

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 30, 2008

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Bulecza-Banks, Bruce, Deason, Fletcher, Rieger)
Office of the General Counsel (Hartman)

RE: Docket No. 070695-WS – Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.

AGENDA: 11/13/08 – Regular Agenda – Proposed Agency Action Except Issues Nos. 20 and 21– Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 11/13/08

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\070695.RCM.DOC

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Case Background

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

<u>Docket No.</u>	<u>Utility Subsidiary</u>
070693-WS	Lake Utility Services, Inc.
070694-WS	Wedgfield Utilities, Inc.
070695-WS	Miles Grant Water and Sewer Company
080247-SU	Utilities Inc. of Eagle Ridge
080248-SU	Tierra Verde Utilities
080249-WS	Labrador Utilities
080250-SU	Mid-County Services

This recommendation addresses Docket No. 070695-WS. Miles Grant Water and Sewer Company (Miles Grant or Utility) is a Class B utility providing service to approximately 1,142 water and 1,058 wastewater customers in Martin County. Miles Grant is a wholly-owned subsidiary of UI. Water and wastewater rates were last established for this Utility in its 1987 rate case.¹

On February 29, 2008, Miles Grant filed its Application for Rate Increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. Miles Grant had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and April 10, 2008, was established as the official filing date. The test year established for interim and final rates is the simple average period ending June 30, 2007.

Miles Grant requested interim rates for both its water and wastewater systems. By Order No. PSC-08-0338-PCO-WS, issued May 27, 2008, the Commission approved interim rates designed to generate annual water revenues of \$400,750, an increase of \$116,412 or 40.94 percent, and wastewater revenues of \$560,678, an increase of \$219,137 or 64.16 percent. The Utility requested final rates designed to generate annual water revenues of \$502,000, an increase of \$217,662 or 76.55 percent, and annual wastewater revenues of \$642,203, an increase of \$300,568 or 87.98 percent.

On July 29, 2008, the Office of Public Counsel filed a Notice of Intervention in this docket. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

¹ See Order No. 20066, issued September 26, 1988, in Dockets No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an Increase in Water and Sewer Rates in Martin County.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Miles Grant Water and Sewer Company satisfactory?

Recommendation: Yes. The overall quality of service provided by Miles Grant Water and Sewer Company is satisfactory (Rieger)

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 a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. We have also considered the Miles Grant's current compliance with the Florida Department of Environmental Protection (DEP).

Quality of Utility's Product

In Martin County, the water and wastewater programs are regulated by the DEP Southeast District office in West Palm Beach. Miles Grant is current in all of the required chemical analyses, and the Utility has met all required standards for both water and wastewater. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP. Between late 2005 through early 2007, Miles Grant was out of compliance with a newly initiated DEP rule concerning disinfection byproducts. Once the Utility converted from chlorine to chloramines disinfection, compliance was achieved.

Operational Conditions of Plants

A field investigation of Miles Grant was conducted on May 22, 2008. Staff found no apparent problems with the operations of either the water or wastewater treatment facilities. The conditions of these facilities are currently in compliance with the DEP rules and regulations. Based on review of the maintenance records and a physical inspection, the general condition of the facilities appeared to be adequate. Therefore, staff believes that the quality of service for the condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

Test Year Complaints. The Utility provided in its filing copies of customer complaints received during the test year. The water quality complaints dealt with discoloration, residue and sediment, odor, and taste. There were also complaints of low pressure and outages. A review of these complaints found that Miles Grant mainly responded with the flushing of lines to help resolve the water quality problems. During the test year, the Utility began replacing older meters

and upgrading fire hydrants. Most of the low pressure and outages concerns were the result of those activities.

Sewage back-ups were the main wastewater complaints. It appears that this type of problem is routine. Miles Grant eliminated obstructions in the collection system to correct the blockages.

Correspondence. The Commission received over three hundred “form” letters detailing concerns over the impact of the proposed rate increases to the customers. The letters go on to say that it appears the Utility is being mismanaged or is seeking to acquire exorbitant profits.

One customer letter refers to quality of service concerns over a needed replacement or repair of a deteriorating bulkhead area located near his residence. This bulkhead surrounds a fire hydrant and storm water catch basin. Also, he had a second problem concerning an unfinished driveway repair resulting from a water line replacement. The driveway repair, which was finished in 2005, took over six months to correct. The customer concludes in his letter that the Utility is incompetent and should not be given a rate increase.

Miles Grant supplied staff with reasonable explanations to this customer’s concerns. For the bulkhead area situation, the Utility believes that this structure is in satisfactory condition and in no need of improvement. Supplied photographs appear to back up the Utility’s opinion. In reference to the driveway repair situation, Miles Grant agrees that it took longer than expected for repairs to occur. Although the driveway was promptly backfilled with rock and gravel on a temporary basis and the customer always had access to his driveway, the Utility acknowledged that the project took longer than desired to complete. The completion of the project was delayed due to staffing problems with the contractor during that time. Supplied photographs verify a completed project.

Customer Meeting. A customer meeting was held on July 8, 2008, in the Martin County Administrative Center in Stuart, Florida. There were approximately twenty-five customers who attended the noticed meeting. An additional forty-five customers attended a less formal afternoon meeting. Although there were quality of service concerns brought up at these meetings, the customers’ main focus was about the justification of the proposed rate increases and the personal hardship such rate increases would impose.

Of the seven customers who spoke at the evening meeting, four had quality of service concerns. One customer spoke of a recurring wastewater line backup problem that took over five years to correct. Three customers spoke of billing problems. A customer spoke of deferred maintenance of fire hydrants, water quality and boil water public noticing events, and concern over a billing problem. This customer also commented on the offensive odor of the water. Another customer spoke of the poor drinkability of the water.

In reference to the wastewater backup problem that took 5 years to correct, the Utility determined that the customer service line had a grading problem due to line settling over time that had been difficult to identify. After multiple line clearing events over the years, this recurring problem was finally resolved by the replacement of the service line in question. In

reference to the fire hydrant maintenance customer comment, Miles Grant has supplied staff with an accounting of its hydrant upgrade program which included 5 of the system's 51 hydrants that were replaced in 2007. The Utility has indicated that all hydrants have been surveyed for proper operation, lubricated, flow tested, painted, and otherwise maintained in the proper fashion. It points out that replacement hydrants are capitalized, not expensed, and therefore have a very small impact on the revenue requirement of the water system.

In reference to water quality and boil water noticing, Miles Grant acknowledged that between late 2005 through early 2007, there was a period of time during which noncompliance with a newly initiated DEP rule concerning disinfection byproducts occurred. Once the Utility converted to chloramines disinfection, compliance was achieved and the public noticing was no longer necessary. In reference to the boil water noticing associated with water outages, low pressure, or construction problems, the Utility believes that there have been minimal occurrences, and therefore should not be considered a problem.

Complaints on file. The PSC Complaint Tracking System was reviewed. During the test year, only one complaint was received. It dealt with improper billing and has since been closed. There are currently no active complaints on file with the Commission.

Quality of Service Summary

The Utility's overall quality of service should be considered satisfactory. Staff believes that the quality of the product and the condition of the plants are adequate when it comes to regulatory compliance standards. However, due to the length of time it had taken for some problems to be corrected, the customer satisfaction portion of the quality of service review is considered a possible point of concern. Overall, staff believes that Miles Grant has addressed these customer concerns to a reasonable conclusion with apparently no or few outstanding problems existing at this time. Therefore, no adjustments or special reporting will be required.

RATE BASE

Issue 2: Should the audit adjustments to rate base to which the Utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, contributions in aid of construction (CIAC) should be increased by \$46,867 for water and increased by \$32,734 for wastewater and accumulated amortization of CIAC should be increased by \$221,492 for water, and \$176,494 for wastewater, respectively. Plant in service should be decreased by \$3,120 for water, and accumulated depreciation should be decreased by \$282 for water. (Deason)

Staff Analysis: In its response to the staff's audit report, Miles Grant agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to rate base.

Audit Finding	Water	Wastewater
No. 7 – Increase CIAC	\$46,867	\$32,734
No. 7 – Increase Accumulated Amortization of CIAC	\$221,492	\$176,494
No. 9 – Reduce Plant in Service	\$3,120	-
No. 9 – Reduce Accumulated Depreciation	\$282	-

Issue 3: Should any adjustment be made to rate base allocations for Miles Grant?

Recommendation: Yes. Rate Base should be reduced by \$3,642 and \$3,429 for water and wastewater, respectively. The appropriate net rate base allocation for Miles Grant is \$63,176 for water and \$70,390 for wastewater. (Deason)

Staff Analysis: In its filing, the Utility reflected Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) allocated rate base of \$66,818 for water and \$73,819 for wastewater. WSC (a subsidiary service company of UI) supplies most of accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. Staff auditors performed an affiliate transactions' (AT) audit of Utilities, Inc., the parent company of Miles Grant and its sister companies.

Subsequent to the issuance of staff's AT audit, staff auditors discovered that several employees from UIF's division office in Altamonte Springs worked on treatment plants in Louisiana, and allocated the capitalized salaries in current rate cases in Louisiana. Staff believes that the allocated capitalized salary should be removed, and the Utility agrees to the adjustment. This results in a allocated rate base reduction of \$3,642 (Plant Decrease of \$8,932 less Accumulated Depreciation decrease of \$5,290) for water and a reduction of \$3,429 (Plant Decrease of \$8,411 less Accumulated Depreciation decrease of \$4,982) for wastewater. Based on the above, staff recommends that the appropriate net rate base allocation for Miles Grant is \$63,176 for water and \$70,390 for wastewater.

Issue 4: Should any additional adjustments be made to the Utility's test year Plant in Service balance and test year expenses?

Recommendation: Yes. Based on Staff's recalculation of the Utility's plant in service, plant in service should be reduced by \$110,396 and \$340,165 for water and wastewater, respectively. Corresponding adjustments should be made to decrease accumulated depreciation by \$478,382 and \$473,073 for water and wastewater, respectively. Depreciation expense should be decreased by \$18,344 for water and increased by \$6,621 for wastewater. Operational and Maintenance (O&M) expense should be increased by \$1,197 for water. (Deason)

Staff Analysis: According to staff's audit report, the Utility provided only partial responses to staff auditors' requests for support documentation relating to plant in service. In its response to the audit report, Miles Grant disagreed with the audit findings regarding plant in service, and provided over 2,800 pages of support documentation, along with their calculation of plant in service and accumulated depreciation. However, the Utility's response contained several discrepancies, including items that were counted twice, unsupported documentation, and items that should have been expensed rather than capitalized. Based on the support documentation provided by the Utility, staff recalculated plant in service, accumulated depreciation, O&M expense, and depreciation expense. Based on the above, staff recommends the following adjustments:

	<u>Water</u>	<u>Wastewater</u>
Plant in Service	(\$110,396)	(\$340,165)
Accumulated Depreciation	(\$478,382)	(\$473,073)
O&M Expense	\$1,197	\$0
Depreciation Expense	(\$18,344)	\$6,621

Issue 5: Should adjustments be made to the Utility's pro forma plant additions and associated expenses?

Recommendation: Yes. The Utility's pro forma plant additions should be increased by \$11,625 for water. Accordingly, accumulated depreciation should be increased by \$413 for water and depreciation expense should be decreased by \$1,107 for water. Based on those adjustments the total pro forma plant additions should be \$159,145 for water and \$71,780 for wastewater. (Deason)

Staff Analysis: Miles Grant's filing reflected pro forma plant additions of \$147,520 for water and \$71,780 for wastewater. Of the pro forma plant additions for water, \$76,220 relates to allocated plant and \$71,300 related to non-allocated plant. All of the requested plant additions for wastewater are allocated plant additions.

The water and wastewater pro forma allocated plant additions relates to the Utility's Project Phoenix Financial/Customer Care Billing System (CCBS). Miles Grant asserts that the purpose of the CCBS is to improve the Utility's capabilities and processes in their accounting, customer service, customer billing, and financial and regulatory reporting areas. The allocation of \$76,220 for water and \$71,780 for wastewater was based on equivalent residential connections (ERCs). The allocation of the CCBS costs that were prepared for this case utilized Miles Grant's ERCs at the end of the test year, in comparison to the total ERCs for the Parent Company. Dividing the ERCs of the Utility by the total ERCs resulted in a percentage value, which was then multiplied by the total investment in the CCBS. Commission staff has performed an allocation audit in connection with all current UI cases. Based on the audit, staff recommends that no adjustment is necessary for the water and wastewater pro forma allocated plant additions relating to the Miles Grant's CCBS.

Staff reviewed the support documentation and prudence for the non allocated pro forma plant amounts. According to data request responses, all non allocated pro forma plant was completed and in service in 2007. Based on our review, staff believes adjustments are necessary to the Utility's requested non-allocated pro forma plant additions.

The Utility installed three new generator fuel tanks. Miles Grant submitted invoices and supporting documentation reflecting a \$38,158 cost for this project. In its MFRs, the Utility estimated \$24,800 for this project. As such, staff recommends that plant be increased by \$13,358 and that accumulated depreciation and depreciation expense both be increased by \$668.

Miles Grant replaced five fire hydrants. The Utility submitted invoices and supporting documentation reflecting a \$21,490 cost for this project. In its MFRs, the Utility estimated \$15,000 for this project. Thus, staff recommends that plant be increased by \$6,490 and accumulated depreciation and depreciation expense both be increased by \$145.

The Utility also installed HSP Variable Frequency Drives and HSP Check Valves at its Water Treatment Plant. In its MFRs, Miles Grant estimated \$23,000 for the HSP Variable Frequency Drives and \$8,500 for the HSP Check Valves. The Utility submitted invoices and supporting documentation reflecting a \$20,648 cost for the HSP Variable Frequency Drives and a cost of \$2,620 cost for the HSP Check Valves. Therefore, staff recommends that plant be

decreased by \$2,352 and \$5,871, respectively, and accumulated depreciation and depreciation expense both be decreased by \$118 and \$282, respectively.

In summary, staff recommends that pro forma plant additions of \$159,145 for water and \$71,780 for wastewater. As a result, plant should be increased by \$11,625 for water. Accordingly, accumulated depreciation should be increased by \$413 for water and depreciation expense should be decreased by \$1,107 for water. A breakdown of pro forma plant and expense is as follows:

Miles Grant Water and Sewer Company Pro Form Plant Water Operation					
Pro Forma Plant Adjs.	Per MFRs	Staff Adjustments to Water Plant	Staff Adjusted Plant	Staff Adjustments to Water Accumulated Depreciation	Staff Adjustments to Water Depreciation Expense
HSP Variable Frequency Drives	\$23,000	(2,352)	\$20,648	(\$118)	(\$118)
Generator Fuel Tanks	24,800	13,358	38,158	668	668
Fire Hydrants	15,000	6,490	21,490	145	145
HSP Check Valves at WTP	8,500	(5,871)	2,629	(282)	(282)
Project Phoenix Financial/Customer Care Billing System	76,220	0	76,220	0	0
Pro forma Retirements*	0	0	0	0	(1,520)
Adjustment Totals	\$147,520	\$11,625	\$159,145	\$413	(\$1,107)
* Adjustments related to retirements have no effect on rate base because plant and accumulated depreciation are both decreased by the same amount. However, the Utility failed to make a corresponding depreciation expense reduction for retirements in its MFRs. As such, depreciation expense should be reduced by \$1,520.					

Miles Grant Water and Sewer Company Summary Pro Forma Plant Combined Water & Wastewater Operations		
Total Plant Per MFR - Water	\$147,520	
Total Plant Per MFR - Wastewater	71,780	
Total Combined Plant		\$219,300
Staff Adjustments – Water	\$11,625	
Staff Adjustments – Wastewater	0	
Total Combined Adjustments		11,625
Total Adjusted Plant Balances		\$230,925

Issue 6: What are the used and useful percentages of the Utility's water and wastewater systems?

Recommendation: The water treatment plant, storage, and distribution system, as well as the wastewater treatment plant and collection system should be considered 100 percent used and useful. (Rieger)

Staff Analysis: In its application, the Utility asserts that the water and wastewater treatment plants, as well as the water distribution and wastewater collection systems are all 100 percent used and useful because the systems are built out and the service area cannot be expanded. Attachment A contains a used and useful analysis for the water and wastewater plants, pursuant to Rules 25-30.4325 and 25-30.432, F.A.C.

Water Treatment Plant

The used and useful calculation of the water treatment plant is determined by dividing the peak demand by the firm reliable capacity of the water treatment system, based on 16 hours of pumping. Consideration is given to fire flow, unaccounted for water, and growth. In this case, because of the water management district's concerns over salt water intrusion, pumping restrictions to properly manage the aquifer have been imposed. Only three of the Utility's six wells are considered primary wells. The firm reliable capacity is determined by assuming that one of the three - 150 gpm wells is out of service. As detailed in Attachment A to this report, unaccounted for water is not considered excessive, and an allowance for growth is not included because the system is at build out. As reflected in Attachment A, the water treatment plant is considered 100 percent used and useful based on a calculation where the peak day demand (April 3, 2007) of 464,000 gallons per day, plus the required fire flow of 60,000 gallons per day, is divided by the firm reliable plant capacity of 288,000 gallons per day. In addition, the water treatment plant should also be considered 100 percent used and useful because the system is built out, there has been no significant growth over the last five years, there is no apparent potential for expansion, and the system is not considered oversized.

Storage

Storage is 100 percent used and useful because the 90,000 gallons of usable storage (90 percent of 100,000 gallons) is less than the peak day demand of 464,000 gallons. Pursuant to Rule 25-30.4325(8), F.A.C., usable storage capacity less than or equal to the peak day demand shall be considered 100 percent used and useful.

Wastewater Treatment Plant

The used and useful calculation of the wastewater treatment plant is determined by dividing the annual average daily flow by the permitted plant capacity based on the annual average daily flow. Consideration is given for growth and infiltration and inflow (I&I). In this case, an allowance for growth is not a factor because the system is at build out. As reflected in Attachment A, the used and useful analysis based on the annual average daily flow during the test year reflects a 29.39 percent used and useful determination. However, the Utility believes

that this facility should be considered 100 percent used and useful because the plant, which was built in the 1970's, was designed to serve a maximum day demand of 300,000 gpd for 1,036 dwelling units, or 290 gpd per unit. With a test year average daily flow of approximately 74 gpd, the area now served by this facility has approximately 200 more units than considered in the original design and is completely built out. There has been no significant growth in the last five years.

Staff agrees with the Utility that the plant was originally appropriately sized to meet the projected needs of the community that it was intended to serve. Also, Rule 25-30.432, F.A.C., provides allowances in determining the used and useful amount when the area served by the plant is built out. Therefore, the wastewater treatment plant should be considered 100 percent used and useful.

Water Distribution and Wastewater Collection Systems

The used and useful calculations for the water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems. Consideration is given for growth, however, in this case, growth is not considered a factor since the systems are built out. The distribution and collection systems were designed to serve the existing customers; therefore, the water distribution and wastewater collection systems are considered 100 percent used and useful.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$34,347 for water and \$43,720 for wastewater. (Deason)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Miles Grant's O&M expenses. As a result, staff recommends that working capital of \$34,347 and \$43,720 be approved for water and wastewater, respectively. This reflects a decrease of \$1,245 to the Utility's requested working capital allowance of \$35,592 for water and a decrease of \$1,312 to Miles Grant's requested allowance of \$45,032 for wastewater.

Issue 8: What is the appropriate rate base for the June 30, 2007, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 30, 2007, is \$745,532 for water and \$919,029 for wastewater. (Deason)

Staff Analysis: Consistent with other recommended adjustments, the appropriate simple average rate base for the test year ending December 30, 2007, is \$745,532 for water and \$919,029 for wastewater. Staff's recommended schedules for rate base are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

Issue 9: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.73 percent based on the Commission's leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Deason)

Staff Analysis: The return on equity (ROE) requested in the Utility's filing is 11.78 percent. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.34 percent.²

Based on the current leverage formula approved in Order No. PSC-07-0472-PAA-WS and an equity ratio of 42.34 percent, the appropriate ROE is 11.73 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

² 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.

Issue 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007?

Recommendation: The appropriate weighted average cost of capital for the test year ended June 30, 2007, is 6.08 percent. (Deason)

Staff Analysis: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, staff recommends a weighted average cost of capital of 6.08 percent. The weighted average cost of capital included in the Utility's filing is 6.82 percent. Schedule No. 2 details staff's recommendation.

The test year per book amounts were taken directly from Miles Grant's MFR filing Schedule D-2. Staff made an adjustment of \$4,680 to increase the balance of deferred income taxes. Staff determined that the Utility's simple average of deferred income taxes on MFR Schedule D-2 (\$380,029) did not reconcile with the Utility's simple average on MFR Schedule C-6 (\$384,708). As Schedule C-6 reflects the Utility's detailed summary schedule of deferred income taxes, staff increased deferred income taxes by \$4,680 to be consistent with this schedule.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended June 30, 2007, staff recommends a weighted average cost of capital of 6.08 percent. Schedule No. 2 details staff's recommendation.

NET OPERATING INCOME

Issue 11: Should any changes be made to pro forma expenses?

Recommendation: Yes. Pro forma expenses should be reduced by \$4,981 for water and \$4,691 for wastewater. (Deason)

Staff Analysis: On MFR Schedule B-3, the Utility included an adjustment of \$4,981 for water and \$4,691 for wastewater for amortized projected hurricane/storm costs. Staff requested that Miles Grant supply all support documentation relating to the amortized projected hurricane/storm costs. The Utility was unable to provide the requested documentation. Therefore, staff recommends that O&M expenses be reduced by \$4,981 for water and \$4,691 for wastewater to remove the unsupported expenses.

Issue 12: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$127,973. This expense should be recovered over four years for an annual expense of \$31,993. Thus, rate case expense should be reduced by \$6,171 for water and \$5,811 for wastewater, respectively. (Deason)

Staff Analysis: The Utility included in its MFRs, an estimate of \$175,902 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On June 20, 2008, the Utility submitted a revised estimated rate case expense through completion of the PAA process of \$227,642. The components of the estimated rate case expense are as follows:

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$49,240	\$12,600	\$38,773	\$51,373
Consultant Fees - MSA	49,205	51,523	3,190	54,713
Consultant Fees – M&R	6,900	3,039	6,240	9,279
WSC In-house Fees	53,350	17,322	59,459	76,781
Filing Fee	4,000	4,000	0	4,000
Travel – WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	12,000	12,000	24,000
Notices	<u>2,007</u>	<u>3,076</u>	<u>1,200</u>	<u>4,276</u>
Total Rate Case Expense	<u>\$175,902</u>	<u>\$103,560</u>	<u>\$124,082</u>	<u>\$227,622</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices and the Utility's consultants, a combined amount of \$2,752 was billed for correcting the MFR deficiencies and revising the Utility's filing. The amount associated with deficiency corrections (\$2,752) was identified in staff's review of the invoices. According to the invoices, Martin Friedman of Rose, Sundstrom & Bentley, LLP, billed the Utility 5.8 hours related to the correction of MFR deficiencies. Based on Mr. Friedman's hourly rate of \$290 per hour, the total amount billed to Miles Grant was \$1,682 ($\290×5.8). Additionally, Deborah Swain and Cynthia Yapp, both of Milian, Swain & Associates, billed the Utility ½ hour and 7 hours respectively related to the correction of MFR deficiencies. Based on their respective hourly rates of \$180 and \$140 per hour, the total amount billed to the Utility came to \$1,070 ($(.5 \times \$180) + (7 \times \$140)$). The Commission has previously disallowed rate

case expense associated with correcting MFR deficiencies because of duplicate filing costs.³ Accordingly, staff recommends that \$2,752 (\$1,682 + \$1,070) be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the Utility's estimated legal fees to complete the rate case. Miles Grant estimated 133.7 hours or \$38,773 in fees plus \$1,160 in expenses to complete the rate case. However, the list of tasks to complete the case provided by the Utility's legal counsel came to 53.5 hours. The specific amount of time associated with each item are listed below:

Estimate To Complete Through PAA Process

<u>Description</u>	<u>Hours</u>	<u>Fees</u>
Telephone conferences and communications with client regarding rate case issues	2.0	\$580
Respond to staff's data request; Telephone conferences with client, consultants and staff regarding same	12.0	3,480
Review audit report; Conference with client regarding response to same; prepare response to same	4.5	1,305
Travel to Martin County and attend customer meeting; Respond to customer complaints	9.5	2,755
Review Staff's recommendations; Conferences with client and consultants regarding same	1.5	435
Prepare for and travel to Tallahassee to attend Agenda	14.0	4,060
Telephone conferences and communications with client and consultants	1.0	290
Review PAA Order	0.5	145
Telephone conferences and communications with client, consultants and Commission staff	2.0	580
Draft revised tariff sheets, notice of new rates and other implementing documentation	2.0	580
Letter, telephone conferences and communications with Commission Staff	1.5	435
Miscellaneous post-PAA noticing and filing matters, COA's Final Rate Case Expense, reports, etc.	<u>3.0</u>	<u>870</u>
Total estimated fees	<u>53.5</u>	<u>\$15,515</u>

As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 53.5 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to the Agenda Conference, and attend to miscellaneous post-PAA matters. Therefore, staff believes the legal fees should be decreased by \$23,258 (\$38,773 - \$15,515).

³ See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

The following breakdown was provided for the \$1,160 in estimated disbursements required for legal counsel to complete the case:

<u>Estimated Disbursements</u>	
<u>Description</u>	<u>Fees</u>
Telephone and facsimile	\$20
Travel and Accommodations	1,000
Photocopying	80
Federal Express	<u>60</u>
Total Estimated disbursements	<u>\$1,160</u>

Staff disagrees with the travel and accommodations estimate. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$425. Staff calculated travel expenses of \$425, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$196), hotel rates from a website (\$149) and a meal allowance (\$80). As such, staff believes disbursements should be decreased by \$575 (\$1,000-\$425). Accordingly, staff recommends that rate case expense for Legal Fees should be decreased by \$25,515 (\$23,258 + \$575 + \$1,682).

The third adjustment relates to the Utility's estimated consultant fees for Frank Seidman with Management & Regulatory Consultants, Inc., to complete the rate case. Mr. Seidman estimated 44 hours or \$5,940 (44 X \$135) plus \$300 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 40 hours to prepare direct and rebuttal testimony and exhibits, and four hours to prepare for and attend the Agenda Conference. Staff believes that four hours is a reasonable amount of time to prepare for and attend the Agenda for this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.⁴ However, staff believes the 40 hours to prepare direct and rebuttal testimony and exhibits are not applicable because this case is being processed by a Proposed Agency Action process; therefore, the hours to prepare direct and rebuttal testimony and exhibits should be removed. Therefore, staff recommends that rate case expense be decreased by \$5,700 (40 hours x \$135) plus \$300 in expenses.

The fourth adjustment relates to the 1,591 hours and \$59,479 of estimated costs to complete this case by WSC employees. The last General Ledger entry for WSC employees' rate case time was on May 31, 2008. Miles Grant asserts that additional hours were required to respond to our staff's auditors' requests and to the staff analyst's data requests. However, the Utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. Miles Grant simply stated that the \$59,479 was to assist with data requests and audit facilitation. The hours needed to complete data requests and audit facilitation was not broken down to estimate the hours needed to complete each item. In addition, there were no timesheets provided to show actual hours worked. Therefore, staff had no basis to determine whether the individual hours estimated were reasonable. Staff reviewed

⁴ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

these requested expenses and believes the estimates reflect an overstatement. As discussed below, it is the Utility's burden to justify its requested costs. Staff believes that 523 hours is reasonable to allow Miles Grant to respond to data requests, facilitate the audit, review the PAA recommendation and travel to agenda. By applying the individual employee rates and the average number of hours worked by WSC employees, staff recommends that the estimated WSC fees to complete the case should be \$17,826. Thus, the Utility's requested expense of \$76,801 should be decreased by \$41,633. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts.⁵

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

The fifth adjustment addresses WSC travel expenses. In its MFRs, Miles Grant estimated \$3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. Staff calculated travel expenses of \$531, using the airfare for October 27, 2008 (\$268), current rental car rates (\$34), hotel rates from a website (\$149) and a meal allowance (\$80), but recommends \$750 consistent with the Labrador case. Therefore, staff believes \$750 is the appropriate travel expense. However, based on several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore the entire amount of estimated travel expense should be removed. Accordingly, staff recommends that rate case expense be decreased by \$3,200.

The sixth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the Utility estimated \$12,000 for these items. Miles Grant further estimated another \$12,000 in FedEx Corporation (FedEx), copies and other miscellaneous costs in order to complete the rate case. The Utility provided no breakdown or support for the \$12,000. Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested, and received authorization from the Commission, to keep its records outside the state in Illinois, pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a Utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No.

⁵ See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., the Commission found that the Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.⁶ Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc. to its law firm located in central Florida. Then, the documents are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the Utility, and therefore, they should bear the related costs. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$12,000.

The seventh adjustment relates to miscellaneous costs. The only invoice provided for miscellaneous costs was from CPH Engineering, Inc. regarding the service area mapping for Miles Grant, Wedgefield Utilities, Inc., and Lake Utility Services, Inc. The invoice was for \$13,051, however, because the invoice related to two other utilities, Miles Grant's share of the invoice should be one-third of the invoice or \$4,350. Therefore, staff recommends that miscellaneous rate case expense be decreased by \$7,650 (\$12,000 - \$4,350).

The eighth adjustment relates to customer notices and postage. The Utility estimated \$2,007 for notices, postage and stock. Miles Grant stated in its revised analysis of rate case expense that it had already incurred \$3,076, and estimated an additional \$1,200 for postage costs to complete the rate case. The Utility did not provide any support for its postage costs therefore staff estimated the costs related to notices and postage. Miles Grant is responsible for sending three notices, the interim notice, the combination initial notice, customer meeting notice, and notice of the final rate increase. Staff estimated the postage cost for the notices to be \$1,395 (1,344 customers x \$0.346 x 3 notices). Staff recommends that rate case expense be decreased by \$2,881 (\$4,276 - \$1,395) for postage costs.

In summary, staff recommends that the Utility's revised rate case expense be decreased by \$99,862 for MFR deficiencies, and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$127,760. A breakdown of rate case expense is as follows:

⁶See Order Nos. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by UTILITIES, INC. OF FLORIDA, and 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of MILES GRANT WATER AND SEWER COMPANY for an increase in Water and Sewer Rates in Martin County

	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Staff Adjustments</u>	<u>Total</u>
Legal Fees	\$49,240	\$51,373	(\$25,515)	\$25,858
Consultant Fees - MSA	49,205	54,713	(1,070)	53,643
Consultant Fees- M&R	6,900	9,279	(5,700)	3,579
WSC In-house Fees	53,350	76,781	(41,633)	35,148
Filing Fee	4,000	4,000	0	4,000
WSC Travel	3,200	3,200	(3,200)	0
Miscellaneous	12,000	24,000	(19,650)	4,350
Notices	<u>2,007</u>	<u>4,276</u>	<u>(2,881)</u>	<u>1,395</u>
Total Rate Case Expense	<u>\$175,902</u>	<u>\$227,622</u>	<u>(\$99,649)</u>	<u>\$127,973</u>
Annual Amortization	<u>\$43,976</u>	<u>\$56,906</u>	<u>(\$24,912)</u>	<u>\$31,993</u>

In its MFRs, Miles Grant requested total rate case expense of \$175,902, which amortized over four years would be \$43,975. The Utility included in its MFRs \$22,647 (\$43,975 x .515) and \$21,328 (\$43,975 x .485) for rate case expense in the test year for water and wastewater, respectively. Thus, rate case expense should be decreased by \$6,171 and \$5,811 for water and wastewater, respectively.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, F.S. Based on the data provided by Miles Grant and the staff recommended adjustments discussed above, staff recommends annual rate case expense of \$31,993, or \$16,476 for water and \$15,517 for wastewater.

Docket No. 070695-WS

Date: October 30, 2008

Issue 13: What is the test year water and wastewater operating loss before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating losses of \$24,531 for water and \$85,983 for wastewater. (Deason)

Staff Analysis: As shown on Schedule Nos. 3-A and 3-B, after applying staff's adjustments, the Utility's net operating losses are \$24,531 for water and \$85,983 for wastewater. Staff's adjustments to operating income are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

Issue 14: What is the appropriate revenue requirement for the June 30, 2007 test year?

Recommendation: The following revenue requirement should be approved. (Deason)

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$314,961	\$117,251	\$432,213	37.23%
Wastewater	\$330,593	\$238,124	\$568,717	72.03%

Staff Analysis: Miles Grant’s requested revenue requirements generate annual revenues of \$502,000 and \$642,203, for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$217,662 or 76.55 percent for water and \$300,568 or 87.98 percent for wastewater.

Consistent with staff’s recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water revenue requirement of \$432,213, and a wastewater revenue requirement of \$568,717. The recommended water revenue requirement exceeds staff’s adjusted test year revenues by \$117,233, or 37.23 percent, for water. The recommended wastewater revenue requirement exceeds staff’s adjusted test year revenues by \$238,124, or 72.03 percent, for wastewater. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 6.08 percent return on its investment in water and wastewater rate base.

RATES AND CHARGES

Issue 15: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a two-tier inclining block rate structure. The usage blocks should be set for consumption at: a) 0-3 kgal; b) usage in excess of 3 kgal, with appropriate usage block rate factors of 1.0 and 1.50, respectively. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery percentage should be set at 50 percent. The appropriate rate structure for the wastewater system's residential and non-residential class is a BFC/uniform gallonage charge rate structure. The non-residential class should be 1.2 times greater than the corresponding residential gallonage charge, and the BFC cost recovery percentage should be set at 50 percent. (Bruce)

Staff Analysis: The Utility's current rate structure for the water system's residential and non-residential class consists of a bi-monthly BFC/gallonage charge rate structure, in which the BFC is \$21.81 and a gallonage charge of \$2.66 per kgal. Also, there is a bulk irrigation class of service in which the gallonage charge is \$.54. In prior cases, it has been Commission practice to convert the Utility's billing cycle to a monthly cycle.⁷ By billing on a monthly basis, customers receive a more timely price signal enabling them to adjust their consumption accordingly. This rate design goal is consistent with past Commission practice.

On August 25, 1988, Miles Grant entered into an agreement with Miles Grant County Club, wherein the Utility provides supplemental water to the Country Club. This service will enable the Golf Course to maintain its ponds at levels that are required by the DEP and still properly irrigate the golf course. The Country Club only requires the service when there is not enough readily available effluent to keep the area ponds at their levels.

In Order No. PSC-02-1517-TRF-WU, the Commission approved a bulk irrigation class of service for Miles Grant to provide the supplemental water to the Country Club. However, as indicated in its recent MFRs Schedule E-2, the Utility, at the customer's request, has reclassified the bulk customer as a regular 5/8" X 3/4" General Service customer. Staff recommends that the Utility's proposal to convert the previous 2" bulk rate customer as a regular 5/8" X 3/4" general service customer is appropriate.

Water Rates: Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential class. The goal of the evaluation was to select rate design parameters that: 1) allows the Utility to recover its revenue requirement; 2) equitably distributes cost recovery among the Utility's customers; and 3) implements, where appropriate, water conserving rate

⁷ See Order Nos. PSC-03-1440-FOF-WS, issued, December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, and Seminole Counties by Utilities, Inc. of Florida; and PSC-07-1009-PAA-WU, Issued December 20, 2007, in Docket No. 070177-WU, In Re: Application for staff-assisted rate case in Pasco County by LWV Utility.

structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

The Utility is located in Martin County, within the South Florida Water Management District. Over the past few years the Water Management Districts have requested, whenever possible, that an inclining block rate structure be implemented.

The overall average residential consumption is 2.5 kgals per month, and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average residential consumption is only 3.3 kgals. Although overall average consumption is low, the billing data indicates that there are a few customers who use more than the average consumption. Therefore, staff believes that an inclining block rate structure should be implemented. An inclining block rate structure is effective in reducing average demand. Demand in the higher usage block should be more responsive to price than demand in the first usage block. Customers with low monthly consumption will benefit while customers with high monthly consumption will pay increasingly higher rates.

Staff's recommended rate design for the water system is shown on Table 9-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 15-1

MILES GRANT WATER AND SEWER COMPANY STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
<u>Current Rate Structure and Rates</u>		<u>Recommended Rate Structure and Rates</u>	
Bi-Monthly BFC/ uniform kgal charge BFC =60%		2-Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.50 BFC = 50%	
BFC	\$21.81	BFC	\$13.60
All kgals	\$2.66	0-3 kgals	\$4.30
		3+ kgals	\$6.46
<u>Typical Monthly Bills (1)</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgal)</u>		<u>Cons (kgal)</u>	
0	\$21.81	0	\$13.60
1	\$27.13	1	\$17.90
3	\$37.77	3	\$26.50
5	\$48.41	5	\$39.42
10	\$75.01	10	\$71.72
20	\$128.21	20	\$136.15
<u>Alternative 1</u>		<u>Alternative 2</u>	
2- Tier Inclining Block Rate Structure Rate Factors 1.0 and 1.25 BFC = 50%		BFC/uniform kgal charge BFC =50%	
BFC	\$13.60	BFC	\$13.60
0-3 kgals	\$4.65		
3 + kgals	\$5.81	All kgals	\$5.05
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (kgal)</u>		<u>Cons (kgal)</u>	
0	\$13.60	0	\$13.60
1	\$18.25	1	\$18.65
3	\$27.55	3	\$28.75
5	\$39.17	5	\$38.85
10	\$68.22	10	\$64.10
20	\$126.32	20	\$114.60

The Utility proposed a BFC allocation of 77 percent. However, staff recommends that the BFC allocation be set at 50 percent. The Commission typically sets BFC cost recovery no greater than 40 percent. However, in this case, the customer base is seasonal. The higher allocation will help insure that the Utility will have sufficient cash flow to cover fixed costs while seasonal customers are not in residence. In recent cases, the Commission has approved a BFC greater than 40 percent.⁸

Based on the foregoing, staff recommends that the current water system rate structure be changed to a two tier inclining block rate structure with usage blocks set at 0-3 kgal and usage in excess of 3 kgal. The appropriate usage rate factors should be 1.0 and 1.50. The appropriate rate structure for the water system's non-residential class is a traditional base facility charge (BFC)/uniform gallonage charge rate structure. The Utility's bi-monthly billing cycle should be converted to monthly billing cycle. The BFC cost recovery percentage for the water system should be set at 50 percent.

Wastewater Rates: The Utility's current rate structure for the wastewater system's residential and non-residential class also consists of a bi-monthly BFC/gallonage charge rate structure, in which the BFC is \$28.79, with a gallonage charge of \$4.06 per kgal.

As mentioned above, the current rate structure consists of a bi-monthly billing cycle. It has been Commission practice to convert the Utility's billing cycle to a monthly billing cycle. By billing on a monthly basis, customers receive a more timely price signal enabling them to adjust their consumption accordingly. This rate design goal is consistent with past Commission practice.

Staff's initial allocation of the wastewater system's BFC cost recovery was 45 percent. Staff recommends that the BFC cost recovery allocation be increased to 50 percent. It is Commission practice to set the BFC cost recovery to at least 50 percent due to the capital-intensive nature of wastewater plants. The current wastewater cap is bi-monthly and is set at 20 kgal. The Commission typically sets the wastewater monthly cap at 6 kgal. A review of the billing data indicates setting the wastewater cap at 6 kgal is appropriate. Therefore, staff recommends changing the wastewater bi-monthly cap of 20 kgal to 6 kgal per month. Furthermore, staff recommends that the general service gallonage charge should be set at 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 9-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate structure and Alternatives 1 and 2 result in price increases at all levels of consumption.

⁸ See Order Nos. PSC-07-0609, issued July 30, 2007, in Docket No. 060246-WS, In Re: Application for increase in water and wastewater rates in Polk County by Gold Coast Utility Corp.; and PSC-08-0262-PAA-WS, issued in April 28, 2008, in Docket No. 070414-WS, In Re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd.

TABLE 15-2

MILES GRANT WATER AND SEWER COMPANY STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Bi-Monthly BFC/ uniform kgal charge BFC =61%		BFC/uniform kgal charge BFC = 50%	
BFC	\$28.79	BFC	\$18.98
All kgals	\$4.06	All kgals	\$9.29
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$28.79	0	\$18.98
1	\$36.91	1	\$28.27
3	\$53.15	3	\$46.85
6	\$77.51	6	\$74.72
10	\$109.99	10	\$111.88
Alternative 1		Alternative 2	
BFC/uniform kgal charge BFC = 60%		BFC/uniform kgal charge BFC =70%	
BFC	\$22.77	BFC	\$26.74
All kgals	\$7.46	All kgals	\$5.53
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$22.77	0	\$26.74
1	\$30.23	1	\$32.27
3	\$45.15	3	\$43.33
6	\$67.53	6	\$59.92
10	\$97.37	10	\$82.04

Based on the foregoing, staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential are changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should be set at 6 kgal per month. The general service gallonage charge should be set at 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

Issue 16: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments, and what are the final revenue requirements for the respective water and wastewater systems?

Recommendation: No, a repression adjustment is not appropriate for this utility. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed, and revenues billed. 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 with 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. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the fact there is no significant amount of discretionary usage. The overall average consumption is 2.5 kgals and the customer base is seasonal. Furthermore, while the seasonal customers are in residence, the average consumption is only 3.3 kgals. This is an indication that there is very little consumption above 3 kgal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water and wastewater systems. These reports should be filed with the Commission, on a quarterly basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 17: What are the appropriate monthly rates for the water and wastewater systems for the Utility?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenues of \$432,213 for water and \$568,717 for wastewater, excluding miscellaneous service 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Deason)

Staff Analysis: The recommended rates should be designed to produce revenues of \$432,213 for the water system and \$568,717 for the wastewater system. Excluding miscellaneous service revenues of \$1,609 for the water system and \$6,455 for the wastewater system results in revenues from monthly service of \$430,603 for the water system and \$562,262 for the wastewater system.

Staff recommends that the current water system rate structure be changed to a two tier inclining block rate structure with usage blocks set at 0-3 kgals and usage in excess of 3 kgal. The appropriate usage rate factors should be 1.0 and 1.50. The Utility's bi-monthly billing cycle should be converted to monthly billing cycle. The appropriate rate structure for the water system's non-residential class is a traditional BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 50 percent. Staff recommends that the appropriate rate structure for the wastewater systems' residential and non-residential customers should be changed to a monthly BFC/uniform gallonage charge rate structure. The wastewater gallonage cap should be set at 6 kgal per month. The general service gallonage charge should be set at 1.2 times greater than the residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent.

The approved rates should be effective for service rendered on or after stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

Issue 18: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Miles Grant should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, Miles Grant should be required to provide notice of the tariff changes to all customers. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. The appropriate charges are reflected below.

Water and Wastewater Miscellaneous Service Charges

	<u>Water</u>		<u>Wastewater</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	N/A	\$21	N/A
Normal Reconnection	\$21	\$42	\$21	\$42
Violation Reconnection	\$21	\$42	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	N/A	N/A	N/A	N/A
Premises Visit	\$21	\$42	\$21	\$42

(Deason)

Staff Analysis: The miscellaneous service charges were approved for Miles Grant on August 7, 1989, and have not changed since that date – a period of 19 years. The Utility believes these charges should be updated to reflect current costs. Staff agrees with this update.

Miles Grant provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

<u>During Business Hours</u>		<u>After Hours</u>	
Item:	Cost:	Item:	Cost:
Labor (\$31.50/hr. X 0.5 hours)	\$15.63	Labor (\$31.50/hr. X 0.5 hours) ⁹	\$35.16
Transportation	<u>5.00</u>	Transportation	<u>6.00</u>
Total	<u>\$20.63</u>	Total	<u>\$41.16</u>

Staff recommends that Miles Grant be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 and from \$15 to \$42 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of

⁹ Represents time and a half wage and the longer time it takes an employee to get to the customer’s property after hours

the Utility require multiple actions. The current and recommended water and wastewater charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	\$15	N/A	\$21	\$42
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

Miles Grant's miscellaneous service charges have not been updated in over 19 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 65 percent in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc., the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."¹⁰ Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2008 to Miles Grant's \$15 miscellaneous service charge and the result was a charge of \$23.88. Therefore, staff believes a \$21 charge is reasonable and is cost based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of

¹⁰ See Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the “Premises Visit In Lieu of Disconnection” charge should be replaced with what will be called, “Premises Visit.” In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer’s request for complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005, the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for a complaint and the problem is found to be the customer’s responsibility.

¹¹ Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge be approved.

In summary, staff recommends the Utility’s miscellaneous service charge of \$21 and after hours charge of \$42, be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. Miles Grant should provide proof the customers have received notice within ten days after the date the notice was sent.

¹¹ See Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

Issue 19: In determining whether any portion of the water and wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, no water refunds are required. However, the Utility should be required to refund 1.66 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the corporate undertaking should be released upon staff's verification that the required refunds have been made. (Deason)

Staff Analysis: By Order No. PSC-08-0338-PCO-WS, issued May 27, 2008, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$400,750 for water and \$560,678 for wastewater, which represents an increase of \$116,412 or 40.94 percent for water and \$219,137 or 64.16 percent for wastewater.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending June 30, 2007. Miles Grant's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, because the \$400,750 water revenue requirement granted in Order No. PSC-08-0338-PCO-WS, for the interim test year is less than the revenue requirement for the interim collection period of \$412,317, staff recommends that no refund is required for water revenues collected under interim rates. However, the \$560,678 wastewater revenue requirement granted in Order No. PSC-08-0338-PCO-WS for the interim test year is greater than the revenue requirement for the interim collection period of \$545,040. This results in a 1.66 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund 1.66 percent of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7),

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F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8),
F.A.C. Further, the corporate undertaking should be released upon staff's verification that the
required refunds have been made.

Issue 20: 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, Florida Statutes?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$18,287 of water and \$17,222 of wastewater rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Miles Grant should provide proof of the date notice was given no less than 10 days after the date of the notice. (Deason)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$18,287 for water and \$17,222 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The 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. Miles Grant should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Issue 21: Should the Utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission decision, Miles Grant should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Deason)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission decision, Miles Grant should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 22: 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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Hartman, Deason)

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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released.

Miles Grant Water and Sewer Company
 Test Year Ended June 30, 2007
 Water Treatment Plant and Storage Used and Useful Analysis

			Test Year Gallons	Gallons Per Day
1	Firm Reliable Capacity (2 @150 gpm)			288,000
2	Usable Storage Capacity			90,000
3	Single Maximum Day			464,000
4a	Total Test Year Water Produced	100%	49,168,000	
4b	Total Test Year Accounted For Water	102.3%	50,298,000	
4c	Total Test Year Unaccounted for Water	-2.3%	-1,130,000	
4d	Excessive Unaccounted for Water	0%	0	0
5	Growth Allowance (none requested)	0 ERCs		0
6	Fire Flow Allowance			60,000
7	Used and Useful Water Treatment Plant¹²			100%
8	Used and Useful Storage¹³			100%

¹² (Max Day – EUW + FF + Growth)/FRC = (464,000 – 0 + 60,000 + 0)/288,000 = >100%

¹³ (Max Day – EUW + FF + Growth)/FRC = (464,000 – 0 + 60,000 + 0)/90,000 = >100%

Miles Grant Water and Sewer Company
Test Year Ended June 30, 2007
Wastewater Treatment Plant Used and Useful Analysis

				Gallons Per Day
1	Permitted Capacity (AADF)			300,000
2	Average Annual Daily Flow			88,181
3a	Wastewater treated	32,186,000		
3b	RS WW customer water usage @ 80%	23,695,200		
3c	GS WW customer water usage @ 96%	1,648,320		
3d	Estimated flows returned	25,343,520		
3e	Estimated I&I		6,842,480	
4a	Estimated infiltration @ 500 gpd/inch-dia/mile	9,621,068		
4b	Estimated inflow @ 10% RS/GS water usage	2,534,352		
4c	I&I Allowance		12,155,420	
5	Excess I&I (6,842,48 – 12,155,420)/365			0
6	Growth Allowance (none requested)	0 ERCs		0
7	Used and Useful Wastewater Treatment Plant¹⁴			100%

¹⁴ (AADF – I&I + Growth)/AADF Capacity = 88,181 – 0 + 0)/300,000 = 29.39%

Miles Grant Water and Sewer Company Schedule of Water Rate Base Test Year Ended 6/30/07			Schedule No. 1-A Docket No. 070695-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,721,034	\$38,297	\$1,759,331	(\$110,823)	\$1,648,508
2 Land and Land Rights	33,863	0	33,863	0	33,863
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(568,165)	71,271	(496,894)	(472,961)	(969,855)
5 CIAC	(457,173)	0	(457,173)	46,867	(410,306)
6 Amortization of CIAC	187,483	0	187,483	221,492	408,975
7 Net Debit Deferred Income Taxes	117,904	(117,904)	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>35,592</u>	<u>35,592</u>	<u>(1,245)</u>	<u>34,347</u>
Rate Base	<u>\$1,034,946</u>	<u>\$27,256</u>	<u>\$1,062,202</u>	<u>(\$316,670)</u>	<u>\$745,532</u>

Miles Grant Water and Sewer Company Schedule of Wastewater Rate Base Test Year Ended 6/30/07			Schedule No. 1-B Docket No. 070695-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,175,149	\$99,543	\$2,274,692	(\$348,576)	\$1,926,116
2 Land and Land Rights	35,303	0	35,303	0	35,303
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(630,257)	(24,655)	(654,912)	(468,091)	(1,123,003)
5 CIAC	(294,822)	0	(294,822)	32,734	(262,088)
6 Amortization of CIAC	122,488	0	122,488	176,494	298,982
7 CWIP	148,759	(148,759)	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>45,032</u>	<u>45,032</u>	<u>(1,312)</u>	<u>43,720</u>
Rate Base	<u>\$1,556,620</u>	<u>(\$28,839)</u>	<u>\$1,527,781</u>	<u>(\$608,752)</u>	<u>\$919,029</u>

Miles Grant Water and Sewer Company		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 070695-WS	
Test Year Ended 6/30/07			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To remove item that should have been expensed	(\$3,120)	\$0	
2 To reflect the appropriate plant allocation from UIF	(8,932)	(8,411)	
3 To reflect staff's recalculation of plant in service	(110,396)	(340,165)	
4 To reflect the appropriate amount of pro forma plant additions	<u>11,625</u>	<u>0</u>	
Total	<u>(\$110,823)</u>	<u>(\$348,576)</u>	
<u>Accumulated Depreciation</u>			
1 To reflect Acc. Dep. from item that should have been expensed	\$282	\$0	
2 To reflect the appropriate Acc. Dep. allocation from UIF	5,290	4,982	
3 To reflect staff's recalculation of accumulated depreciation	(478,382)	(473,073)	
4 To reflect the appropriate amount of pro forma Acc. Dep.	<u>413</u>	<u>0</u>	
Total	<u>(\$472,397)</u>	<u>(\$468,091)</u>	
<u>CIAC</u>			
To reflect staff's recalculation of CIAC	<u>\$46,867</u>	<u>\$32,734</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect staff's recalculation of Accumulated Amortization of CIAC	<u>\$221,492</u>	<u>\$176,494</u>	
<u>Working Capital</u>			
To reflect staff's recalculation of working Capital	<u>(\$1,245)</u>	<u>(\$1,312)</u>	

Miles Grant Water and Sewer Company Capital Structure-Simple Average Test Year Ended 6/30/07						Schedule No. 2 Docket No. 070695-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$138,637,760	\$0	\$138,637,760	(\$137,628,573)	\$1,009,187	38.96%	6.63%	2.58%
2 Short-term Debt	33,158,500	0	33,158,500	(32,917,102)	241,398	9.32%	0.25%	0.02%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	126,158,164	0	126,158,164	(125,239,854)	918,310	35.46%	11.78%	4.18%
5 Customer Deposits	17,763	0	17,763	0	17,763	0.69%	6.00%	0.04%
6 Tax Credits-Zero Cost	23,297	0	23,297	0	23,297	0.90%	0.00%	0.00%
7 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
8 Deferred Income Taxes	<u>380,029</u>	<u>0</u>	<u>380,029</u>	<u>0</u>	<u>380,029</u>	<u>14.67%</u>	0.00%	<u>0.00%</u>
9 Total Capital	<u>\$298,375,513</u>	<u>\$0</u>	<u>\$298,375,513</u>	<u>(\$295,785,529)</u>	<u>\$2,589,984</u>	<u>100.00%</u>		<u>6.82%</u>
Per Staff								
10 Long-term Debt	\$138,637,760	\$0	\$138,637,760	(\$138,061,352)	\$576,408	34.63%	6.63%	2.30%
11 Short-term Debt	33,158,500	0	33,158,500	(33,020,638)	137,862	8.28%	0.25%	0.02%
12 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
13 Common Equity	126,158,164	0	126,158,164	(125,633,642)	524,522	31.51%	11.73%	3.70%
14 Customer Deposits	17,763	0	17,763	0	17,763	1.07%	6.00%	0.06%
15 Tax Credits-Zero Cost	23,297	0	23,297	0	23,297	1.40%	0.00%	0.00%
16 Tax Credits-Weighted Costs	0	0	0	0	0	0.00%	0.00%	0.00%
17 Deferred Income Taxes	<u>380,029</u>	<u>4,680</u>	<u>384,709</u>	<u>0</u>	<u>384,709</u>	<u>23.11%</u>	0.00%	<u>0.00%</u>
18 Total Capital	<u>\$298,375,513</u>	<u>\$4,680</u>	<u>\$298,380,193</u>	<u>(\$296,715,632)</u>	<u>\$1,664,561</u>	<u>100.00%</u>		<u>6.08%</u>
						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.73%</u>	<u>12.73%</u>	
OVERALL RATE OF RETURN						<u>5.76%</u>	<u>6.39%</u>	

Miles Grant Water and Sewer Company Statement of Water Operations Test Year Ended 6/30/07						Schedule No. 3-A Docket No. 070695-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$272,800</u>	<u>\$229,200</u>	<u>\$502,000</u>	<u>(\$187,039)</u>	<u>\$314,961</u>	<u>\$117,251</u> 37.23%	<u>\$432,213</u>
2 Operating Expenses							
Operation & Maintenance	\$209,477	\$75,257	\$284,734	(\$9,955)	\$274,779	0	\$274,779
3 Depreciation	151,703	(85,333)	66,370	(19,451)	46,919	0	46,919
4 Amortization	0	0	0	0	0	0	0
5 Taxes Other Than Income	37,118	14,601	51,719	(8,417)	43,302	5,276	48,579
6 Income Taxes	<u>(76,862)</u>	<u>103,597</u>	<u>26,735</u>	<u>(52,243)</u>	<u>(25,508)</u>	<u>42,136</u>	<u>16,628</u>
7 Total Operating Expense	<u>\$321,436</u>	<u>\$108,122</u>	<u>\$429,558</u>	<u>(\$90,066)</u>	<u>\$339,492</u>	<u>\$47,413</u>	<u>\$386,905</u>
8 Operating Income	<u>(\$48,636)</u>	<u>\$121,078</u>	<u>\$72,442</u>	<u>(\$96,973)</u>	<u>(\$24,531)</u>	<u>\$69,839</u>	<u>\$45,308</u>
9 Rate Base	<u>\$1,034,946</u>		<u>\$1,062,202</u>		<u>\$745,532</u>		<u>\$745,532</u>
10 Rate of Return	<u>(4.70%)</u>		<u>6.82%</u>		<u>(3.29%)</u>		<u>6.08%</u>

Miles Grant Water and Sewer Company Statement of Wastewater Operations Test Year Ended 6/30/07							Schedule No. 3-B Docket No. 070695-WS	
	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues:	<u>\$337,176</u>	<u>\$305,027</u>	<u>\$642,203</u>	<u>(\$311,610)</u>	<u>\$330,593</u>	<u>\$238,124</u> 72.03%	<u>\$568,717</u>
	Operating Expenses							
2	Operation & Maintenance	\$289,385	\$70,873	\$360,258	(\$10,501)	\$349,757	0	\$349,757
3	Depreciation	56,172	20,325	76,497	6,621	83,118	0	83,118
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	45,184	17,615	62,799	(14,022)	48,777	10,716	59,492
6	Income Taxes	<u>(51,241)</u>	<u>89,695</u>	<u>38,454</u>	<u>(103,530)</u>	<u>(65,076)</u>	<u>85,574</u>	<u>20,498</u>
7	Total Operating Expense	<u>\$339,500</u>	<u>\$198,508</u>	<u>\$538,008</u>	<u>(\$121,433)</u>	<u>\$416,575</u>	<u>\$96,289</u>	<u>\$512,865</u>
8	Operating Income	<u>(\$2,324)</u>	<u>\$106,519</u>	<u>\$104,195</u>	<u>(\$190,178)</u>	<u>(\$85,983)</u>	<u>\$141,835</u>	<u>\$55,852</u>
9	Rate Base	<u>\$1,556,620</u>		<u>\$1,527,781</u>		<u>\$919,029</u>		<u>\$919,029</u>
10	Rate of Return	<u>(0.15%)</u>		<u>6.82%</u>		<u>(9.36%)</u>		<u>6.08%</u>

Miles Grant Water and Sewer Company Adjustment to Operating Income Test Year Ended 6/30/07		Schedule 3-C Docket No. 070695-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 To remove Utility's requested final revenue increase	(\$217,662)	(\$300,568)	
2 To reflect the appropriate annualized revenues	<u>30,623</u>	<u>(11,042)</u>	
Total	<u>(\$187,039)</u>	<u>(\$311,610)</u>	
<u>Operation and Maintenance Expense</u>			
1 To amortize an item that had previously been capitalized	\$1,197	\$0	
2 To remove unsupported projected amortized hurricane/storm costs	(4,981)	(4,690)	
3 To reflect the appropriate amount of rate case expense	<u>(6,171)</u>	<u>(5,811)</u>	
Total	<u>(\$9,955)</u>	<u>(\$10,501)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect staff's recalculation of Depreciation Expense	(\$18,344)	\$6,621	
2 To reflect the appropriate amount of pro forma Depreciation Expense	<u>(1,107)</u>	<u>0</u>	
Total	<u>(\$19,451)</u>	<u>\$6,621</u>	
<u>Taxes Other Than Income</u>			
RAFs on revenue adjustments above	<u>(\$8,417)</u>	<u>(\$14,022)</u>	

Miles Grant Water and Sewer Company				Schedule No. 4-A	
Water Monthly Service Rates				Docket No. 070695-WS	
Test Year Ended 6/30/07					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Comm. Approved Interim	Bi-Monthly Utility Requested Final	Monthly Staff Recomm. Final	Monthly 4-year Rate Reduction
<u>Residential Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$21.81	\$30.06	\$37.49	\$13.60	\$0.58
1"	\$54.28	\$74.82	\$93.73	\$34.00	\$1.44
1-1/2"	\$108.40	\$149.42	\$187.45	\$68.00	\$2.88
2"	\$173.42	\$239.04	\$299.92	\$108.80	\$4.60
3"	\$346.66	\$477.83	\$599.84	\$217.60	\$9.21
4"	\$541.59	\$746.52	\$937.25	\$340.00	\$14.39
6"	\$1,083.06	\$1,492.88	\$1,874.50	\$680.00	\$28.77
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gallage Charge, per 1,000 Gallons	\$2.66	\$3.67	\$4.82	----	----
Gallage Charge, 0-3,000 Gallons	----	----	----	\$4.30	\$0.18
Gallage Charge, over 3,000 Gallons	----	----	----	\$6.46	\$0.27
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$21.81	\$30.06	\$37.49	\$13.60	\$0.58
1"	\$54.28	\$74.82	\$93.73	\$34.00	\$1.44
1-1/2"	\$108.40	\$149.42	\$187.45	\$68.00	\$2.88
2"	\$173.42	\$239.04	\$299.92	\$108.80	\$4.60
3"	\$346.66	\$477.83	\$599.84	\$217.60	\$9.21
4"	\$541.59	\$746.52	\$937.25	\$340.00	\$14.39
6"	\$1,083.06	\$1,492.88	\$1,874.50	\$680.00	\$28.77
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gallage Charge, per 1,000 Gallons	\$2.66	\$3.67	\$4.82	\$5.05	\$0.21
<u>Irrigation-General Service</u>					
Base Facility Charge by Meter Size					
5/8" x 3/4"	----	----	\$37.49	\$13.60	\$0.58
Gallage Charge, per 1,000 Gallons	----	----	\$4.82	\$5.05	\$0.21
<u>Irrigation-Bulk Rate</u>					
Gallage Charge, per 1,000 Gallons	\$0.54	\$0.54	----	----	----
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$37.77	\$52.08	\$66.41	\$26.50	
5,000 Gallons	\$48.41	\$66.76	\$85.69	\$39.42	
10,000 Gallons	\$75.01	\$103.46	\$133.89	\$71.72	

Miles Grant Water and Sewer Company			SCHEDULE NO. 4-B		
Wastewater Monthly Service Rates			Docket No. 070695-WS		
Test Year Ended 6/30/07					
	Bi-Monthly Rates Prior to Filing	Bi-Monthly Comm. Approved Interim	Bi-Monthly Utility Requested Final	Monthly Staff Recomm. Final	Monthly 4-year Rate Reduction
<u>Residential Service</u>					
Base Facility Charge All Meter Sizes:	\$28.79	\$46.23	\$54.82	\$18.98	\$0.57
Gallonge Charge, per 1,000 Gallons (10,000 gallon cap)	\$4.06	\$6.53	\$7.56	----	----
(6,000 gallon cap)	----	----	----	\$9.29	\$0.28
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$28.79	\$46.28	\$54.82	\$18.98	\$0.57
1"	\$72.02	\$115.78	\$0.00	\$47.45	\$1.44
1-1/2"	\$144.00	\$231.49	\$274.10	\$94.90	\$2.87
2"	\$230.41	\$370.39	\$438.56	\$151.84	\$4.60
3"	\$460.89	\$740.88	\$877.12	\$303.68	\$9.20
4"	\$720.11	\$1,157.58	\$1,370.50	\$474.50	\$14.37
6"	\$1,440.18	\$2,315.11	\$2,741.00	\$949.00	\$28.74
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gallonge Charge, per 1,000 Gallons	\$4.06	\$6.53	\$7.56	\$11.15	\$0.34
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$53.15	\$85.41	\$100.18	\$46.85	
5,000 Gallons	\$69.39	\$111.53	\$130.42	\$65.43	
6,000 Gallons	\$77.51	\$124.59	\$145.54	\$74.72	
10,000 Gallons	\$109.99	\$176.83	\$206.02	\$74.72	
(Current Wastewater Gallonge Cap 10,000 Gallons)					
(Recommended Wastewater Gallonge Cap 6,000 Gallons)					