amortization	0	0	0	0	0		0	
5	Taxes Other Than Income	14,842	21,401	36,243	(17,120)	19,123	4,683	23,806	
6	Income Taxes	<u>0</u>	<u>21,534</u>	<u>21,534</u>	<u>(58,137)</u>	<u>(36,603)</u>	<u>37,398</u>	<u>795</u>	
7	<b>Total Operating Expense</b>	<u>158,714</u>	<u>164,505</u>	<u>323,219</u>	<u>(137,170)</u>	<u>186,049</u>	<u>42,081</u>	<u>228,130</u>	
8	<b>Operating Income</b>	<u>(\$18,329)</u>	<u>\$61,372</u>	<u>\$43,043</u>	<u>(\$88,707)</u>	<u>(\$45,664)</u>	<u>\$61,985</u>	<u>\$16,321</u>	
9	<b>Rate Base</b>	<u>\$37,911</u>		<u>\$480,396</u>		<u>\$218,202</u>		<u>\$218,202</u>	
10	<b>Rate of Return</b>	<u>-48.35%</u>		<u>8.96%</u>		<u>-20.93%</u>		<u>7.48%</u>	

Gold Coast Utility Corp.		Schedule No. 3-B					
Statement of Wastewater Operations		Docket No. 060246-WS					
Test Year Ended 12/31/05							
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 <b>Operating Revenues:</b>	<u>\$214,728</u>	<u>\$369,501</u>	<u>\$584,229</u>	<u>(\$369,501)</u>	<u>\$214,728</u>	<u>\$178,316</u>	<u>\$393,044</u>
						83.04%	
<b>Operating Expenses</b>							
2 Operation & Maintenance	\$266,428	\$124,486	\$390,914	(\$69,742)	\$321,172		\$321,172
3 Depreciation	17,752	20,721	38,473	(21,263)	17,210		17,210
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	24,198	31,262	55,460	(30,378)	25,082	8,024	33,106
6 Income Taxes	0	33,140	33,140	(96,220)	(63,080)	64,081	1,001
7 <b>Total Operating Expense</b>	<u>308,378</u>	<u>209,609</u>	<u>517,987</u>	<u>(217,603)</u>	<u>300,384</u>	<u>72,105</u>	<u>372,489</u>
8 <b>Operating Income</b>	<u>(\$93,650)</u>	<u>\$159,892</u>	<u>\$66,242</u>	<u>(\$151,898)</u>	<u>(\$85,656)</u>	<u>\$106,211</u>	<u>\$20,555</u>
9 <b>Rate Base</b>	<u>\$131,893</u>		<u>\$739,308</u>		<u>\$274,815</u>		<u>\$274,815</u>
10 <b>Rate of Return</b>	<u>-71.00%</u>		<u>8.96%</u>		<u>-31.17%</u>		<u>7.48%</u>

<b>Gold Coast Utility Corp.</b>		<b>Schedule No. 3-C</b>	
<b>Adjustment to Operating Income</b>		<b>Docket No. 060246-WS</b>	
<b>Test Year Ended 12/31/05</b>			
<b>Explanation</b>	<b>Water</b>	<b>Wastewater</b>	
<u>Operating Revenues</u>			
Remove requested interim revenue increase	<u>(\$225,877)</u>	<u>(\$369,501)</u>	
<u>Operation and Maintenance Expense</u>			
1 To remove excessive I&I adjustment	\$0	(\$8,759)	
2 To reflect staff's recommended employees' salaries	(30,668)	(39,032)	
3 Adjust Accts. 603/703 to reflect utility's error	(8,483)	(9,517)	
4 To remove pro forma retirement plan - IRA contribution	(3,463)	(4,537)	
5 To reflect staff's recommended benefits	(4,701)	(5,983)	
6 To reflect unamortized wastewater permit renewal fees (AF No.3)	0	(3,837)	
7 To remove unsupported expenses (AF No. 3)	0	(128)	
8 To reflect rate case expense amortization	<u>(1,194)</u>	<u>2,050</u>	
Total	<u>(\$48,509)</u>	<u>(\$69,742)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect the removal of plant (AF No.1)	(\$494)	(\$445)	
2 To reflect staff recommended pro forma	(10,540)	(10,110)	
3 To reflect recommended retirements on pro forma plant	1,280	1,824	
4 To remove net depreciation on non-U&U pro forma plant.	(1,597)	(2,506)	
5 To remove net depreciation on non-U&U adjustment above.	<u>(2,053)</u>	<u>(10,025)</u>	
Total	<u>(\$13,404)</u>	<u>(\$21,263)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$10,164)	(\$16,628)	
2 To reduce pro forma property taxes.	(1,404)	(8,592)	
3 To reflect non-used and useful property taxes.	(998)	(1,903)	
4 Water tangible taxes and other taxes being overstated. (AF No. 4)	(1,558)	0	
5 Wastewater tangible and other taxes understated. (AF No.4)	0	458	
6 To reduce pro forma payroll taxes.	<u>(2,995)</u>	<u>(3,714)</u>	
Total	<u>(\$17,120)</u>	<u>(\$30,378)</u>	

<b>Gold Coast Utility Corp.</b>			<b>Schedule No. 4-A</b>		
<b>Water Monthly Service Rates</b>			<b>Docket No. 060246-WS</b>		
<b>Test Year Ended 12/31/05</b>					
	<b>Rates</b>	<b>Comm.</b>	<b>Utility</b>	<b>Staff</b>	<b>Four-Year</b>
	<b>Prior to</b>	<b>Approved</b>	<b>Requested</b>	<b>Recomm.</b>	<b>Rate</b>
	<b>Filing</b>	<b>Interim</b>	<b>Final</b>	<b>Final</b>	<b>Reduction</b>
<b><u>Residential</u></b>					
Base Facility Charge By Meter Size:	\$7.19	\$7.82	\$20.46	N/A	
<b><u>Base Facility Charge All Meter Sizes:</u></b>					
5/8" x 3/4"				\$13.78	\$0.66
5/8" x 3/4" at Granada			\$14.32	\$11.02	\$0.53
3/4"			\$30.69	\$20.67	\$0.99
1"			\$51.15	\$34.45	\$1.65
1 1/2"			\$102.30	\$68.90	\$3.31
2"			\$163.68	\$110.24	\$5.29
Gallage Charge, per 1,000 Gallons	\$1.03	\$1.12	\$3.19	\$2.81	\$0.13
<b><u>Multi-Residential and General Service</u></b>					
<b>Base Facility Charge By Meter Size:</b>					
5/8" x 3/4"	\$18.46	\$20.08	\$20.46	\$13.78	\$0.66
3/4"			\$30.69	\$20.67	\$0.99
1"	\$46.15	\$50.19	\$51.15	\$34.45	\$1.65
1 1/2"	\$92.28	\$100.36	\$102.30	\$68.90	\$3.31
2"	\$147.64	\$160.56	\$163.68	\$110.24	\$5.29
2" at Village Green			\$327.36	\$446.67	\$21.45
3"	\$295.20	\$321.03	\$327.36	\$220.48	\$10.59
4"			\$511.50	\$344.50	\$16.54
6"			\$1,023.00	\$689.00	\$33.09
8"			\$0.00	\$1,102.40	\$52.94
8" at Nalcrest, Lakeshore				\$4,134.00	\$198.54
Gallage Charge, per 1,000 Gallons	\$1.03	\$1.12	\$3.19	\$2.81	\$0.13
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>					
3,000 Gallons	\$21.55	\$23.44	\$30.03	\$22.21	
5,000 Gallons	\$23.61	\$25.68	\$36.41	\$27.83	
10,000 Gallons	\$28.76	\$31.28	\$52.36	\$41.88	

<b>Gold Coast Utility Corp.</b>				<b>SCHEDULE NO. 4-B</b>		
<b>Wastewater Monthly Service Rates</b>				<b>Docket No. 060246-WS</b>		
<b>Test Year Ended 12/31/05</b>						
	<b>Rates</b>	<b>Comm.</b>	<b>Utility</b>	<b>Staff</b>	<b>Four-Year</b>	
	<b>Prior to</b>	<b>Approved</b>	<b>Requested</b>	<b>Recomm.</b>	<b>Rate</b>	
	<b>Filing</b>	<b>Interim</b>	<b>Final</b>	<b>Final</b>	<b>Reduction</b>	
<b><u>Residential</u></b>						
Base Facility Charge All Meter Sizes:	\$12.62	\$18.32	\$37.08	\$23.89	\$0.91	
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$0.00	\$0.00	\$3.74	\$3.59	\$0.14	
<b><u>General Service</u></b>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$24.24	\$35.19	\$37.08	\$23.89	\$0.91	
3/4"				\$35.84	\$1.36	
1"	\$60.63	\$88.01	\$92.70	\$59.73	\$2.27	
1 1/2"	\$121.24	\$175.99	\$185.40	\$119.45	\$4.54	
2"	\$193.98	\$281.57	\$296.64	\$191.12	\$7.27	
2" at Village Green				\$774.04	\$29.43	
3"	\$387.98	\$563.18	\$556.20	\$382.24	\$14.53	
4"			\$927.00	\$597.25	\$22.70	
6"	\$0.00	\$0.00	\$1,854.00	\$1,194.50	\$45.41	
8"	\$0.00	\$0.00		\$1,911.20	\$72.65	
8" at Nalcrest, Lakeshore	\$0.00	\$0.00	\$0.00	\$7,167.00	\$272.45	
Gallonge Charge, per 1,000 Gallons	\$1.60	\$2.32	\$4.39	\$4.31	\$0.16	
<b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>						
3,000 Gallons	\$12.62	\$18.32	\$48.30	\$34.66		
5,000 Gallons	\$12.62	\$18.32	\$55.78	\$41.84		
10,000 Gallons	\$12.62	\$18.32	\$74.48	\$59.79		
(Wastewater Gallonge Cap - 10,000 Gallons)						