

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:** August 7, 2008

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Hudson, Bulecza-Banks, Fletcher, Lingo, Stallcup, Daniel)  
Office of the General Counsel (Jaeger)

**RE:** Docket No. 070394-WU – Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

**AGENDA:** 08/19/08 – Regular Agenda – Proposed Agency Action – Except for Issues 12 and 13 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** McMurrian

**CRITICAL DATES:** 12/01/2008 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\070394.RCM.DOC

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### **Case Background**

Holiday Utility Company, Inc. (Holiday or Utility) is a Class C water utility serving approximately 345 water customers in Pasco County. According to the Utility's 2006 annual report, total gross revenue was \$110,491 and total operating expense was \$172,664.

Holiday began operations in 1969. The Utility was granted water certificate No. 224-W in 1975.<sup>1</sup> The Utility's last staff-assisted rate case was filed in 2004.<sup>2</sup> In that docket, the Commission approved \$288,519 of pro forma plant additions for Holiday. The Utility's rates were approved for two phases whereby phase II rates were implemented when staff verified the completion of all pro forma additions. The Commission approved a transfer of majority organizational control to Holiday Waterworks Corporation in 2006 in Docket No. 030458-WU.<sup>3</sup> In addition, the utility currently has an open docket for the amendment of its service territory to address an area the utility is serving that is outside its authorized territory.<sup>4</sup> Pasco County objected to Docket Nos. 030458-WU and 070084-WU; however, the dockets are in abeyance while the utility negotiates the sale of the system.

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

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<sup>1</sup> See Order No. 6780, issued July 17, 1975, in Docket No. 73489, In re: Application of Holiday Utility Company for a certificate to operate a water system in Pasco County, Florida.

<sup>2</sup> See 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.

<sup>3</sup> See Order No. PSC-06-0380-FPF-WU, issued May 8, 2006, In re: Application for transfer of majority organization control of Holiday Utility Company, Inc. in Pasco County to Holiday Waterworks Corporation, and amendment of Certificate No. 224-W.

<sup>4</sup> See Docket No. 070084-WU, In re: Application for amendment of Certificate No. 224-W to extend territory in Pasco County by Holiday Utility Company, Inc.

### **Discussion of Issues**

**Issue 1:** Is the quality of service provided by Holiday Utility Company, Inc. considered satisfactory?

**Recommendation:** Yes. The overall quality of service provided by Holiday Utility Company, Inc. should be considered satisfactory. The quality of the water at Westwood should be considered satisfactory; however, the quality of water at the Anclote water system is marginal because of the sodium levels, although the utility appears to be working to improve the quality of the water through the interconnection with Tarpon Springs. The operational conditions at the water treatment plants and the utility's attempts to resolve customer complaints are satisfactory. However, staff recommends that the utility be required to provide monthly status reports to the Commission beginning November 1, 2008, addressing the requirements of the DEP consent order to abandon the wells in the Anclote water system and begin purchasing water from Tarpon Springs. The reporting should continue until all requirements of the consent order are fulfilled. (Daniel)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by the utility by evaluating three separate components of water operations, including the quality of utility's product, the operating condition of utility's plant and facilities, and the utility's attempt to address customer satisfaction.

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

The Westwood and Anclote water systems are regulated by the DEP and the Southwest Florida Water Management District (SWFWMD). DEP inspected the systems on August 9, 2007. The utility has conformed with all testing and chemical analysis required by DEP and the test results have been satisfactory for the Westwood system.

Holiday signed a DEP Consent Order dated March 26, 2008, which addresses problems with the Anclote water system. According to the Order, the utility exceeded the maximum contaminant level for sodium for each sample tested since May 3, 2006, and failed to take several required samples during that period. The utility was ordered to disconnect the system's drinking water wells and begin purchasing water through an existing interconnection with the City of Tarpon Springs by no later than July 1, 2008. In addition, the utility was required to apply for a permit from the SWFWMD to abandon its wells and to pay \$5,800 in penalties for violations of Section 403.121, F.S. and Rules 62-550.310 (1) (a), 62-550.513(2), and 62-555.340(5), F.A.C. The order further acknowledged that the utility had contacted the Florida Public Service Commission (FPSC) regarding modification of its current rate case to incorporate the requirements of this Order. DEP confirmed with staff that the Utility paid the \$5,800 fine; however, the utility requested a 90-day extension of time to abandon the Anclote system wells and begin purchasing water from Tarpon Springs. DEP granted the extension until October 1, 2008.

Based on the above, the quality of the water at Westwood appears to meet the regulatory standards and should be considered satisfactory. Although, the quality of water at

the Anclote water system is marginal because of the sodium levels, the utility appears to be working to improve the quality of the water through the interconnection with Tarpon Springs.

### **Operational Conditions at the Plant**

According to the DEP letter dated August 27, 2007, several deficiencies were identified at the Westwood and Anclote water plants during DEP's August 9, 2007 compliance inspection. One of the wells at the Westwood plant was not properly capped. At the Anclote plant, the check valve at one well was inoperable, the concrete apron on another well had cracks that needed repair, and the plant operator was not visiting the plant frequently enough. According to a September 26, 2007 letter from the utility to DEP, the deficiencies have been corrected. DEP is planning a follow-up compliance inspection sometime in July 2008. Based on the above information, the operational conditions at the water treatment plants should be considered satisfactory at this time.

### **Utility's Attempt To Address Customer Satisfaction**

An informal customer meeting was held on May 14, 2008, in New Port Richey, Florida. Five customers and one utility representative attended the meeting. Only one customer provided comments about the Utility. The customer was concerned about the amount of the rate increase, the rate structure, and the planned interconnection with the City of Tarpon Springs.

Staff explained that most of the rate increase is the result of the DEP requirement to interconnect with the Tarpon Springs water system because the Anclote water system has exceeded the maximum contaminant level for sodium since May 3, 2006. The utility's representative stated that providing water service through the existing interconnection with Tarpon Springs was the most economic option.

Staff believes that the owner of the utility is putting forth a sufficient good faith effort to respond to customer complaints. Staff reviewed the Commission's complaint tracking system and found that very few complaints had been filed against the utility and all of them were resolved in a timely manner. Therefore, staff recommends that utility's attempts to resolve customer complaints should be considered satisfactory.

### **Quality of Service Summary**

Based on all of the above, staff recommends that the overall quality of service provided by the Utility be considered satisfactory. The quality of the water at Westwood should be considered satisfactory; however, the quality of water at the Anclote water system is marginal because of the sodium levels, although the utility appears to be working to improve the quality of the water through the interconnection with Tarpon Springs. The operational conditions at the water treatment plants and the utility's attempts to resolve customer complaints are satisfactory. However, staff recommends that the utility be required to provide monthly status reports to the Commission beginning November 1, 2008, addressing the requirements of the DEP consent order to abandon the wells in the Anclote water system and begin purchasing water from Tarpon Springs. The reporting should continue until all requirements of the consent order are fulfilled.

**Issue 2:** Does the Utility have excessive unaccounted for water and, if so, what adjustments should be made?

**Recommendation:** Yes. During the test year period, the Westwood system had approximately 8 percent excessive unaccounted for water and the Anclote system had approximately 8 percent excessive unaccounted for water. Therefore, purchased power and chemicals for the Westwood system should be reduced by 8 percent and the pro forma purchased water expense for the Anclote water system should be reduced by 8 percent. (Daniel)

**Staff Analysis:** Pursuant to Rule 25-30.4325, F.A.C., unaccounted for water in excess of 10 percent of the total water produced and treated is considered excessive. During the test year, the Westwood water system had 2,290,000 gallons of unaccounted for water (18 percent) compared to 12,569,000 gallons of water produced and treated. The Anclote water system produced and treated 19,494,000 gallons of water during the test year, for which 3,658,000 gallons (18 percent) were unaccounted. The Utility implemented a system-wide meter change out program during 2005; however, it appears that there were significant line breaks and leaks during the test year that created excessive unaccounted for water (EUW). Therefore, purchased power and chemicals for the Westwood system should be reduced by 8 percent during the test year period and the pro forma purchased water expense for the Anclote water system should be reduced by 8 percent.

**Issue 3:** What portions of the utility's water facilities are used and useful?

**Recommendation:** The Westwood water treatment plant and distribution system and the Anclote water distribution system should be considered 100 percent used and useful. (Daniel)

**Staff Analysis:** Staff has performed a used and useful analysis of the Utility's facilities. A description of the facilities and staff's used and useful recommendations are discussed below.

### **Westwood Water Treatment Plant and Distribution System**

The Westwood water treatment plant has one well, rated at 210 gallons per minute. Raw water is treated with liquid chlorine, which is injected prior to entry into the hydropneumatic tank, and then pumped into the distribution system. There is also an interconnection with the Pasco County water system for backup and emergency supply. Pursuant to Rule 25-30.4325(4), F.A.C., a water treatment system with one well should be considered 100 percent used and useful.

The Utility's distribution system in the Westwood development was constructed to serve approximately 130 lots and there were an average of 121 customers during the test year. There has been no significant growth in the Westwood area in the past five years, and the surrounding property is served by Pasco County. Therefore, staff recommends that the water distribution system is 100 percent used and useful.

### **Anclote WTP and Distribution System**

As previously discussed, pursuant to a Consent Order dated March 26, 2008, DEP is requiring Holiday to disconnect the Anclote system's drinking water wells and provide water to its customers through the existing interconnection with Tarpon Springs. Because the water treatment plant will be retired, no used and useful calculation is necessary.

The Utility's distribution system in the Anclote area was constructed to serve approximately 250 lots and there were an average of 225 customers during the test year. There has been no significant growth in the Anclote area in the past five years and the surrounding property is served by Pasco County. Therefore, staff recommends that the water transmission and distribution system is 100 percent used and useful.

**Issue 4:** What is the appropriate average test year rate base for Holiday?

**Recommendation:** The appropriate average test year rate base for Holiday is \$489,255 for water. (Hudson)

**Staff Analysis:** As stated earlier, the Utility's rate base was last established by Order No. PSC-05-0621-PAA-WU.

Staff has selected a test year ended June 30, 2007 for this rate case. Rate base components, established in Order No. PSC-05-0621-PAA-WU, have been updated through June 30, 2007, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded \$864,452 of UPIS for the test year ended June 30, 2007. Staff has made the following adjustments to UPIS:

1.	To reflect plant addition to Acct. No. 304	\$187
2.	To remove fully depreciated plant in Acct No. 309	(\$7,230)
3.	To reflect the appropriate plant balance for Acct. No. 307	\$716
4.	To reflect the appropriate plant balance for Acct. No. 309	\$5,392
5.	To retire 75% of replacement plant for Acct. No. 309	(\$1,106)
6.	To reflect balance for Acct. No. 311 per previous order	(\$9,728)
7.	To retire 75% of replacement plant for Acct. No. 311	(\$5,614)
8.	To reflect balance for Acct. No. 320 per previous order	\$2,314
9.	To retire 75% of replacement plant for Acct. No. 320	(\$663)
10.	To reflect the appropriate balance for Acct. No. 330	\$7,761
11.	To reflect the appropriate plant balance for Acct. No. 331	\$14,862
12.	To retire 75% of replacement plant for Acct. No. 331	(\$2,312)
13.	To reflect the appropriate plant balance for Acct No. 334	(\$518)
14.	To reflect invoices not recorded on the company's books for Acct. No. 334	\$20,578
15.	To retire 75% of replacement plant for Acct. No. 334	(\$2,462)
16.	To reflect an averaging adjustment	(\$7,792)
	Total	\$14,385

Staff's net adjustment to UPIS is an increase of \$14,385 for water. Staff's recommended UPIS balance is \$878,837.

**Non-used and Useful Plant:** As discussed in Issue No. 3 of this recommendation Holiday's water treatment plant and water distribution system should be considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

**Contribution in Aid of Construction (CIAC):** The Utility recorded CIAC of \$203,774 for the test year ended June 30, 2007. Pursuant to Audit Finding No. 4, Holiday did not record the



CIAC approved in the previous rate case. Therefore, staff made an adjustment of \$682 to increase this account. Staff has calculated CIAC to be \$204,456.

**Accumulated Depreciation:** Holiday recorded a balance for accumulated depreciation of \$282,335 for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$33,746 to reflect depreciation calculated per staff. Staff has decreased this account by \$11,271 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation of \$237,318.

**Accumulated Amortization of CIAC:** The Utility recorded \$33,063 for amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$2,377 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$3,851 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$31,589.

**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 operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$20,603 (based on O&M of \$164,823). Working capital has been increased by \$20,603 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 average rate base is \$489,255. Rate base is shown on Schedule No. 1-A and staff's adjustments are shown on Schedule No. 1-B.

**Issue 5:** What is the appropriate rate of return on equity and overall rate of return for this utility?

**Recommendation:** The appropriate return on equity is 11.19 percent with a range of 10.19 percent - 12.19 percent. The appropriate overall rate of return is 9.24 percent. (Hudson)

**Staff Analysis:** The Utility recorded the following items in its capital structure for the test year: common stock of \$140,500, retained earnings of negative \$44,363, paid-in-capital of \$196,897; long term debt of \$317,946; and customer deposits of \$3,781.

The appropriate rate of return on equity is 11.19 percent using the most recent Commission-approved leverage formula.<sup>5</sup> The utility's capital structure has been reconciled with staff's recommended rate base.

Staff recommends a return on equity of 11.19 percent with a range of 10.19 percent - 12.19 percent, and an overall rate of return of 9.24 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

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<sup>5</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.

Docket No. 070394-WU

Date: August 7, 2008

**Issue 6:** What are the appropriate amount of test year revenues?

**Recommendation:** The appropriate test year revenue for this utility is \$126,433 for water. (Hudson)

**Staff Analysis:** Per Audit Finding No. 5, the Utility recorded total revenues of \$129,854 for the 12-month period ended June 30, 2007. During the audit, the staff auditor discovered that the Utility overstated its revenues for December 2006 by \$3,421 to adjust a prior-year adjustment to balance its cash subsidiary account. Staff has decreased test year revenues by \$3,421. Based on the above, staff recommends test year revenue of \$126,433 for water. Test year revenue is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

**Issue 7:** What are the appropriate test year operating expenses?

**Recommendation:** The appropriate amount of operating expenses for Holiday is \$204,760 for water. (Hudson)

**Staff Analysis:** Holiday recorded operating expenses of \$192,941 during the test year ending June 30, 2007. 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, as summarized below:

**Purchased Water – 610** – The Utility recorded \$378 to this account during the test year. As discussed in Issue 1, DEP is requiring Holiday to disconnect the Anclote system's drinking water wells from the potable water distribution system and provide water to its customers through its existing six-inch metered interconnection with the Tarpon Springs. Based on the Utility's test year consumption and Tarpon Springs' rates (\$445.90 base facility charge, 0 – 5kgal per 1,000 gallon rate of \$2.04, and over 5 kgal per 1,000 gallon rate of \$4.07), staff has determined purchased water cost to be \$84,570. Therefore, staff has increased this account by \$84,192 (\$84,570 - \$378). Also, as discussed in Issue 2, staff's engineer has calculated an 8 percent EUW for the Anclote system. Thus, staff has decreased this account by \$6,338. Staff recommends purchased water for the test year of \$78,232.

**Purchased Power – 615** – Holiday recorded \$8,625 to this account during the test year. As a result of the Utility purchasing water from Tarpon Springs, staff has decreased purchased power by \$5,517 to remove the expense related to the Anclote system. The amount recorded in this account included \$1,582 for the Westwood system. The staff engineer has calculated 8 percent EUW for the Westwood system. Therefore, staff has decreased this account by \$127 (\$1,582 x 8 percent) to reflect an EUW adjustment for the Westwood system. Staff has also decreased this account by \$1,526 to remove a non-utility expense per Audit Finding No. 6. Staff recommends purchased power for the test year of \$1,455.

**Chemicals – 618** – The Utility recorded \$2,460 to this account during the test year. As discussed previously, staff has decreased this account by \$2,114 to remove chemical expense related to the Anclote system. The amount recorded in this account included \$347 for the Westwood system. Staff has decreased this account by \$28 (\$347 x 8 percent) to reflect an EUW adjustment for the Westwood system. Staff recommends chemicals for the test year of \$319.

**Material and Supplies – 620** – Holiday recorded \$532 to this account during the test year. Per Audit Finding No. 6, the Utility understated its material and supplies expense. Therefore, staff has increased this account by \$37. Staff recommends material and supplies for the test year of \$569.

**Contractual Services – Professional – (631)** – The Utility recorded \$79,377 to this account during the test year. Staff has decreased this account by \$10,928 to amortize non-reoccurring engineering expenses. Per Audit Finding No. 6, staff has decreased this account by \$4,930 to remove non-utility expenses and decreased it by \$13,157 to remove capitalized meters. As discussed previously, Holiday is required to disconnect its Anclote system. As a result, the

Utility would have a reduction in duties. Staff has decreased this account by \$6,926 to reflect a reduction in the management fee paid to U.S. Water Corporation. Staff has increased this account by \$2,400 (\$12,000/5) to amortize the cost of the Anclote well retirements. Staff has increased this account by \$1,220 to reflect an amortization from the previous rate case that has not expired. Staff has increased this account by \$7,077 to reverse a credit to this account for prior period expenses.

Holiday has requested that legal fees associated with territory rights, property rights, and a previous SARC be considered in this case. For territory rights, Holiday requested that it be allowed to recover \$23,008. The Utility has an open docket before the Commission where it is in dispute over territory with Pasco County. The case is still ongoing. Therefore, staff believes the legal fees should be considered once the matter is finalized. The Utility included an amortization of \$5,492 for the legal fees related to a territory dispute. Staff has decreased this account by \$5,492 to remove the amortization of the legal fees associated with territory rights.

The legal fees associated with property rights totaled \$120,971. The property rights dispute was between the Utility and the Dimmint family. The Utility has an easement for its one well and hydropneumatic tank located on the Dimmint property. The Utility also has connections to three additional well sites. Two of the well sites are located in the middle of the Dimmint property. The third is located on the outmost perimeter of the Dimmint property. The Utility wanted to improve the two well sites located in the middle of Dimmint property. Holiday began the necessary work needed to make the improvements to the two well sites. However, the Dimmint family believed the Utility was trespassing on the property and it did not have the rights to the well sites. The Utility believed that since it already had lines connected to the wells, it had the right to improve the two well sites. The Utility and the Dimmint family eventually came to a settlement where the Dimmint family would pay for the construction of lines around the perimeter of its property to the Utility's third well site. Staff believes that the legal fees incurred are the direct result of the Utility's failure to exercise due diligence in obtaining the proper easement prior to starting improvements to the well sites. Therefore, staff does not believe the legal fees associated with property rights should be included as an amortized expense.

Finally, the legal fees associated with the previous SARC filing totaled \$9,730. The Commission has already made a decision with regard to the previous SARC. The Utility should have requested the consideration of those legal fees at that time. Therefore, staff does not believe the legal fees associated with previous SARC should be included as an amortized expense.

Staff recommends contractual services – professional for the test year of \$48,640.

Contractual Services – Testing – (635) – Holiday recorded \$2,225 to this account during the test year. Staff has increased this account by \$8 to reflect the appropriate testing for the Westwood system per the staff engineer. Staff recommends contractual services - testing for the test year of \$2,233.

Rents – (640) – The Utility recorded \$2,625 to this account during the test year. Since the Utility is retiring the wells of the Anclote system that is situated on rented land, Holiday will no longer

need to rent the land. Therefore, staff has decreased this account by \$2,625. Staff recommends rents for the test year of \$0.

Insurance – (655) – Holiday recorded \$2,155 to this account during the test year. Per Audit Finding No. 6, staff has increased this account by \$35 to annualize insurance expense. Staff recommends insurance for the test year of \$2,190.

Regulatory Commission Expense – (665) – The Utility recorded \$493 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Holiday paid a \$1,000 rate case filing fee for water. 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 has estimated noticing expense for water of \$263 postage expense, \$225 printing expense, and \$32 for envelopes. The above results in a total rate case expense for noticing of \$520. Holiday's rate case expenses for its consultant are \$5,262. The Utility's total rate case expense is \$6,782. Staff has increased this account by \$1,696 ( $\$6,782/4$ ) to reflect the amortization of the rate case expense. Staff recommends regulatory commission expense for the test year of \$2,189.

Bad Debt Expense – (670) – Holiday recorded \$0 to this account during the test year. Per Audit Finding No. 6, it is the Utility's policy to write off accounts over 90 days as uncollectible. Based on its current policy, staff has increased this account by \$847. Staff recommends bad debt expense for the test year of \$847.

Miscellaneous Expense – (675) – Holiday recorded \$14,481 in this account for the test year. Per Audit Disclosure No. 6, the Utility included interest on loans and customer deposits. Staff has decreased this account by \$24,989 to remove the interest. Holiday credited this account for a loan application fee. Staff has increased this account by \$14,137 to remove the credit. Staff has decreased this account by \$1,934 to reflect the appropriate balance per the audit. Staff has increased this account by \$1,094 to reflect amortization included in the last rate case that has not expired. Based on the above, staff's net adjustments to this account is a decrease of \$11,695. Staff recommends miscellaneous expense for the test year of \$2,786.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be increased by \$26,109 to \$164,823 are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Holiday recorded \$41,109 for water depreciation expense during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation expense is \$33,146 for water; therefore, staff has decreased this account by \$15,605 ( $\$48,751 - \$33,146$ ) for water. Amortization of CIAC has a negative impact on depreciation expense. The Utility recorded amortization of CIAC of \$7,642. Staff calculated amortization of CIAC based on composite rates. Holiday's test year amortization of CIAC should be \$7,749. Staff has increased amortization of CIAC by \$107 ( $\$7,749 - \$7,642$ ). Staff recommends net depreciation expense of \$25,397 ( $\$33,146 - \$7,749$ ).

Taxes Other Than Income (TOTI) – The Utility recorded taxes other than income of \$18,883 for water. As discussed in Issue 6, staff has decreased test year revenue by \$3,421. Based on staff's

recommended test year revenues, Holiday's RAFs should be \$5,689. Staff has made adjustments to decrease RAFs by \$1,683 (\$7,372 - \$5,689). Staff has increased this account by \$918 to reflect payroll taxes on staff's recommended salary. Pursuant to Audit Finding No. 7, staff has decreased this account by \$3,600 to remove an accrual entry by the Utility. Staff has also increased this account by \$23 to include expense for an occupational license. Staff's net adjustment to this account is a decrease of \$4,342.

Income Tax – Holiday recorded income tax of \$0 for water. The Utility is an 1120 C corporation; however, the Utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards will continue to be so over the next couple of years. Therefore, staff has not made an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$204,760. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$255,788 for water. (Hudson)

**Staff Analysis:** The Utility should be allowed an annual increase of \$129,355 (102.31 percent) for water. This will allow Holiday the opportunity to recover its expenses and earn a 9.24 percent return on its investment. The calculation is as follows:

	<u>Water</u>
Adjusted Rate Base	\$489,255
Rate of Return	x .0924
Return on Rate Base	\$ 45,206
Adjusted O & M expense	164,823
Depreciation expense (Net)	25,397
Amortization	\$0
Taxes Other Than Income	20,362
Income Taxes	\$0
Revenue Requirement	\$255,788
Less Test Year Revenues	126,433
Annual Increase	\$129,355
Percent Increase/(Decrease)	<u>102.31%</u>

The recommended revenue requirement is shown on Schedule No. 3-A.



**Issue 9:** What is the appropriate rate structure for the Utility?

**Recommendation:** The appropriate rate structure for the Utility is a three-tier inclining block rate structure. The usage blocks should be set for monthly usage levels of: 1) 0-8 kgals; 2) 8.001-15 kgals; and 3) usage in excess of 15 kgals. The usage block rate factors should be set at 1.0, 1.25 and 1.5, respectively, and the BFC cost recovery allocation should be set at 25 percent. (Lingo)

**Staff Analysis:** The utility's current rate structure consists of a BFC/uniform gallonage charge rate structure. The utility's rates in effect during the test year were charges of \$10.70 per equivalent residential connection (ERC) for water service, and \$3.08 for each kgal consumed. Subsequent to the end of the test year, the utility applied for and received an increase in rates through a price index increase, pursuant to Rule 25-30.425, F.A.C. Therefore, the resulting current rates are \$11.00 per ERC per month, plus \$3.17 per kgal consumed.

As discussed in Issue 8, staff's preliminary recommended revenue requirement increase is 102.31 percent. The average monthly water consumption for residential customers is 4.9 kgals. Staff believes a rate design goal is to design rates that result in lesser percentage increases to low-volume users, while sending progressively stronger price signals to higher-volume users. This is consistent with Commission practice.

Staff takes several things into consideration when designing rates, including, but not limited to: 1) the current rate structure; 2) characteristics of the utility's customer base; 3) setting the water system's BFC between 25 percent and 40 percent whenever possible; 4) various conditions of the utility's Consumptive Use Permit; 5) the existence of any water shortage declaration within the utility's service area; and 6) current and anticipated climatic conditions in the utility's service area. A detailed discussion of staff's rate structure methodology is contained in Attachment A.

Staff's recommended rate design for the water system is shown on the following page on Table 9-1. Staff has also presented two alternative rate structures to illustrate other rate recovery methodologies. (All rate structures and rates presented in the aforementioned table assume that the Commission approves staff's recommended repression adjustments discussed in Issue 10.)

**TABLE 9-1**

<b>HOLIDAY UTILITY COMPANY, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES (1)</b>			
<b><u>Current Rate Structure and Rates</u></b>		<b><u>Recommended Rate Structure and Rates</u></b>	
<b>BFC/uniform kgal charge BFC = 38%</b>		<b>Three-tier inclining block charge Monthly kgal usage blocks at 0-8, 8.001-15, 15+ Usage block rate factors at 1, 1.25, 1.5 BFC = 25%</b>	
BFC	\$11.00	BFC	\$14.49
All kgals	\$3.17	0 – 8 kgals	\$7.28
		8.001 – 15 kgals	\$9.10
		15 + kgals	\$10.92
<b><u>Typical Monthly Bills</u></b>		<b><u>Typical Monthly Bills</u></b>	
<b><u>Cons (kgals)</u></b>		<b><u>Cons (kgals)</u></b>	
0	\$11.00	0	\$14.49
1	\$14.17	1	\$21.77
3	\$20.51	3	\$36.33
5	\$26.85	5	\$50.89
10	\$42.70	10	\$90.93
20	\$74.40	20	\$191.03
<b><u>Alternative 1</u></b>		<b><u>Alternative 2</u></b>	
<b>Three-tier inclining block charge Monthly kgal usage blocks at 0-5, 5.001-10, 10+ Usage block rate factors at 1, 1.5, 2 BFC = 35%</b>		<b>Uniform kgal charge BFC = 30%</b>	
BFC	\$20.25	BFC	\$17.45
0 – 5 kgals	\$5.43	All kgals	\$7.26
5.001 – 10 kgals	\$8.15		
10 + kgals	\$10.86		
<b><u>Typical Monthly Bills</u></b>		<b><u>Typical Monthly Bills</u></b>	
<b><u>Cons (kgals)</u></b>		<b><u>Cons (kgals)</u></b>	
0	\$20.25	0	\$17.45
1	\$25.68	1	\$24.71
3	\$36.54	3	\$39.23
5	\$47.40	5	\$53.75
10	\$88.15	10	\$90.05
20	\$196.75	20	\$162.65
<b>(1) Post repression rates.</b>			

Based on the foregoing and the discussion contained in Attachment A, staff recommends that the appropriate rate structure for the Utility is a three-tier inclining block rate structure. The usage blocks should be set for monthly usage levels of: 1) 0-8 kgals; 2) 8.001-15 kgals; and 3) usage in excess of 15 kgals. The usage block rate factors should be set at 1.0, 1.25 and 1.5, respectively, and the BFC cost recovery allocation should be set at 25 percent.)

**Issue 10:** Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this utility?

**Recommendation:** Yes, a repression adjustment is appropriate. Residential water consumption should be reduced by 10.3 percent, resulting in a consumption reduction of approximately 1,882 kgals. Total water consumption for ratesetting is 23,915 kgals. The resulting water system reductions to revenue requirements are \$106 in purchased power expense, \$23 in chemicals expense, \$5,708 in purchased water expense, and \$275 in regulatory assessment fees (RAFs). The post-repression revenue requirement is \$249,625.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared by customer class 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:** The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, demand decreases.

As discussed by several representatives of the Water Management Districts (WMDs) participating in the Commission's rate design workshop in February 2006, the WMDs advocate and utilize inclining-block rates because they are effective in reducing demand. This is true especially if the inclining-block rate increase (or any other price increase) is targeted toward reducing demand at the more elastic end uses. This reduction in demand is often referred to as "demand repression," and is an example of the effects of price elasticity of demand. If the anticipated consumption reductions (loss of demand) are not considered in the ratesetting process, price increases will, all other things equal, result in under-earning for the utility, jeopardizing the utility's financial health.

Over the past several years, staff has calculated repression adjustments for utilities receiving rate increases and/or rate structure changes resulting from rate cases. Utilities have been required to file monthly reports to monitor the effects of the revenue and/or rate structure changes. These reports are intended to provide staff with comparable data from other utilities receiving revenue and/or rate structure changes. An equally important use of these reports is to provide staff with data regarding each utility's customer-specific response to these revenue and/or rate structure changes. This customer-specific data is among the most reliable data to be used when considering repression (price elasticity) adjustments for those customers in subsequent rate cases.<sup>6</sup>

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<sup>6</sup> See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

As mentioned in the case background, the Utility's last staff-assisted rate case was filed in 2004, and resulted in Phase I and Phase II rates. Staff believes it is appropriate to base its recommended repression adjustment on Holiday's most recent consumption data filed with the Commission arising from the Phase II price increase that began in June 2006 in Docket No. 041145-WU.<sup>7</sup> This is the same approach for calculating repression adjustments that the Commission has approved in prior cases when utility-specific data was available.<sup>8</sup>

Based on the foregoing, a repression adjustment is appropriate. Residential water consumption should be reduced by 10.3 percent, resulting in a consumption reduction of approximately 1,882 kgals. Total water consumption for ratesetting is 23,915 kgals. The resulting water system reductions to revenue requirements are \$106 in purchased power expense, \$23 in chemicals expense, \$5,708 in purchased water expense, and \$275 in regulatory assessment fees (RAFs). The post-repression revenue requirement is \$249,625.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, by customer class 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.

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<sup>7</sup> See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

<sup>8</sup> See Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

**Issue 11:** What are the appropriate rates for this utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. Excluding miscellaneous service revenues, the recommended rates are designed to produce revenues of \$249,625. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Hudson)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended rates are designed to produce revenues of \$249,625. The recommended rates are shown on Schedule No. 4. Approximately 25 percent (or \$63,934) of the water monthly service revenues is recovered through the base facility charges, while approximately 75 percent (or \$191,803) represents revenue recovery through the consumption charges.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**Issue 12:** 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 rates should be reduced as shown on Schedule No. 4, 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 the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Hudson)

**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 RAFs which is \$1,776 for water. 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 No. 4.

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

**Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, Holiday should provide appropriate security. 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., Holiday 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. (Hudson)

**Staff Analysis:** This recommendation proposes an increase in water 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 Holiday, 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.

Holiday 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 \$87,634. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

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

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

- 1) The letter of credit is irrevocable for the period it is in effect; and,
- 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 funds 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; and
- 9) The 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 Holiday, an account of all monies received as a 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.

Holiday 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:** 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. (Jaeger)

**Staff Analysis:** 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.

<b>HOLIDAY UTILITY COMPANY, INC.</b>		<b>ATTACHMENT A</b>
<b>HISTORICAL TEST YEAR ENDED JUNE 30, 2007</b>		<b>PAGE 1</b>
<b>DETERMINATION OF APPROPRIATE RATE STRUCTURE</b>		
<b>HISTORY OF CURRENT RATES</b>	(1)	The utility's test year BFC/uniform gallonage charge rate structure and rates were approved in the utility's most recent staff-assisted rate case. Under this usage-sensitive rate structure, customers using a 5/8" x 3/4" meter were charged a BFC of \$10.70 per month for water service, plus \$3.08 for each kgal consumed. <sup>9</sup>
	(2)	Subsequent to the end of the test year, the utility received an increase in rates through a price index increase, pursuant to Rule 25-30.425, Florida Administrative Code. Therefore, the resulting current rates for a 5/8" x 3/4" meter are \$11.00 per month, plus \$3.17 per kgal consumed. The current BFC cost recovery percentage is 38%.
<b>PRACTICES OF and WITH THE WATER MANAGEMENT DISTRICTS</b>	(3)	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. <sup>10</sup> The Commission follows the WMD guideline whenever possible. <sup>11</sup>
	(4)	The utility is located in the Southwest Florida Water Management District (SWFWMD or District), in the Northern Tampa Bay Water Use Caution Area (NTBWUCA). In 1989, the District's Governing Board declared portions of northern Hillsborough and southwestern Pasco counties, and all of Pinellas county, a WUCA to address groundwater withdrawals that had resulted in lowered lake levels, destruction or deterioration of wetlands, reduced streamflow and saltwater intrusion. <sup>12</sup>
	(5)	In June 2007, the District's Governing Board approved a rule amendment which expanded the NTBWUCA into the portions of Pasco and northeastern Hillsborough counties not currently in the WUCA to address increasing water use due to rapid growth and development in the area. <sup>13</sup>

<sup>9</sup> See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

<sup>10</sup> 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.

<sup>11</sup> 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.

<sup>12</sup> Southwest Florida Water Management District, news release dated June 26, 2007.

<sup>13</sup> Ibid.

<b>HOLIDAY UTILITY COMPANY, INC.</b>		<b>ATTACHMENT A</b>
<b>HISTORICAL TEST YEAR ENDED JUNE 30, 2007</b>		<b>PAGE 2</b>
<b>DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)</b>		
<b>PRACTICES OF and WITH THE WATER MANAGEMENT DISTRICTS (cont.)</b>	(6)	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 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. <sup>14</sup>
	(7)	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 recommendations and public comments, the District's Governing Board voted unanimously to further extend the Order declaring a severe water shortage through June 30, 2007. <sup>15</sup>
	(8)	On June 24, 2008, the District's Governing Board again voted unanimously to further extend the Order declaring a severe water shortage through September 30, 2008. The extension of the current Water Shortage Order continues lawn watering restrictions throughout the District at one day per week. <sup>16</sup>
<b>WATER CONSERVATION INITIATIVE</b>	(9)	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. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the BFC portion of the bill usually should not represent more than 40% of the utility's total revenues. <sup>17</sup>

<sup>14</sup> Southwest Florida Water Management District, Third Board Order Modifying Water Shortage Order No. SWF 07-02, November 26, 2007.

<sup>15</sup> Ibid.

<sup>16</sup> Southwest Florida Water Management District, new release dated June 24, 2008.

<sup>17</sup> Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

<b>HOLIDAY UTILITY COMPANY, INC.</b>		<b>ATTACHMENT A</b>
<b>HISTORICAL TEST YEAR ENDED JUNE 30, 2007</b>		<b>PAGE 3</b>
<b>DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)</b>		
<b>WATER CONSERVATION INITIATIVE (cont.)</b>	(10)	Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the five Florida WMDs, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the <u>Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply</u> (JSOC) and its associated Work Plan. <sup>18</sup>
<b>FLORIDA STATUTES re: WATER CONSERVATION</b>	(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.”
<b>CURRENT AND ANTICIPATED CLIMATIC CONDITIONS</b>	(12)	Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the National Weather Service’s Climate Prediction Center, mild to moderate drought conditions exist in the utility’s service area. <sup>19</sup>
	(13)	Based on information from the National Weather Service’s Climate Prediction Center, for the period of June through August 2008, higher than average temperatures will be mitigated by greater than average rainfall, thereby improving the drought situation in the central portion and the southwestern portion of Florida. <sup>20</sup> However, the National Oceanic and Atmospheric Administration’s (NOAA’s) Climate Prediction Center forecasts that a moderate drought will persist. <sup>21</sup>
<b>CUSTOMER WATER USAGE PATTERNS</b>	(14)	The utility has a somewhat seasonal customer base consisting of a mix of single-person and multi-person households.
	(15)	The average monthly water consumption per residential customer is approximately 4.9 kgal. A review of the utility’s service area indicates that numerous customers have replaced turf in the front yards with gravel, thereby reducing irrigation requirements for those customers.
<b>WATER SYSTEM BFC COST RECOVERY AND DESIGN OF RATE STRUCTURE</b>	(16)	Staff performed detailed analyses of the data in order to evaluate various combinations of usage blocks, usage block rate factors, and 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)	Staff’s evaluation criteria excluded rate structures that: 1) resulted in greater price increases at 0 kgal of consumption than at 7 kgal of consumption; or 2) that resulted in bills of \$200 or greater at 20 kgal of consumption. These criteria eliminated the majority of rate structures from further consideration.

<sup>18</sup> 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.

<sup>19</sup> National Weather Service, Climate Prediction Center, U.S. Seasonal Drought Outlook, June 5, 2008.

<sup>20</sup> Ibid.

<sup>21</sup> National Oceanic and Atmospheric Administration, Climate Prediction Center, Palmer Drought Severity Forecast, July 26, 2008.

<b>HOLIDAY UTILITY COMPANY, INC.</b>		<b>ATTACHMENT A</b>
<b>HISTORICAL TEST YEAR ENDED JUNE 30, 2007</b>		<b>PAGE 4</b>
<b>DETERMINATION OF APPROPRIATE RATE STRUCTURE (cont.)</b>		
		(18) Staff has presented its recommended rates and rate structure, along with two alternative rate structures and the Utility's current rates, on Table 9-1.
<b>STAFF RECOMMENDATION</b>		The appropriate rate structure for the utility's water system is a three-tier inclining block rate structure. The usage blocks should be set for monthly usage levels of: 1) 0-8 kgals; 2) 8.001-15 kgals; and 3) usage in excess of 15 kgals. The usage block rate factors should be set at 1.0, 1.25 and 1.5, respectively, and the BFC cost recovery allocation should be set at 25%.

**HOLIDAY UTILITY COMPANY  
TEST YEAR ENDING 06/30/2007  
SCHEDULE OF WATER RATE BASE**

**SCHEDULE NO. 1-A  
DOCKET NO. 070394-WU**

<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST. TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
1. UTILITY PLANT IN SERVICE	\$864,452	\$14,385	\$878,837
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(203,774)	(682)	(204,456)
5. ACCUMULATED DEPRECIATION	(282,335)	45,017	(237,318)
6. AMORTIZATION OF CIAC	33,063	(1,474)	31,589
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>20,603</u>	<u>20,603</u>
8. WATER RATE BASE	<u>\$411,406</u>	<u>\$77,849</u>	<u>\$489,255</u>

**HOLIDAY UTILITY COMPANY  
TEST YEAR ENDING 06/30/2007  
ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B  
DOCKET NO. 070394-WU**

	<u>WATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
1. To reflect plant addition to Acct. No. 304	\$187
2. To remove fully depreciated plant in Acct No. 309	(7,230)
3. To reflect the appropriate plant balance for Acct. No. 307	716
4. To reflect the appropriate plant balance for Acct. No. 309	5,392
5. To retire 75% of replacement plant for Acct. No. 309	(1,106)
6. To reflect balance for Acct. No. 311 per previous order	(9,728)
7. To retire 75% of replacement plant for Acct. No. 311	(5,614)
8. To reflect balance for Acct. No. 320 per previous order	2,314
9. To retire 75% of replacement plant for Acct. No. 320	(663)
10. To reflect the appropriate balance for Acct. No. 330	7,761
11. To reflect the appropriate plant balance for Acct. No. 331	14,862
12. To retire 75% of replacement plant for Acct. No. 331	(2,312)
13. To reflect the appropriate plant balance for Acct No. 334	(518)
14. To reflect invoices not recorded on the company's books for Acct. No. 334	20,578
15. To retire 75% of replacement plant for Acct. No. 334	(2,462)
16. To reflect an averaging adjustment	<u>(7,792)</u>
Total	<u>\$14,385</u>
<b><u>CIAC</u></b>	
1. To reflect the appropriate CIAC balance	<u>(\$682)</u>
Total	<u>(\$682)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect test year depreciation calculated per 25-30.140 FAC.	\$33,746
2. To reflect an averaging adjustment	<u>11,271</u>
Total	<u>\$45,017</u>
<b><u>AMORTIZATION OF CIAC</u></b>	
1. To reflect accumulated amortization per 25-30.140 FAC.	\$2,377
2. To reflect an averaging adjustment	<u>(3,851)</u>
Total	<u>(\$1,474)</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$20,603</u>

**HOLIDAY UTILITY COMPANY**  
**TEST YEAR ENDING 06/30/2007**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 070394-WU**

<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. COMMON STOCK	\$140,500	\$0	\$140,500					
2. RETAINED EARNINGS	(44,363)	0	(44,363)					
3. PAID IN CAPITAL	196,897	0	196,897					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	0					
5. TOTAL COMMON EQUITY	\$293,034	\$0	\$293,034	(\$60,194)	\$232,840	47.59%	11.19%	5.32%
6. LONG TERM DEBT								
NOTES PAYABLE	\$317,946	0	\$317,946	(\$65,312)	\$252,634	51.64%	7.50%	3.87%
		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	\$317,946	0	\$317,946	(\$65,312)	\$252,634	51.64%		
7. CUSTOMER DEPOSITS	\$3,781	<u>0</u>	\$3,781	<u>0</u>	\$3,781	<u>0.77%</u>	6.00%	<u>0.05%</u>
8. TOTAL	<u>\$614,761</u>	<u>\$0</u>	<u>\$614,761</u>	<u>-\$125,506</u>	<u>\$489,255</u>	<u>100.00%</u>		<u>9.24%</u>
<b>RANGE OF REASONABLENESS</b>						<b><u>LOW</u></b>	<b><u>HIGH</u></b>	
RETURN ON EQUITY						<u>10.19%</u>	<u>12.19%</u>	
OVERALL RATE OF RETURN						<u>8.77%</u>	<u>9.72%</u>	



<b>HOLIDAY UTILITY COMPANY</b> <b>TEST YEAR ENDING 06/30/2007</b> <b>SCHEDULE OF WATER OPERATING INCOME</b>			<b>SCHEDULE NO. 3-A</b> <b>DOCKET NO. 070394-WU</b>		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. <b>OPERATING REVENUES</b>	<u>\$129,854</u>	<u>(\$3,421)</u>	<u>\$126,433</u>	<u>\$129,355</u> 102.31%	<u>\$255,788</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	\$138,714	\$26,109	\$164,823	0	\$164,823
3. DEPRECIATION (NET)	41,109	(15,712)	25,397	0	25,397
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	18,883	(4,342)	14,541	5,821	20,362
6. INCOME TAXES	<u>(5,765)</u>	<u>5,765</u>	<u>0</u>	<u>0</u>	0
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$192,941</u>	<u>\$11,820</u>	<u>\$204,760</u>	<u>\$5,821</u>	<u>\$210,581</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$63,087)</u>		<u>(\$78,327)</u>		<u>\$45,207</u>
9. <b>WATER RATE BASE</b>	<u>\$411,406</u>		<u>\$489,255</u>		<u>\$489,255</u>
10. <b>RATE OF RETURN</b>	<u>-15.33%</u>		<u>-16.01%</u>		<u>9.24%</u>

**HOLIDAY UTILITY COMPANY  
TEST YEAR ENDING 06/30/2007  
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B  
DOCKET NO. 070394-WU  
PAGE 1 OF 2**

	<u>WATER</u>
<b>OPERATING REVENUES</b>	
1. a. To adjust utility revenues to audited test year amount.	<u>(\$3,421)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Purchased Water (610)	
a. To reflect purchase water expense	\$84,192
b. To reflect purchase water EUW	<u>(6,338)</u>
	<u>\$77,854</u>
2. Purchase Power (615)	
a. To remove purchase power for Anclote system	(\$5,517)
b. To remove purchase power expense for EUW for Westwood	(127)
c. To remove nonutility expense	<u>(1,526)</u>
	<u>(\$7,170)</u>
3. Chemicals (618)	
a. To remove chemical expense associated with Anclote	(\$2,114)
b. To remove chemical expense of EUW for Westwood	<u>(28)</u>
	<u>(\$2,141)</u>
4. Materials and Supplies (620)	
a. To reflect the appropriate material supplies expense (AF 6)	<u>\$37</u>
5. Contractual Services - Professional (631)	
a. To amortize non-recurring engineering expenses	(\$10,928)
b. To remove non- utility expenses	(4,930)
c. To remove capitalized meters	(13,157)
d. To reduce management fee for reduction in duties	(6,926)
e. To amortize well expenses over 5 years (\$12,000/5)	2,400
f. To include previous amortization	1,220
g. To remove the utility's journal entry	7,077
h. To remove amortization of transfer expenses	<u>(5,492)</u>
	<u>(\$30,737)</u>
6. Contractual Services - Testing (635)	
a. To reflect the appropriate testing for the Westwood system	<u>\$8</u>
7. Rents (640)	
a. To remove rent on land	<u>(\$2,625)</u>
8. Insurance Expenses (655)	
a. To annualize insurance expense (AF 6)	<u>\$35</u>
9. Regulatory Commission Expense (665)	
a. To amortize rate case expense over 4 years	\$1,696
	<u>\$1,696</u>
10. Bad Debt Expense (670)	
a. To reflect the appropriate bad debt expense (AF 6)	<u>\$847</u>
11. Miscellaneous Expense (675)	
a. To remove interest on loan and customer deposits	(\$24,989)
b. To correct credit account for loan application fee	14,134
c. To reflect appropriate balance per audit	(1,934)
d. To include previous amortization	<u>1,094</u>
Total	<u>(\$11,695)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$26,108</u>

**HOLIDAY UTILITY COMPANY**  
**TEST YEAR ENDING 06/30/2007**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**DOCKET NO. 070394-WU**  
**PAGE 2 OF 2**

**WATER**

**DEPRECIATION EXPENSE**

1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	(\$15,605)
2. Test year amortization of CIAC.	(107)
Total	<u>(\$15,712)</u>

**TAXES OTHER THAN INCOME**

1. To include regulatory assessment fees on test year revenue.	(\$1,683)
2. To adjust payroll tax for recommended salaries.	918
3. To reflect the appropriate test year property taxes	(3,600)
4. To include occupational license fee	<u>23</u>
Total	<u>(\$4,342)</u>

**HOLIDAY UTILITY COMPANY**  
**TEST YEAR ENDING 06/30/2007**  
**ANALYSIS OF WATER OPERATION AND**  
**MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 070394-WU**

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$12,000	\$0	\$12,000
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	378	77,854	78,232
(615) PURCHASED POWER	8,625	(7,170)	1,455
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,460	(2,141)	319
(620) MATERIAL AND SUPPLIES	532	37	569
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	73,885	(25,245)	48,640
(635) CONTRACTUAL SERVICES - TESTING	2,225	8	2,233
(636) CONTRACTUAL SERVICES - OTHER	13,363	0	13,363
(640) RENTS	2,625	(2,625)	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	2,155	35	2,190
(665) REGULATORY COMMISSION EXPENSE	493	1,696	2,189
(670) BAD DEBT EXPENSE	0	847	847
(675) MISCELLANEOUS EXPENSES	<u>19,973</u>	<u>(17,187)</u>	<u>2,786</u>
	<u>\$138,714</u>	<u>\$26,108</u>	<u>\$164,823</u>

<b>HOLIDAY UTILITY COMPANY</b>		<b>SCHEDULE NO. 4</b>	
<b>TEST YEAR ENDING 06/30/2007</b>		<b>DOCKET NO. 070394-WU</b>	
<b>MONTHLY WATER RATES</b>			
	<b>UTILITY'S EXISTING RATES</b>	<b>STAFF RECOMMENDED RATES</b>	<b>MONTHLY RATE REDUCTION</b>
<b>Residential</b>			
<b><u>and General Service</u></b>			
<b><u>Base Facility Charge by Meter Size:</u></b>			
5/8"X3/4"	\$11.00	\$14.49	\$0.10
3/4"	\$16.50	\$21.74	\$0.15
1"	\$27.50	\$36.23	\$0.25
1-1/2"	\$55.00	\$72.45	\$0.50
2"	\$88.00	\$115.92	\$0.80
3"	\$175.99	\$231.84	\$1.61
4"	\$274.99	\$362.25	\$2.52
6"	\$549.88	\$724.50	\$5.03
<b><u>Residential and General Service Gallonage Charge (Per 1,000 Gallons)</u></b>			
<b><u>Residential</u></b>			
All gallons	\$3.17		
0 - 8,000 Gallons		\$7.28	\$0.05
8,001 - 15,000 Gallons		\$9.10	\$0.06
15,000+ Gallons		\$10.92	\$0.08
<b><u>General Service</u></b>			
All gallons		\$7.83	\$0.05
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$20.51	\$36.33	
5,000 Gallons	\$26.85	\$50.89	
10,000 Gallons	\$42.70	\$90.93	