

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Bulecza-Banks, Lingo, Massoudi)
Office of the General Counsel (Jaeger)

RE: Docket No. 070414-WS – Application for staff-assisted rate case in Polk County
by Hidden Cove, Ltd.
County: Polk

AGENDA: 04/08/08 – Regular Agenda – Proposed Agency Action Except For Issues 12 & 13
– Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 01/01/09 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070414.RCM.DOC

Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	- 3 -
	QUALITY OF SERVICE.....	- 4 -
1	Quality of Service (Massoudi).....	- 4 -
2	Used and Useful Percentages (Massoudi)	- 7 -
	RATE BASE	- 10 -
3	Rate Base (Fletcher, Massoudi).....	- 10 -
	COST OF CAPITAL.....	- 13 -
4	Rate of Return (Fletcher).....	- 13 -
	NET OPERATING INCOME.....	- 14 -
5	Test Year Operating Revenues (Lingo).....	- 14 -
6	Operating Expenses (Fletcher, Massoudi).....	- 15 -
	REVENUE REQUIREMENT.....	- 18 -
7	Revenue Requirement (Fletcher).....	- 18 -
	RATES AND RATE STRUCTURE.....	- 19 -
8	Billing Determinants (Lingo)	- 19 -
9	Implementation Date of Rate Increase (Fletcher)	- 21 -
10	Rate Structure (Lingo).....	- 22 -
11	Repression Adjustments (Lingo).....	- 23 -
12	Rates (Lingo, Fletcher).....	- 25 -
13	Rates Subject to Refund (Fletcher).....	- 26 -
14	Four-Year Rate Reduction (Fletcher).....	- 28 -
15	Docket Closure (Jaeger, Fletcher)	- 29 -
	Attachment A.....	- 30 -
	Attachment B	- 34 -
	Schedule 1-A.....	- 38 -
	Schedule 1-B.....	- 39 -
	Schedule 1-C.....	- 40 -
	Schedule 2.....	- 41 -
	Schedule 3-A.....	- 42 -
	Schedule 3-B.....	- 43 -
	Schedule 3-C.....	- 44 -
	Schedule 3-D.....	- 45 -
	Schedule 3-E.....	- 46 -
	Schedule 4-A.....	- 47 -
	Schedule 4-B.....	- 48 -

Docket No. 070414-WS
Date: March 27, 2008

Case Background

Hidden Cove, Ltd. (Hidden Cove or Utility) is a Class C water and wastewater utility currently providing service to approximately 122 mobile home sites in the Hidden Cove Mobile Home Park. The park is built out. Water is purchased from the City of Lakeland.

Hidden Cove is located in the Highlands Ridge Water Use Caution Area in the Southwest Florida Water Management District (SWFWMD). The Utility's 2006 annual report shows combined operating revenues of \$23,000, operating expenses of \$96,444, and a net operating loss of \$73,444.

Hidden Cove was granted Certificate Nos. 607-W and 523-S in 1999.¹ On July 16, 2007, the Utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee. The official date of filing was established as October 1, 2007.

Staff has audited Hidden Cove's records for compliance with Commission rules and orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the Utility's plant and service area. A review of Hidden Cove's operating expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a historical test year ending December 31, 2006, for this rate case.

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

¹ See Order No. PSC-99-1237-PAA-WS, issued June 22, 1999, in Docket No. 981399-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Hidden Cove, Ltd.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Should the quality of service provided by Hidden Cove, Ltd. be considered satisfactory?

Recommendation: Yes. The quality of service provided by Hidden Cove should be considered satisfactory. (Massoudi)

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

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

Staff's analysis below addresses each of these three components

Quality of Utility's Product

Water Treatment Plant (WTP)

The WTP at Hidden Cove is regulated by the Polk County Health Department (PCHD) and SWFWMD. The DEP inspected the Utility's WTP on March 17, 2006. Hidden Cove has conformed to all testing and chemical analyses required by this agency and the test results have been satisfactory. The quality of the water service appears to meet or exceed the regulatory standards and is considered satisfactory.

Wastewater Treatment Plant (WWTP)

The WWTP at Hidden Cove is regulated by the DEP. According to a DEP letter dated April 3, 2007, the DEP inspected the Utility's WWTP on March 15, 2007. Based on this inspection, Hidden Cove is currently up-to-date with all chemical analyses and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

Operational Conditions at the Plant

WTP

The quality of Hidden Cove's product is generally reflective of the Utility's plant-in-service. According to the PCHD's Warning Notice dated July 18, 2006, the PCHD stated that the utility violated the PCHD's Rules and Florida Statutes for the following issues:

1. Failure to submit the 2005 Consumer Confidence Report (CCR) to the PCHD by July 1, 2006. Chapter 62-550.824, F.A.C. and 40 CFR 141, subpart O Section 155 (c) requires that system mail a copy of the CCR to the PCHD by no later than the date that the system is required to distribute the report to its customers (July 1, 2006).
2. Failure to monitor for radium 226 and radium 228 following an alpha result of 7.8 in 2003. Chapter 62-550.519 (1)(c), F.A.C., requires community water systems to perform additional testing.

According to the PCHD's Short Form Consent Order, dated October 19, 2006, to the Utility, the PCHD stated that the corrective actions for the above violations required to bring Hidden Cove into compliance have been performed. However, the PCHD stated that the Utility is assessed civil penalties in the amount of \$695 for the above violations. According to the PCHD's receipt No. 50910, the PCHD confirmed that the Utility has paid a total of \$695 on October 30, 2006, for its civil penalties.

In general, during the engineering field inspection, maintenance at the water plant-site appeared to have been given adequate attention. The plant grounds within the fenced-in area were organized.

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

WWTP

The product provided by the Utility is reflective of the operating condition of the wastewater plant. Hidden Cove's operating permit was issued on October 27, 2005, and will expire on October 27, 2010. According to the DEP's letter dated April 3, 2007, the Utility was out of compliance due to the operation and maintenance, sampling, recording and reporting issues. According to Hidden Cove's response letter to the DEP dated May 10, 2007, the Utility stated that all of DEP's concerns were corrected.

According to a DEP letter dated September 27, 2007, the DEP inspected Hidden Cove's WWTP on August 22, 2007. The inspector observed the following violations during the site inspection:

1. The DEP's inspector reviewed Hidden Cove's logbook at the Utility's WWTP. Hidden Cove's logbook indicated that an unlicensed person was documenting himself as operating the plants on the required days of operator attendance. Rule 62-699.310(1),

F.A.C., provides that the permittee shall employ certified operators to fulfill the required on-site time at the facilities.

2. The Utility's logbook indicated that the operator did not attend to Hidden Cove's WWTP on Monday, May 28, 2007 (Memorial Holiday), and Wednesday, July 4, 2007, and failed to make up the time during that week. Rule 62-699.310, F.A.C., provides that the permittee shall ensure that a certified operator is scheduled to fulfill the required staffing at the facilities.
3. In 2006, residuals were not sampled and analyzed at the Utility's WWTP.

Per staff's phone conversation with the DEP's inspector on February 28, 2008, the DEP inspector said the Utility has corrected all of the above issues. However, the DEP is in process of issuing a Short Consent Order and penalties for the above violations. The inspector will mail a copy of the Consent Order to staff after it is signed.

In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The wastewater plant equipment and percolation ponds appeared to have been receiving periodic maintenance and were functioning properly. The plant ground within the fenced area was organized. However, Hidden Cove should complete any and all improvements to the system that are necessary to satisfy the standards set by DEP. All things considered, the operational conditions at the wastewater plant should be considered satisfactory at this time.

Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on February 14, 2008 at the Chain of Lakes Complex in Winter Haven, Florida. The meeting was open to all customers at 5:00 p.m. There were 22 persons that attended the meeting, including two Utility representatives. Four customers went on record with comments and concerns about Hidden Cove. The customers were concerned about the rate increase, the rate structure, the billing and the size of their meter.

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

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

Issue 2: What are the used and useful percentages for Hidden Cove's water and wastewater systems?

Recommendation: The following used and useful percentages are appropriate for the Utility's water and wastewater systems:

Water Treatment Plant	100%
Water Distribution System	100%
Wastewater Treatment Plant	100%
Wastewater Collection Systems	100%

(Massoudi)

Staff Analysis: Staff has performed a preliminary analysis of the utility's facilities and its analysis and recommendations are discussed below.

Water Treatment Plant

The WTP is a closed system with one 6" well that is drilled to a depth of 430 feet. The well is equipped with a 7.5 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 148 gallons per minute (gpm). The raw water is treated with liquid chlorine which is injected prior to entry into the 2,500 gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. This water plant has just one well. Considering one well with the volume capacity of 148 gpm and no usable storage, the firm reliable capacity of the water plant is 148 gpm.

During the 12-month test year review period, the peak month of water usage occurred during November 2006. The single maximum day (SMD) in the test year period was 38 gpm. Since the water plant is a closed system operation having one hydropneumatic tank (no storage tank), the actual peak hours of the maximum days is the appropriate input in calculating used and useful. Therefore, the actual peak hours [2 x (Maximum day – excessive unaccounted water)] was used in the used and useful formula. The average daily flow was 16 gpm. Since there is no fire hydrant within the distribution system, the fire flow is considered zero gpm in the calculations. The service area has been built-out since 1998. A regression analysis was performed which resulted in an expected growth of zero equivalent residential connections (ERCs) for the next year. The zero ERCs results in a projection of zero gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. No water consumption data was available to determine the excessive unaccounted for water (EUW). During staff's site visit, there did not appear to be an EUW problem occurring within the water distribution system. Therefore, the EUW was assumed to be zero.

Using these inputs in the formula method and the calculation methodology used (Attachment A, Page 1 of 4), the WTP is calculated to be 51.35% used and useful. However, the

Utility's service area has been built-out since 1998 and also Hidden Cove has only one well in its plant. It has been the Commission's practice to consider the WTP 100% used and useful if the service area is built-out or if the WTP has only one well.² Therefore, consistent with prior Commission decisions, staff is recommending that Hidden Cove's WTP be considered 100% used and useful (Attachment A, Page 1 of 4).

Water Distribution System

The water distribution system had the potential of serving 125 customers (estimated to be 136 ERCs) in 2006. The average number of customers served during the test year was 125 customers (estimated to be 136 ERCs). The service has been built-out since 1998. A regression analysis of growth over the past five years indicates that next year's ERC growth would be zero. Applying the zero ERCs to the statutory growth period, the future growth is calculated to be zero ERCs. By the formula approach, staff calculates the distribution system to be 100% used and useful (Attachment A, Page 2 of 4).

Wastewater Treatment Plant

The existing WWTP is permitted, based on three-month average daily flow (TMADF), to operate at a capacity of 20,000 gallons per day (gpd), utilizing the extended aeration activated sludge process. The three-month average daily flow for the historical test year for the WWTP was measured and calculated to be 14,196 gpd. Although, the service area has been built-out, a regression analysis was performed which resulted in an expected ERC growth of zero for the next year. The zero ERCs results in a projection of zero gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. No total water consumption data was available to determine the excessive Infiltration or Inflow (I&I). During staff's site visit, there did not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the excessive I&I was assumed to be zero. Using these inputs in the formula method and the calculation methodology used (Attachment A, Page 3 of 4), the WWTP is calculated to be 70.98% used and useful.

Pursuant to Rule 25-30.432, F.A.C, used and useful percentages for a WWTP shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will also consider other factors such as the allowance for growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased due to conservation or a reduction in the number of customers. It has been the Commission's practice to consider the WWTP 100% used and useful if the service area is built-out pursuant to the above rule.³ Therefore, consistent with

² See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, and Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, In re: Application for staff-assisted rate case in Lake County by Brendenwood Water System.

³ See Order No. PSC-03-1440-FOF-WS, pp. 41-44. and Order No. PSC-07-0789-PAA-SU, issued September 27, 2007, in Docket No. 070074-SU, In re: Application for staff-assisted rate case in Okeechobee County by The Vantage Development Corporation.

Docket No. 070414-WS

Date: March 27, 2008

prior Commission practice, staff is recommending that the Utility's WWTP be considered 100% used and useful.

Wastewater Collection System

Hidden Cove's potential customer base is 127 ERCs. The average number of customers for the test year is 127 ERCs. Since the service area is built-out, the potential growth for this system is zero. In accordance with the formula method and the calculation methodology used (Attachment A, Page 4 of 4), the used and useful is calculated to be 100%.

RATE BASE

Issue 3: What is the appropriate average test year rate base for this utility?

Recommendation: The appropriate average rate base for this utility is \$32,252 for water and \$27,769 for wastewater. Further, the Utility should be required to complete its meter installations within 6 months from the final order issued in this docket. (Fletcher, Massoudi)

Staff Analysis: Staff has selected an average test year ended December 31, 2006, for this rate case. Rate base components have been updated through December 31, 2006, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

Utility Plant-in-Service (UPIS): Hidden Cove recorded water and wastewater plant balances of \$60,286 and \$188,063, respectively. As stated in the case background, the Utility has never had its rate base established by this Commission since becoming jurisdictional. According to Audit Finding No. 1, Hidden Cove was unable to provide any original cost records to substantiate its 2006 plant balances. Due to a lack of Utility records, the staff engineer performed an original cost study to determine the appropriate amount of plant-in-service. The staff engineer's cost estimate was performed by the use of available maps, partial invoice records, and visible inspection of the facilities during the engineering field investigation. Based on the original cost study, staff has made an adjustment to decrease Hidden Cove's plant in service by \$26,081 for water and \$76,365 for wastewater.

The follow table illustrates staff plant adjustments by primary account for the Utility's water system.

<u>Acct No.</u>	<u>Account Name</u>	<u>Per Utility</u>	<u>Per Staff</u>	<u>Staff Adjustments</u>
301	Organization	\$275	\$0	(\$275)
302	Franchises	233	0	(233)
304	Structures & Improvements	2,618	371	(2,247)
307	Wells	2,204	3,434	1,230
309	Supply Mains	5,945	1,145	(4,800)
310	Power Generation Equipment	5,500	0	(5,500)
311	Pumping Equipment	3,178	1,717	(1,461)
320	Water Treatment Equipment	100	1,832	1,732
330	Dist. Reservoirs & Standpipes	8,590	4,579	(4,011)
331	Transmission & Dist. Mains	19,681	9,679	(10,002)
333	Services	<u>11,962</u>	<u>11,448</u>	<u>(514)</u>
	Total Original Study	<u>\$60,286</u>	<u>\$34,205</u>	<u>(\$26,081)</u>

The follow table illustrates staff plant adjustments by primary account for the Utility's wastewater system.

<u>Acct No.</u>	<u>Account Name</u>	<u>Per Utility</u>	<u>Per Staff</u>	<u>Staff Adjustment</u>
351	Organization	\$400	\$0	(\$400)
352	Franchises	271	0	(271)
354	Structures and Improvements	17,588	343	(17,245)
360	Collection Sewer - Force	9,545	0	(9,545)
361	Collection Sewer - Gravity	43,098	60,984	17,886
363	Services to Customers	18,807	0	(18,807)
364	Flow Measuring Devices	2,000	1,145	(855)
371	Pumping Equipment	40,131	9,158	(30,973)
380	Treatment and Disposal Equip.	<u>56,223</u>	<u>40,068</u>	<u>(16,155)</u>
	Total Original Study	<u>\$188,063</u>	<u>\$111,698</u>	<u>(\$76,365)</u>

In addition, staff is recommending that the Utility's rate structure be changed from a flat rate structure to the use of a base facility charge/gallonage methodology. As such, Hidden Cove should be required to install water meters within 6 months of the consummating order issued in this docket. In response to a staff data request, the Utility asserted it plans to begin installing meters in Mid-May of 2008. Based on cost estimates, Hidden Cove projects the meter installations will cost \$21,590. Therefore, staff is recommending that water plant be increased by \$21,590 to reflect the installation of these meters.

Based on the above, staff recommends a UPIS balance of \$55,795 for water and \$111,698 for wastewater.

Land: The Utility's water and wastewater systems have no balance in its land accounts. According to Audit Finding No. 2, the utility bought 20 acres for \$1,750 an acre when Hidden Cove's water and wastewater facilities were placed into service. Staff calculated that .183 acres is used for water operations and .960 acre is used for wastewater operations. Staff recommends that the water land balance should be \$320 and the wastewater balance should be \$1,680.

Non-used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the Utility's water treatment plant should be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

Accumulated Depreciation: Hidden Cove's records indicate accumulated depreciation balances of \$39,410 for water and \$159,954 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C., and decreased water accumulated depreciation by \$13,885 and wastewater accumulated depreciation by \$70,368. Staff also increased depreciation expense by \$1,269 for the new meters. Further, staff decreased accumulated depreciation by \$449 for water and \$864 for wastewater to reflect averaging adjustments. These adjustments result in accumulated depreciation balances of \$26,346 for water and \$88,722 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$2,483 for water (based on O&M of \$19,863) and \$3,113 for wastewater (based on O&M of \$24,903). Working capital has been increased by these amounts to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is \$32,252 for water and \$27,769 for wastewater. A calculation of rate base is shown on Schedule Nos. 1-A and 1-B for water and wastewater, respectively.

COST OF CAPITAL

Issue 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

Recommendation: The appropriate return on equity is 11.78% with a range of 10.78% to 12.78%. The appropriate overall rate of return is 6.73%. (Fletcher)

Staff Analysis: Hidden Cove's records indicate paid in capital of \$617,474 and long-term debt of \$1,536,639. The Utility's capital structure has been reconciled with staff's recommended rate base. Using the Commission's current leverage formula,⁴ the appropriate return on equity is 11.78%. Staff recommends a return on equity of 11.78% with a range of 10.78% to 12.78%, and an overall return of 6.73%. The return on equity and overall rate of return are shown on Schedule No. 2.

⁴ See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

NET OPERATING INCOME

Issue 5: What are the appropriate amounts of test year revenues in this case?

Recommendation: The appropriate amount of test year revenues in this case are \$11,880 for the water system and \$11,498 for the wastewater system. (Lingo)

Staff Analysis: The utility reported test year revenues of \$9,623 for the water system and \$9,622 for the wastewater system. However, staff's auditors discovered that the utility failed to bill its general service and irrigation customers (all related parties to the utility), thereby understating revenues.

Based on the number of water and wastewater customers during the test year, staff apportioned the monthly flat rate between the water and wastewater systems as follows:

TABLE 5-1

TEST YEAR REVENUES: APPORTIONMENT OF MONTHLY FLAT RATE BETWEEN THE WATER AND WASTEWATER SYSTEMS		
Line No.	Description	Results
1	Total water customers	125
2	Plus total wastewater customers	123
3 = 1 + 2	Equals total combined customers	248
4 = 1 / 3	Ratio of water customers to total customers	50.4%
5 = 2 / 3	Ratio of wastewater customers to total customers	49.6%
6	Monthly flat rate for combined water and wastewater service	\$15.71
7 = 4 x 6	Apportioned water rate per month	\$7.92
8 = 5 x 6	Apportioned wastewater rate per month	\$7.79
Sources: Staff audit report, p. 9; Hidden Cove, Ltd., current tariffs.		

Staff recalculated test year revenues, based on the actual number of customers on the utility's system during the test year and the apportionment of the monthly combined flat rate between the water and wastewater systems. Based on these recalculations, staff recommends that the appropriate amount of test year revenues in this case are \$11,880 (125 x \$7.92) for the water system and \$11,498 (123 x \$7.79) for the wastewater system. As a result, staff recommends imputation of \$2,257 in revenues for the water system and \$1,876 for the wastewater system. Imputation of revenues in this case is consistent with how unbilled customers and the associated revenues have been handled in prior cases.⁵

⁵ See Order No. PSC-97-0931-FOF-WU, issued August 5, 1997 in Docket No. 961447-WU, In re: Application for staff-assisted rate case in Lee County by Spring Creek Village, Ltd.

Issue 6: What are the appropriate amount of pre-repression operating expenses?

Recommendation: The appropriate amount of pre-repression operating expense for the Utility is \$22,702 for water and \$27,762 for wastewater. (Fletcher, Massoudi)

Staff Analysis: Hidden Cove's books reflected operating expenses of \$43,510 for water and \$52,934 for wastewater for the test year ending December 31, 2006. The test year O&M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses. A summary of adjustments to operating expenses is as follows:

Operation and Maintenance Expenses (O&M)

Salaries and Wages-Employees – (601/701) – Hidden Cove recorded \$4,147 for water and \$4,144 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 5, the Utility's salary accounts are overstated. Additionally, the auditors found improper allocations between utility and non-utility operations. Staff reduced expenses by \$243 for water and \$243 for wastewater for the overstated expense and the misallocations. Therefore, staff recommends \$3,904 for water and \$3,901 for wastewater in this account.

Sludge Removal Expense – (711) - Hidden Cove recorded \$4,325 in this account for the test year. Pursuant to Audit Finding No. 6, this account is overstated. In accordance with this audit finding, staff decreased this account by \$200. Therefore, staff recommends \$4,125 for this account.

Purchased Power – (615/715) – The Utility recorded \$3,477 for water and \$1,942 for wastewater in these accounts during the test year. Based on the staff engineer's calculation, Account 715 is understated for wastewater. As such, staff increased purchased power for wastewater by \$215. Therefore, staff recommends \$3,477 for water and \$2,157 for wastewater.

Chemicals – (618/718) - Hidden Cove recorded \$1,100 for water and \$3,929 for wastewater in these accounts during the test year. Based on the staff engineer's review, these accounts are overstated. As such, staff decreased water by \$70 and wastewater by \$260. Therefore, staff recommends \$1,030 for water and \$3,669 for wastewater.

Materials and Supplies – (620/720) - The Utility recorded \$700 for water and \$2,081 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 7, this account is understated for water and overstated for wastewater because of several misclassifications by Hidden Cove. In accordance with this audit finding, staff increased water by \$359 and decreased wastewater by \$769. Therefore, staff recommends \$1,059 for water and \$1,312 for wastewater.

Contractual Services-Professional – (631/731) - The Utility recorded \$19,118 for water and \$20,946 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 8, these accounts are overstated. In accordance with this audit finding, staff reduced water expense by \$13,615 and wastewater expense by \$12,796 for expenses that were either misclassified or for which support was not provided. Staff reduced water expense by \$4,253 and wastewater expense

by \$7,400 to reflect expenses no longer being performed by outside parties. Staff recommends \$1,250 for water and \$750 for wastewater.

Contractual Services-Testing – (635/735) – The staff engineer reviewed the proper level of expense in these accounts and determined that the proper expense should be \$1,493 for water and \$1,591 for wastewater. In accordance with the staff engineer’s calculations, staff increased water expense by \$479 and wastewater expense by \$1,591. Staff recommends \$1,493 for water and \$1,591 for wastewater.

Contractual Services-Other – (636/736) – Hidden Cove recorded \$2,830 for water and \$2,017 for wastewater. Pursuant to Audit Finding No. 9, staff reduced water by \$661 for reclassified or non-utility expenses, and increased wastewater \$100 for reclassified expenses. Therefore, staff recommends \$2,169 for water and \$2,117 for wastewater.

Insurance Expense – (655/755) – The Utility recorded \$1,650 for water and \$1,650 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 10, staff reduced both water and wastewater expense by \$134 for misclassified and non-utility expenses. Therefore, staff recommends \$1,516 for water and \$1,516 for wastewater.

Regulatory Commission Expense - (665/765) – Hidden Cove recorded no expense in these accounts for the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. The Utility paid a \$1,000 rate case filing fee for water and \$200 for wastewater. Staff increased water by \$250, ($\$1,000/4$), and wastewater by \$50 ($\$200/4$).

Hidden Cove’s attorney submitted actual expenses and estimated expenses to complete the case of \$8,858. Included in the actual legal fees were expenses totaling \$715 for reviewing prior PSC Orders, the 2006 Annual Report, researching and drafting and finalizing the application for the SARC, and responding to the PSC acceptance of the SARC application. Staff does not believe these expenses should be recovered as the need to file a case can easily be determined by a cursory review of the annual report, and the SARC application was designed so that any regulated utility could easily fill in the required information. These expenses were disallowed in a prior case.⁶ Staff has reviewed the actual and estimated expenses, and recommends that the utility be allowed to recover the legal expenses of \$8,143 ($\$8,858-\715). Therefore, staff has increased these accounts by \$1,018 ($\$8,143/4/2$).

Additionally, the Utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff estimated noticing expenses of \$50 postage expense, \$12 printing expense, and \$6 for envelopes. The above results in a total rate case expense for noticing of \$68. Staff increased Accounts 665 and 765 by \$17 ($\$68/4$) to reflect rate case expense for noticing. Overall, staff recommends that these accounts be increased by \$1,285 ($\$250 + \$1,018 + \17) for water, and \$1,085 ($\$50 + \$1,018 + \17) for wastewater.

⁶ See Order No. PSC-03-0740-PAA-WS, issued June 23, 2003, in Docket No. 021067-SU, In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C.

Miscellaneous Expenses- (675/775) – Hidden Cove recorded \$6,991 for water and \$6,296 for wastewater in these accounts for the test year. Pursuant to Audit Finding No. 11, staff reduced water by \$4,311 to remove a PCHD fine and non-utility expenses. Staff reduced wastewater by \$3,616 for non-utility expenses. Therefore, staff recommends \$2,680 for water and \$2,680 for wastewater.

Operation and Maintenance Expense (O&M) Summary – The total O&M adjustments are decreases of \$21,164 for water and \$22,427 for wastewater. Staff recommends O&M expense of \$19,863 for water and \$24,903 for wastewater. O&M expenses are shown on Schedule Nos. 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded depreciation expense of \$1,498 for water and \$2,632 for wastewater. Depreciation has been calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C., which resulted in depreciation expense reductions of \$601 for water and \$1,107 for wastewater. In addition, staff has increased water depreciation expense by \$1,269 associated with the installation of new meters discussed in Issue 3. Based on the above, staff recommends annual net depreciation expense of \$2,166 for water and \$1,525 for wastewater.

Taxes Other Than Income – Hidden Cove recorded taxes other than income of \$985 for water and \$2,972 for wastewater. These amounts include property taxes of \$468 for water and \$2,455 for wastewater and regulatory assessment fees (RAFs) of \$517 each for water and wastewater. Pursuant to Audit Finding No. 13, staff reduced property taxes by \$312 for water and \$1,638 for wastewater. Staff also reduced payroll taxes by \$19 for both water and wastewater to reflect the salary adjustment discussed earlier. Moreover, since the Utility paid the RAF expense on revenues of \$11,500 for both water and wastewater, staff increased water and wastewater RAF expense by \$13 to include the appropriate RAF expense for staff's calculated total annual revenues of \$11,880 for water and \$11,498 for wastewater.

Income Tax – Hidden Cover is a limited liability partnership. Since the partners are assessed income taxes based on their income, no income taxes have been included.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses result in staff's calculated pre-repression operating expenses of \$22,702 for water and \$27,762 for wastewater. The utility water and wastewater operating expenses are shown on Schedule Nos. 3-A and 3-B, respectively. The related adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Issue 7: What is the appropriate pre-repression revenue requirement?

Recommendation: The appropriate pre-repression revenue requirement is \$25,401 for water and \$30,383 for wastewater. (Fletcher)

Staff Analysis: Based on staff's calculated revenue requirement below, the Utility earned below its recommended rate of return on its water and wastewater systems. According to staff's calculations, the appropriate annual revenue increase is \$13,618 (115.58%) for water and an annual increase of \$18,601 (157.88%) for wastewater. This will allow Hidden Cove the opportunity to recover its expenses and earn a 6.73% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$32,252	\$27,769
Rate of Return	x .0673	x .0673
Return on Rate Base	\$2,171	\$1,869
Adjusted O&M expense	\$19,863	\$24,903
Depreciation Expense (Net)	\$2,166	\$1,525
Amortization	\$0	\$0
Taxes Other Than Income	\$673	\$1,334
Income Taxes	\$0	\$0
Revenue Requirement	\$25,401	\$30,383
Adjusted Test Year Revenues	- 11,880	- 11,498
Annual Revenue Increase	<u>\$13,618</u>	<u>\$18,601</u>
Percent Increase/(Decrease)	<u>115.58%</u>	<u>157.88%</u>

Based on the foregoing, staff recommends the appropriate pre-repression revenue requirement of \$25,401 for water and \$30,383 for wastewater. The Utility's water and wastewater revenue requirements are shown on Schedule Nos. 3-A and 3-B, respectively.

RATES AND RATE STRUCTURE

Issue 8: What are the appropriate pre-repression billing determinants for ratesetting purposes for the respective water and wastewater systems?

Recommendation: The appropriate pre-repression billing determinants for ratesetting are 136 ERCs and 7,711.3 thousand gallons (7,711.3 kgals) for the water system and 127 ERCs and 3,078.3 kgals for the wastewater system. (Lingo)

Staff Analysis: The utility’s current rate structure consists of a flat (unmetered) rate structure, in which the utility charges \$15.71 per month for combined water and wastewater service. Therefore, there are no test year historical data regarding customers’ ERCs or consumption (billing determinants). As will be discussed in a subsequent issue, staff recommends that: 1) the rate structure for the water system be changed to the base facility charge (BFC)/uniform gallonage charge rate structure; and 2) the rate structure for the wastewater system be changed to the BFC/gallonage charge rate structure. The change from unmetered to metered rate structures requires staff to calculate ERCs and consumption for ratesetting purposes for both the water and wastewater systems.

The ERC data associated with the unmetered customers is based on the staff engineer’s review of the service area. Staff’s calculation of ERCs for ratesetting for both the residential service (RS) and general service (GS) classes of service is set forth in the table below:

TABLE 8-1

CALCULATION OF ERCs FOR RATESETTING PURPOSES				
Customers	Subdivision and Customer Class	Meter Size	Water ERCs	Wastewater ERCs
122	Hidden Cove (HC) – RS	5/8” x 3/4”	122.0	122.0
1	HC clubhouse – GS	1 1/2”	5.0	5.0
1	HC wastewater plant irrigation – GS	5/8”	1.0	
1	Entrance irrigation – GS	2”	8.0	
125			136.0	127.0
Sources: Staff engineer’s field work analysis of the service area.				

Staff used data contained in the utility’s 2006 Annual Report, in conjunction with data from the utility’s 2006 Monthly Operating Reports and 2006 Discharge Monitoring Reports, in order to determine the recommended consumption for ratesetting purposes. Staff’s recommended test year consumption for the RS and GS classes are shown on the following page.

TABLE 8-2

CALCULATION OF KGALS FOR RATESETTING PURPOSES		
Line No.	Description	Results
1	Hidden Cove's water systems kgals purchased and treated	8,568.1
2 = 1 x 10%	Less 10% unaccounted-for water	856.8
3 = 1 - 2	Equals water sold for ratesetting	7,711.3
4	Hidden Cove's water kgals purchased / treated	8,568.1
5	Times ratio of Hidden Cove's wastewater treated vs. water purchased as calculated from 2006 Annual Report	44.5%
6 = 4 x 5	Equals wastewater kgals treated	3,812.8
7	Times ratio of GS water/wastewater ERCs to total water ERCs (1)	3.7%
8 = 6 x 7	Equals GS wastewater kgals treated	140.2
9	Times percent GS wastewater treated that is billed	100%
10 = 8 x 9	Equals GS wastewater kgals for ratesetting	140.2
11 = 6	Wastewater kgals treated	3,812.8
12 = 8	Less estimated GS wastewater kgals treated and billed	140.2
13 = 11 - 12	Equals RS wastewater kgals treated	3,672.6
14	Times estimated RS consolidated factor at 6 kgal cap	80.0%
15 = 13 x 14	Equals RS wastewater kgals for ratesetting	2,938.1
16 = 10 + 15	Total wastewater kgals for ratesetting	3,078.3
<p>(1) Assumption: At this point in the calculation, 1 GS ERC will return water to the wastewater system at the same rate as 1 RS ERC.</p> <p>Sources: Hidden Cove, Ltd., 2006 Annual Report, 2006 Monthly Operating Reports, 2006 Discharge Monitoring Reports.</p>		

Docket No. 070414-WS

Date: March 27, 2008

Issue 9: Should the Commission approve the Utility's request to defer the implementation of the approved increased rates until January 1, 2009?

Recommendation: Yes. (Fletcher)

Staff Analysis: In an e-mail dated March 24, 2008, the Utility's counsel notified staff of its desire to defer the implementation of the rate increase in the instant proceeding until January 1, 2009. As will be discussed in Issue 10, staff recommends that the rate structure for the water and wastewater systems be changed to rates based on metered usage. As discussed in Issue 3, staff recommends that Hidden Cove install meters for all of its customers within six months of the Consummating Order in this case. This places the expected completion of the meter installation sometime in November 2008. Based on the foregoing, staff believes the Utility's request is reasonable and should be approved.

Issue 10: What are the appropriate rate structures and BFC cost recovery percentages for the utility's water and wastewater systems?

Recommendation: Beginning January 1, 2009, the appropriate rate structure for the water system is a change to the BFC/uniform gallonage charge rate structure, and the appropriate rate structure for the wastewater system is a change to the BFC/gallonage charge rate structure. The appropriate BFC cost recovery percentages are 60% for the water system and 70% for the wastewater system. For billing purposes, monthly residential wastewater usage should be capped at 6 kgal. The general service wastewater gallonage charge should be 1.2 times greater than the corresponding residential wastewater gallonage charge. In the event the utility has not completed the required meter installations by January 1, 2009, the utility should charge each customer without a meter only the approved BFC per month until the meter for that customer is installed. There should be no rate structure changes until January 1, 2009. (Lingo)

Staff Analysis: The utility's current rate structure is a flat, nonconsumption-based rate structure. The rate is \$15.71 per month for combined water and wastewater service. As discussed in Issue 3, the utility should complete the metering of all of its water customers within six months of the issuance of the Consummating Order in this case. Accordingly, discussed in Issue 9, staff recommends that the Commission approve the utility's request to defer the rate increase in this case until January 1, 2009. Therefore, beginning January 1, 2009, the appropriate rate structure for the water system is the BFC/uniform gallonage charge rate structure, and the corresponding rate structure for the wastewater system is the BFC/gallonage charge rate structure.

Staff performed detailed analyses of the utility's data in order to evaluate various BFC cost recovery percentages for the water and wastewater systems. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; 2) equitably distribute cost recovery among the utility's customers; and 3) remove nonconserving water rate structures. Staff's detailed analysis and resulting recommendations regarding this issue are discussed in Attachment B.

Based on the foregoing, the appropriate rate structure for the water system is a change to the BFC/uniform gallonage charge rate structure, and the appropriate rate structure for the wastewater system is a change to the BFC/gallonage charge rate structure. The appropriate BFC cost recovery percentages are 60% for the water system and 70% for the wastewater system. For billing purposes, monthly residential wastewater usage should be capped at 6 kgal. The general service wastewater gallonage charge should be 1.2 times greater than the corresponding residential wastewater gallonage charge. In the event the utility has not completed the required meter installations by January 1, 2009, the utility should charge each customer without a meter only the approved BFC per month until the meter for that customer is installed. Staff believes this will provide the utility with the appropriate incentive to install the meters in a timely manner. There should be no rate structure changes until January 1, 2009.

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

Recommendation: Yes, repression adjustments to both the water and wastewater systems are appropriate. Residential water consumption should be reduced by 48.3%, resulting in a consumption reduction of approximately 3,343.8 kgal. Total water consumption for ratesetting is 4,367.4 kgals, which represents a 43.4% reduction in overall consumption. The corresponding residential wastewater consumption should be reduced by 38.7%, resulting in a consumption reduction of approximately 1,136.2 kgals. Total wastewater consumption for ratesetting is 1,942.1 kgals, which represents a 36.9% reduction in overall consumption. The associated water system reductions to revenue requirements are \$1,508 in purchased power expense, \$447 in chemicals and \$88 in RAFs. The associated wastewater system reductions to revenue requirements are \$796 in purchased power expense, \$1,354 in chemicals, \$1,523 in sludge removal, and \$165 in RAFs. The resulting post-repression revenue requirements are \$23,359 for the water system and \$26,545 for the wastewater system.

In order to monitor the effects of the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased 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: Using our database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this utility. These adjustments are based upon the recommended increases in revenue requirements for the 2006 test year, 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,⁷ which excludes each customer's consumption at 3 kgal per month or less from any repression adjustment.

As discussed in Attachment B of Issue 10, the utility's customer base is seasonal. Based on the estimated overall average residential consumption of 4.7 kgal per month, staff believes that during the period the seasonal customers are in residence, their average consumption is closer to 9 kgal per month. Based on the housing within the service area, staff believes that approximately 6 kgal per month per residential customer (monthly consumption at 9 kgal less 3 kgal per month excluded from the calculation) represents discretionary consumption and is therefore subject to the effects of repression.

⁷ See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

Based on the foregoing, residential water consumption should be reduced by 48.3%, resulting in a consumption reduction of approximately 3,343.8 kgal. Total water consumption for ratesetting is 4,367.4 kgals, which represents a 43.4% reduction in overall consumption. The corresponding residential wastewater consumption should be reduced by 38.7%, resulting in a consumption reduction of approximately 1,136.2 kgals. Total wastewater consumption for ratesetting is 1,942.1 kgals, which represents a 36.9% reduction in overall consumption. The resulting water system reductions to revenue requirements are \$1,508 in purchased power expense, \$447 in chemicals and \$88 RAFs. The wastewater system reductions to revenue requirements are \$796 in purchased power expense, \$1,354 in chemicals, \$1,523 in sludge removal, and \$165 in RAFs. The resulting post-repression revenue requirements are \$23,359 for the water system and \$26,545 for the wastewater system.

In order to monitor the effects of the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased 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 12: What are the appropriate rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service revenues, the recommended rates are designed to produce revenues of \$23,359, while the corresponding wastewater rates are designed to produce revenues of \$26,545. The utility should issue two notices to customers. Both notices should be approved by staff. The first notice should be provided to customers within 30 days after the Consummating Order is issued. The second notice to customers should be provided no later than December 31, 2008. In no case should increased rates be implemented until staff has approved the appropriate proposed customer notice. The utility should provide staff with proof of the date each notice was given no less than 10 days after the date of the notice. (Lingo, Fletcher)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates are designed to produce revenues of \$23,359 for the water system and \$26,545 for the wastewater system. The recommended water rates are shown on Schedule No. 4-A, and the corresponding wastewater rates are shown on Schedule No. 4-B. Approximately 60% (or \$14,015) of the water monthly service revenues is recovered through the base facility charges, while approximately 40% (or \$9,343) represents revenue recovery through the consumption charges. Approximately 70% (or \$18,590) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 30% (or \$7,967) represents revenue recovery through the consumption charges.

As discussed in Issue 9, staff recommends that the Commission approve the utility's request to defer the implementation of the rate increase in this case until January 1, 2009. Since there will be approximately eight months between the time the Consummating Order is issued and when the increased rates will take effect, staff believes it is appropriate that the utility notice the customers twice. Both notices should be approved by staff. The first notice should be provided to customers within 30 days after the Consummating Order is issued. The second notice to customers should be provided no later than December 31, 2008. In no case should increased rates be implemented until staff has approved the appropriate proposed customer notice. The utility should provide staff with proof of the date each notice was given no less than 10 days after the date of the notice.

Issue 13: Should the recommended rates be approved for Hidden Cove on a temporary basis, subject to refund, in the event of a protest by a party other than the Utility?

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

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

Hidden Cove should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$19,577. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

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

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

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

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

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

Issue 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, 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 and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, 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. If Hidden Cove files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Fletcher)

Staff Analysis: Section 367.0816, F.S. requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$1,346 annually for water and \$1,136 for wastewater. Using the Utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

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

Issue 15: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. In addition, as recommended in Issue 3, the Utility should complete all meter installations with six months from the issuance of a consummating order in this docket. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Jaeger, Fletcher)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. In addition, as recommended in Issue 3, the Utility should complete all meter installations with six months from the issuance of a consummating order in this docket. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

Hidden Cove Utilities
Docket No. 070414-WS

Attachment A, Page 1 of 4
Test Year Jan 06 - Dec 06

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)		Capacity of Plant	148	gallons per min
2)		Single Maximum Day (SMD) in the Test Year	38	gallons per min
	2a)	Max. day @ peak	76	gallons per min
3)		Average Daily Flow	16	gallons per min
4)		Fire Flow Capacity (FF) Required Fire Flow in Charlotte County: 500 gallons per minute for one hour	0	gallons per min
5)		Growth	0	gallons per min
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan 2006 - Dec 2006	136	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)x [2a\ (5a)]	0	gallons per min
6)		Excessive Unaccounted for Water (EUW)	N/A	gallons per min
	a)	Percentage of Excessive amount		
	b)	Total Unaccounted for Water		gallons per min
	c)	Reasonable Amount (10% of average Daily Flow)	1.6	gallons per min
	d)	Excessive Amount	N/A	gallons per min

USED AND USEFUL FORMULA

[2 x (Max days - EUW) + FF + Growth] / Capacity of Plant

[2 X (38 - 0) + 0 + 0] / 148 = 51.35% Used & Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)		Capacity of System (ERCs)	136	ERCs
2)		Test Year Connections Average Test Year	136	ERCs
3)		Growth	0	ERCs
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs
<p>USED AND USEFUL FORMULA</p> <p>[2+3]/(1) = 100% Used and Useful</p>				

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

1)		Permitted Capacity of Plant (AADF)	20,000	gallons per day
2)		Three-Month Average Daily Flow (TMADF)	14,196	gallons per day
3)		Growth	0	gallons per day
	a)	Average Connection in ERCs: Projected Test Year: Jan 2006 - Dec 2006	127	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = [(3b)x(3c)x2] \ (3a)	0	gallons per day
4)		Excessive Infiltration or Inflow (I&I)	0	gallons per day
	a)	Total I&I	N/A	gallons per day
	b)	Percent of Excessive	N/A	
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	0	gallons per day
	d)	Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

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

$$[14,196 + 0 - 0 / 20,000 = 70.98\% \quad \text{Used \& Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

1)		Capacity of System (Number of Potential in ERCs)	127	ERCs
2)		Test Year Connections (Customers) Average Test Year in ERC	127	ERCs
3)		Growth	0	
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

USED AND USEFUL FORMULA

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

DETERMINATION OF APPROPRIATE RATE STRUCTURES

**HISTORY OF
CURRENT
RATES**

- (1) The utility's current water rate structure consists of a monthly flat rate structure. The rate is \$15.71 for combined water and wastewater service.
- (2) The current rates were approved by the Commission in the utility's grandfather certificate case in 1999.⁸
- (3) For purposes of certificating grandfather utilities and utilities already in existence, the Commission has generally adopted the utility's current rate structure, until the utility applies for a rate case.⁹

WATER SYSTEM

**PRACTICES
WITH THE
WATER
MANAGEMENT
DISTRICTS**

- (4) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service.¹⁰ The Commission follows the WMD guideline whenever possible.¹¹
- (5) The utility is located in the Southwest Florida Water Management District in the Southern Water Use Caution Area.¹²

**WATER
CONSERVATION
INITIATIVE**

- (6) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. A basic tenet that guided the WCI is that metering is effective in reducing water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40% of the utility's total revenues.¹³

⁸ See Order No. PSC-99-1237-PAA-WS, issued June 22, 1999, in Docket No. 981339-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by Hidden Cove, Ltd.

⁹ Ibid.

¹⁰ See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

¹¹ See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

¹² Hidden Cove, Ltd., Southwest Florida Water Management District Water Use Permit No. 6893.002.

¹³ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

**WATER
CONSERVATION
INITIATIVE (cont.)**

(7) Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the five Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.¹⁴

**SPECIFIC AND
PREDICTED
CLIMATIC
CONDITIONS
WITHIN THE
UTILITY'S
SERVICE AREA**

(8) On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Based upon the testimony, data, District staff's recommendations and public comments, the Executive Director of the SWFWMD signed Order No. SWF-07-02 (Order). In that Order, a Phase II Severe Water Shortage was declared for all ground and surface waters within the District's 16 county area. Subsequently, the District's Governing Board twice determined that a modification to extend the expiration of the Order was necessary. The Second Modification to the Order was set to expire on November 30, 2007.

(9) The Governing Board, during a public hearing held on November 26, 2007, again received testimony regarding the existence of an ongoing water shortage within the District. Specific data presented at the hearing included, but were not limited to, the following items: 1) rainfall data indicated that the deficits in several counties, including Polk County, were categorized as critically abnormal; 2) all counties within the District were experiencing drought or drought-like conditions; 3) the Standard Precipitation Index indicated that several counties, including Polk County, were experiencing moderately abnormal conditions; 4) both the U.S. Drought Monitor and the Long-Term Palmer Index indicated that several counties, including Polk County, were experiencing critically abnormal conditions; and 5) the National Oceanic and Atmospheric Administration's Climate Prediction Center predicted below-normal rainfall from December 2007 through May 2008. Based upon the testimony, data, District staff's recommendations and public comments, the District's Governing Board further extended the Order declaring a severe water shortage through June 30, 2008.¹⁵

(10) Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the U.S. Drought Monitor, the utility is located in an area of Florida that is in the midst of a moderate drought. The drought in this area is expected to persist or intensify over the next three months.¹⁶

**APPLICABLE
FLORIDA
STATUTES AND
RULES**

(11) Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."

¹⁴ Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

¹⁵ Third Board Order Modifying Water Shortage Order No. SWF 07-02, issued November 27, 2007, In re: Declaration of Water Shortage.

¹⁶ U.S. Drought Monitor, National Drought Mitigation Center, March 18, 2008; Climate Prediction Center, National Weather Service, March 18, 2008.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

**APPLICABLE
FLORIDA
STATUTES AND
RULES (cont.)**

(12) Rule 25-30.255, Florida Administrative Code, requires a utility to measure water sold on the basis of metered volume sales unless the Commission otherwise approves flat rates. The intent of the rule is to promote water conservation by providing a means by which customers can understand the impact of their consumption of their bills.

(13) Rule 40D-21.631(3)(b)4, Florida Administrative Code, requires all water utilities under a Severe Water Shortage declaration to institute or accelerate system-level water conservation measures. At a minimum, each utility or its contractor must conduct a water audit pursuant to AWWA standards and implement remedial actions if the water audit identifies greater than 12% unaccounted water.

STAFF ANALYSIS

(14) The utility's service area consists of 122 residential customers living in single-wide manufactured homes, plus three general service customers. The customer base is seasonal.

(15) A review of the utility's service area indicates that most customers' lawns are well kept. Between one-half and three-quarters of the homes have irrigation systems.

(16) The estimated average monthly consumption per equivalent residential connection is approximately 4.7 kgal. For those customers who are seasonal in nature, this translates to monthly usage of approximately 9.5 kgal when in residence. Based on the types of homes and the associated lot sizes, consumption is greater than what would otherwise be expected. Staff believes this is due to the flat structure of the water rate.

(17) Due to the Severe Water Shortage declaration in the SWFWMD, the utility is required to conduct a water audit, and implement remedial actions if there is greater than 12% unaccounted for water. An implicit part of this process is the metering of all connections so that the utility will be able to measure what water is accounted for (e.g., water sold).

(18) A flat rate structure is considered the most non-conserving of water rate structures. Based on the District's declared severe water shortage,¹⁷ and consistent with the results of the statewide Water Conservation Initiative (WCI) and the Water Management Districts' (WMDs') desire to eliminate nonconserving water rate structures, staff does not believe it is appropriate to continue the utility's flat rate structure. Instead, staff recommends a change to usage-based rates.

(19) The current monthly flat rate of \$7.92 is the rate structure equivalent of a BFC at \$7.92 with no gallonage charge.

(20) Staff performed detailed analyses of the utility's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; 2) equitably distribute cost recovery among the utility's customers; and 3) remove nonconserving water rate structures.

¹⁷ Southwest Florida Water Management District, Third Board Order Modifying Water Shortage Order No. SWF 07-02, ordered on November 26, 2007, In re: Declaration of Water Shortage.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

- STAFF ANALYSIS** (cont.)
- (21) Staff evaluated BFC cost recovery percentages at 40%, 50% and 60%. The BFC cost recovery scenarios of 40% and 50% resulted in BFCs of less than the current monthly rate of \$7.92. Therefore, although inconsistent with WMD guidelines and the WCI report, staff does not believe a BFC cost recovery percentage of less 40% is prudent in this case. Furthermore, staff does not believe a reduction to the current BFC is desirable, given both the magnitude of the overall recommended revenue increase and the seasonality of the customer base.
 - (22) The BFC cost recovery scenario at 60% results in a post-repression increase to the current BFC of approximately 8.5%. Staff believes this increase, when coupled with its monthly gallonage charge revenues, will be sufficient to cover the utility's fixed costs each month.

STAFF RECOMMENDATION: WATER SYSTEM	Based on the foregoing, the appropriate rate structure for the utility's water system is the BFC/uniform gallonage charge rate structure. The water system's BFC cost recovery allocation should be set at 60%. This is consistent with the Florida Statutes and Florida Administrative Code citations discussed above. In addition, this is consistent with both the results of the WCI and the WMDs' guidelines to eliminate nonconserving water rate structures.
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WASTEWATER SYSTEM

- STAFF ANALYSIS**
- (23) As shown on Table 8-2, staff estimates that the total wastewater kgal for ratesetting is 3,078.3 kgal.
 - (24) A residential wastewater monthly gallonage cap set at 6 kgal for manufactured housing service areas is consistent with prior cases.¹⁸
 - (25) Setting the wastewater gallonage charge at 1.2 times the corresponding residential charge is consistent with prior cases.¹⁹
 - (26) The Commission's traditional wastewater rate structure is the BFC/gallonage charge rate structure. Staff evaluated BFC cost recovery percentages at 50%, 60% and 70%. Staff believes the BFC set at 70% fairly represents the capital intensive nature of the utility's wastewater treatment operations.

STAFF RECOMMENDATION: WASTEWATER SYSTEM	The appropriate rate structure for the utility's wastewater system is the BFC/gallonage charge rate structure. The BFC cost recovery allocation should be set at 70%. The residential wastewater gallonage cap should be set at 6 kgal. The general service wastewater gallonage charge should be set 1.2 times greater than the corresponding residential wastewater gallonage charge.
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¹⁸ See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005 in Docket No. 050450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

¹⁹ Ibid.

Docket No. 070414-WS

Date: March 27, 2008

HIDDEN COVE LTD.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$60,286	(\$4,491)	\$55,795
2. LAND & LAND RIGHTS	0	320	320
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(39,410)	13,064	(26,346)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,483</u>	<u>2,483</u>
8. WATER RATE BASE	<u>\$20,876</u>	<u>\$11,376</u>	<u>\$32,252</u>

HIDDEN COVE LTD.		SCHEDULE NO. 1-B		
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS		
SCHEDULE OF WASTEWATER RATE BASE				
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$188,063	(\$76,365)	\$111,698	
2. LAND & LAND RIGHTS	0	1,680	1,680	
4. CIAC	0	0	0	
5. ACCUMULATED DEPRECIATION	(159,954)	71,232	(88,722)	
6. AMORTIZATION OF CIAC	0	0	0	
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,113</u>	<u>3,113</u>	
8. WASTEWATER RATE BASE	<u>\$28,109</u>	<u>(\$340)</u>	<u>\$27,769</u>	

HIDDEN COVE LTD.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. UPS value determined by Staff Engineer (AF1)	(\$26,081)	(\$76,365)	
2. Cost and installation of meters	<u>21,590</u>	<u>0</u>	
Total:	<u>(\$4,491)</u>	<u>(\$76,365)</u>	
<u>LAND</u>			
Land Value Determined by Staff Auditor (AF2)	<u>\$320</u>	<u>\$1,680</u>	
<u>ACCUMULATED DEPRECIATION</u>			
UPS Value determined by staff	\$13,885	\$70,368	
Meters	(1,269)	0	
Averaging Adjustment	<u>449</u>	<u>864</u>	
Total:	<u>\$13,064</u>	<u>\$71,232</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O & M expenses.	<u>\$2,483</u>	<u>\$3,113</u>	

Docket No. 070414-WS
 Date: March 27, 2008

HIDDEN COVE LTD.										
TEST YEAR ENDING 12/31/06										
SCHEDULE OF CAPITAL STRUCTURE										
SCHEDULE NO. 2 DOCKET NO. 070414-WS										
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE		PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS						
1. COMMON STOCK	\$0	\$0	\$0							
2. RETAINED EARNINGS	0	0	0							
3. PAID IN CAPITAL	617,474	0	617,474							
4. TREASURY STOCK	0	0	0							
5. TOTAL COMMON EQUITY	<u>\$617,474</u>	<u>\$0</u>	<u>\$617,474</u>	<u>(\$600,269)</u>		<u>\$17,205</u>	28.66%	11.78%	3.38%	
6. LONG TERM DEBT	<u>\$1,536,639</u>	<u>\$0</u>	<u>\$1,536,639</u>	<u>(\$1,493,824)</u>		<u>\$42,815</u>	71.34%	4.70%	3.35%	
7. TOTAL	<u>\$2,154,113</u>	<u>\$0</u>	<u>\$2,154,113</u>	<u>(\$2,094,093)</u>		<u>\$60,020</u>	<u>100.00%</u>		<u>6.73%</u>	
RANGE OF REASONABLENESS										
RETURN ON EQUITY										
OVERALL RATE OF RETURN										
							LOW	HIGH		
							<u>10.78%</u>	<u>12.78%</u>		
							<u>6.44%</u>	<u>7.02%</u>		

Docket No. 070414-WS
Date: March 27, 2008

		HIDDEN COVE LTD.		SCHEDULE NO. 3-A	
		TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	OPERATING REVENUES	\$9,623	\$2,257	\$11,880	\$25,401
				\$13,618	
				115.58%	
	OPERATING EXPENSES:				
2.	OPERATION & MAINTENANCE	\$41,027	(\$21,164)	\$19,863	\$19,863
3.	DEPRECIATION (NET)	1,498	668	2,166	2,166
4.	AMORTIZATION	0	0	0	0
5.	TAXES OTHER THAN INCOME	985	(318)	673	1,201
7.	TOTAL OPERATING EXPENSES	\$43,510	(\$20,808)	\$22,702	\$23,231
8.	OPERATING INCOME/(LOSS)	(\$33,887)		(\$10,919)	\$2,171
9.	WATER RATE BASE	\$20,876		\$32,252	\$32,252
10.	RATE OF RETURN	(162.33%)		(33.86%)	6.73%

Docket No. 070414-WS
Date: March 27, 2008

HIDDEN COVE LTD.		SCHEDULE NO. 3-B			
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	<u>\$9,622</u>	<u>\$1,876</u>	<u>\$11,498</u>	<u>\$18,601</u> 157.88%	<u>\$30,383</u>
OPERATING EXPENSES:					
2.	\$47,330	(\$22,427)	\$24,903	\$0	\$24,903
3.	2,632	(1,107)	1,525	0	1,525
4.	0	0	0	0	0
5.	<u>2,972</u>	<u>(1,644)</u>	<u>1,334</u>	<u>753</u>	<u>2,087</u>
7.	<u>\$52,934</u>	<u>(\$25,172)</u>	<u>\$27,762</u>	<u>\$753</u>	<u>\$28,515</u>
8.	<u>(\$43,312)</u>		<u>(15,980)</u>		<u>\$1,869</u>
9.	<u>\$28,109</u>		<u>\$27,769</u>		<u>\$27,769</u>
10.	<u>(154.09%)</u>		<u>(57.55%)</u>		<u>6.73%</u>

HIDDEN COVE LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
ADJUSTMENTS TO OPERATING INCOME			
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. Staff calculation of additional revenues (AF4)	<u>\$2,257</u>	<u>\$1,876</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Adjustment to Salary Expense (AF5)	(\$243)	(\$243)	
2. Adjustment to Purchased Power	0	215	
3. Adjustment to Chemical Expense (AF6)	(70)	(260)	
4. Adjustment to Sludge Hauling Expense (AF6)	0	(200)	
5. Adjustment to Materials & Supplies Expense (AF7)	359	(769)	
6. Adjustment to Contractual Services-Professional (AF8)	(13,615)	(12,796)	
7. Adjustment to Contractual Services-Professional (AF8)	(4,253)	(7,400)	
8. Adjustment to Contractual Services-Testing (AF8)	479	1,591	
9. Adjustment to Contractual Services-Other (AF9)	(661)	100	
10. Adjustment to Insurance Expense (AF10)	(134)	(134)	
11. Adjustment to Acct. 765-Regulatory Comm. Expense	1,285	1,085	
12. Adjustment to Miscellaneous Expense (AF 11)	<u>(4,311)</u>	<u>(3,616)</u>	
Total:	<u>(\$21,164)</u>	<u>(\$22,427)</u>	
DEPRECIATION EXPENSE (Net)			
1. To correct depreciation expense	(\$601)	(\$1,107)	
2. To include meter expense	<u>1,269</u>	<u>0</u>	
Total:	<u>\$668</u>	<u>(\$1,107)</u>	
TAXES OTHER THAN INCOME			
1. Adjustment to Payroll Taxes	(\$19)	(\$19)	
2. Adjustment for property taxes (AF 13)	(312)	(1,638)	
3. Adjustment for RAFs	<u>13</u>	<u>13</u>	
Total:	<u>(\$318)</u>	<u>(\$1,644)</u>	

HIDDEN COVE LTD.	SCHEDULE NO. 3-D		
TEST YEAR ENDING 12/31/06	DOCKET NO. 070414-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE	TOTAL PER PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) Salaries And Wages - Employees	\$4,147	(\$243)	\$3,904
(603) Salaries And Wages - Officers	0	0	0
(604) Employee Pensions And Benefits	0	0	0
(610) Purchased Water	0	0	0
(615) Purchased Power	3,477	0	3,477
(616) Fuel For Power Production	0	0	0
(618) Chemicals	1,100	(70)	1,030
(620) Materials And Supplies	700	359	1,059
(630) Contractual Services - Billing	0	0	0
(631) Contractual Services - Professional	19,118	(17,868)	1,250
(635) Contractual Services - Testing	1,014	479	1,493
(636) Contractual Services - Other	2,830	(661)	2,169
(640) Rents	0	0	0
(650) Transportation Expense	0	0	0
(655) Insurance Expense	1,650	(134)	1,516
(665) Regulatory Commission Expense	0	1,285	1,285
(670) Bad Debt Expense	0	0	0
(675) Miscellaneous Expenses	<u>6,991</u>	<u>(4,311)</u>	<u>2,680</u>
Total	<u>\$41,027</u>	<u>(\$21,164)</u>	<u>\$19,863</u>

HIDDEN COVE LTD.		SCHEDULE NO. 3-E	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) Salaries And Wages - Employees	\$4,144	(\$243)	\$3,901
(703) Salaries And Wages - Officers	0	0	0
(704) Employee Pensions And Benefits	0	0	0
(710) Purchased Sewage Treatment	0	0	0
(711) Sludge Removal Expense	4,325	(200)	4,125
(715) Purchased Power	1,942	215	2,157
(716) Fuel For Power Production	0	0	0
(718) Chemicals	3,929	(260)	3,669
(720) Materials And Supplies	2,081	(769)	1,312
(730) Contractual Services - Billing	0	0	0
(731) Contractual Services - Professional	20,946	(20,196)	750
(735) Contractual Services - Testing	0	1,591	1,591
(736) Contractual Services - Other	2,017	100	2,117
(740) Rents	0	0	0
(750) Transportation Expense	0	0	0
(755) Insurance Expense	1,650	(134)	1,516
(765) Regulatory Commission Expenses	0	1,085	1,085
(770) Bad Debt Expense	0	0	0
(775) Miscellaneous Expenses	<u>6,296</u>	<u>(3,616)</u>	<u>2,680</u>
Total	<u>\$47,330</u>	<u>(\$22,427)</u>	<u>\$24,903</u>

HIDDEN COVE LTD.		SCHEDULE NO. 4-A	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
<u>Residential, Multi-Residential & General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$15.71*	\$8.59	\$0.46
3/4"	-	\$12.89	\$0.68
1"	-	\$21.48	\$1.14
1-1/2"	-	\$42.95	\$2.28
2"	-	\$68.72	\$3.64
3"	-	\$137.44	\$7.28
4"	-	\$214.75	\$11.38
6"	-	\$429.50	\$22.75
<u>Gallage Charge</u>			
All gallons – per 1,000 gallons	-	\$2.14	\$0.11
* This is a flat rate charge for water and wastewater combined; no gallage charge			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	-	\$15.01	
5,000 Gallons	-	\$19.29	
10,000 Gallons	-	\$29.99	

HIDDEN COVE LTD.		SCHEDULE NO. 4-B	
TEST YEAR ENDING 12/31/06		DOCKET NO. 070414-WS	
MONTHLY WASTEWATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	FOUR-YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge All Meter Sizes	\$15.71*	\$12.20	\$0.46
<u>Gallonge Charge</u>			
Per 1,000 Gallons (6,000 gallon cap)	-	\$4.04	\$0.15
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	-	\$12.20	\$0.46
3/4"	-	\$18.30	\$0.68
1"	-	\$30.50	\$1.14
1-1/2"	-	\$61.00	\$2.28
2"	-	\$97.60	\$3.65
3"	-	\$195.20	\$7.30
4"	-	\$305.00	\$11.40
6"	-	\$610.00	
Gallonge Charge per 1,000 gallons	-	\$4.85	\$0.18
* This is a flat rate charge for water and wastewater combined; no gallonge charge			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	-	\$24.32	
5,000 Gallons	-	\$32.40	
6,000 Gallons (capped)	-	\$36.44	