

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: January 29, 2009

TO: Office of Commission Clerk (Cole)

FROM: Division of Regulatory Compliance (Mann, Casey)
Division of Economic Regulation (Daniel, Redemann)
Office of the General Counsel (Brown)

RE: Docket No. 080597-WS – Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

AGENDA: 02/10/09 – Regular Agenda – Decision on Suspension of Rates and on Interim Rates - Participation is at the Discretion of the Commission

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 2/13/09 (60-Day Suspension Date)

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\RCP\WP\080597.RCM.DOC

Case Background

Southlake Utilities, Inc. (Southlake or utility) is a Class B utility providing water and wastewater service to approximately 2,321 water and 2,161 wastewater customers in Lake County. The utility has not had a previous rate case before the Commission. Southlake's rates were initially established in 1991.¹

On December 15, 2008, Southlake filed the Application for Rate Increase at issue in the instant docket. The utility had a few deficiencies in the Minimum Filing Requirements (MFRs).

¹ See Order No. 24564, issued May 21, 1991, in Docket 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

As of the filing of this recommendation, those deficiencies remain outstanding. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure, and requested interim rates. The test year established for interim rates is the historical twelve-month period ended December 31, 2007. The utility requested a projected average test year ending December 31, 2008, for final rates.

Southlake requested interim rates designed to generate annual water revenues of \$1,048,544 and wastewater revenues of \$1,168,747. This represents a revenue increase on an annual basis of \$56,905 (5.7 percent) for water and \$372,449 (46.8 percent) for wastewater. The utility requested final rates designed to generate annual water revenues of \$1,184,327 and wastewater revenues of \$1,293,211. This represents a revenue increase of \$183,853 (18.4 percent) for water and \$487,912 (60.6 percent) for wastewater.

The 60-day statutory deadline for the Commission to suspend the utility's requested final rates is February 13, 2009. This recommendation addresses the suspension of Southlake's requested final rates and the utility's requested interim rates. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission suspend Southlake's proposed final water and wastewater rates?

Recommendation: Yes. The Commission should suspend Southlake's proposed final water and wastewater rates. (Mann)

Staff Analysis: Section 367.081(6), F.S., provides that the Commission may, for good cause, withhold consent to the implementation of the requested rates by a vote to that effect within 60 days after the date the rate request is filed. Further, Section 367.081(8), F.S., permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and considered the information filed in support of the rate application and the proposed final rates. Staff recommends further investigation of this information, including on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends suspension of the utility's proposed rate increase.

Issue 2: Should an interim revenue increase be approved?

Recommendation: Yes, Southlake should be authorized to collect interim annual water and wastewater revenues as indicated below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$991,639	\$47,301	\$1,038,940	4.77%
Wastewater	\$796,298	\$238,093	\$1,034,391	29.90%

(Mann, Redemann)

Staff Analysis: Southlake has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases. Pursuant to Section 367.082(5)(b)1, F.S., the achieved rate of return for interim purposes must be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding and annualizing any rate changes. Staff has reviewed Southlake's interim request, as well as Order No. 24564, in which the Commission originally established rates. Southlake has had no other rate proceeding. Staff's recommended adjustments are discussed below. Staff has attached accounting schedules to illustrate staff's recommended rate base, capital structure, test year operating income amounts, service rates and used and useful analysis. The rate base Schedules are labeled as 1-A and 1-B, with the rate base adjustments shown on 1-C. The capital structure is shown on Schedule 2, and the operating income schedules for water and wastewater, respectively, are labeled as 3-A and 3-B, with the operating income adjustments shown on 3-C. Rate schedules are labeled as 4-A and 4-B. Used and useful analysis is shown on Attachments A and B.

RATE BASE

The interim rate procedure is a prima facie analysis of the utility's application. This basically means that the application is taken on its face value with the assumption that the utility's reported rate base, operating income and cost of capital are supported by its books and records. Based on an analysis of the MFRs and Order No. 24564 which set initial rates for the utility, staff believes that a reduction of (\$41,775) to Southlake's water rate base is necessary to reflect averaging adjustments. (See Schedule 1-A) Similarly, a reduction of (\$887,840) to Southlake's wastewater rate base is necessary to reflect averaging and non-used and useful adjustments (See Schedule 1-B). For interim purposes, the company calculated rate base using year-end 2007 amounts. Based on the information supplied by the utility in the MFRs for 2007 and the amounts reported in the 2006 annual report, staff used a simple average to adjust the rate base for the interim rate calculation, consistent with Commission rule.

The utility did not include a used and useful adjustment to its interim rate base based on its assumption that the water and wastewater systems are built out. Staff recommends that, pursuant to Rule 25-30.4325, Florida Administrative Code (F.A.C.), the water treatment plant, ground storage tanks and water distribution system are 100 percent used and useful as shown on Attachment A. Southlake's wastewater treatment plant is 75 percent used and useful. The used

and useful adjustment should be made to Account No. 354.4 Structures and Improvements and Account No. 380.4 Treatment and Disposal Equipment. The wastewater collection system should be considered 100 percent used and useful.

In its application, the utility asserts that Southlake's water treatment plant, ground storage facilities, and water distribution system are 100 percent used and useful. The water treatment system has three wells that are rated at 1,000, 1,200 and 2,777 gallons per minute (gpm). Raw water is treated with aeration and liquid chlorine and then pumped into the water distribution system. The two ground storage tanks have usable capacity of 2,500,000 gallons. The single maximum day in the test year of 2,759,000 gallons occurred on October 14, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The utility's records indicate there is no excessive unaccounted for water. The utility's fire flow requirement is 1,500 gpm for 4 hours or 360,000 gallons.

The utility included a growth allowance of 774,020 gallons based on year end equivalent residential connections (ERCs) of 3,339 and a growth rate of 27.63 percent. Staff recommends that a growth allowance of 689,471 gallons should be added to the used and useful calculation based on average test year ERCs of 3,867. In addition, pursuant to Rule 25-30.431(2)(a), Florida Administrative Code, growth is limited to 5 percent a year or 25 percent.

The utility calculated the firm reliable capacity of the water system at 1,673,333 gallons per day (gpd). However, the sanitary survey indicates that the two smallest wells are 1,000 and 1,200 gallons per minute (gpm); therefore, the firm reliable capacity is 2,112,000 gpd based on a 16 hour day, pursuant to Rule 25-30.4325(6)(b), F.A.C. Staff has inquired about the well discrepancy.

Staff recommends that, pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100% used and useful as shown on Attachment A. In addition, because the usable storage capacity is less than the peak day demand, the storage tanks should be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C. According to the utility, all single family lots are completely built out with no remaining lots available for construction. All future single family construction will be provided with newly installed main extensions. Therefore, staff recommends that the water distribution system is 100 percent used and useful.

In its application, the utility asserts that Southlake's wastewater treatment plant and collection system are 100 percent used and useful. According to the Florida Department of Environmental Protection (FDEP) Permit Number FLA010634-006-DW1P, which expires on April 15, 2012, Southlake's wastewater treatment plant has a 1.5 million gallons per day (mgd) annual average daily flow (AADF) design capacity using extended aeration, activated sludge. The permitted capacity is limited to 1.15 mgd AADF, the capacity of the rapid infiltrations basins (RIBS).

As required by Rule 25-30.432, F.A.C., the numerator of the equation for calculating the used and useful percentage of a wastewater treatment plant shall be the same basis as the permitted capacity on the most recent operating permit issued by the FDEP. The wastewater plant is permitted on an annual average daily flow basis, but the utility used the maximum month

in the numerator to calculate the used and useful percentage. The utility used a growth factor of 27.63 percent, based on 3,281 average test year ERCs; however, according to MFR Schedule F-9 the average test year ERCs were 3,867. In addition, pursuant to Rule 25-30.431(2)(a), F.A.C., growth is limited to 5 percent a year or 25 percent. The utility believes that the wastewater treatment plant should be considered 100 percent used and useful because the system is built out, the treatment plant design criteria builds in a level of excess capacity, and there is an insignificant cost difference between a 1.15 mgd and .950 mgd wastewater treatment plant. The maps provided by the utility indicate additional growth is anticipated.

Staff recommends that, pursuant to Rule 25-30.432, F.A.C, the used and useful calculation for the wastewater treatment plant should be based on the AADF of 691,901 gpd, a growth allowance of 173,020 gpd, and the permitted capacity of the system of 1,150,000 gpd, which results in a used and useful calculation of 75 percent. The used and useful adjustment should be made to Account 354.4, Structures and Improvements, and Account 380.4, Treatment and Disposal Equipment. According to the utility, all single family lots in the development are built out, with no remaining lots available for construction. All future single family construction will be provided with newly installed main extensions. Therefore, staff recommends that the wastewater collection system is 100% used and useful.

Based on a 75 percent used and useful calculation for certain wastewater plant, wastewater rate base should be reduced by \$838,893. Accordingly, corresponding adjustments should be made to decrease depreciation expense and property taxes by \$43,480 and \$4,568, respectively. Therefore, staff recommends that Southlake's interim water rate base should be \$3,844,181 (Schedule 1-A). The utility's interim wastewater rate base should be \$1,417,527 (Schedule 1-B).

COST OF CAPITAL

In its interim request, Southlake requested an overall cost of capital of 8.83 percent. The effect of staff's recommended rate base adjustments is to lower the interim weighted average cost of capital to 8.81 percent (Schedule 2).

NET OPERATING INCOME

Staff recommends that the appropriate test year operating income, before any revenue increase, is \$293,678 for water and the appropriate operating loss, before any revenue increase, is (\$102,429) for wastewater. Staff has made adjustments to remove utility requested interim revenue increases, pro forma salary amounts, adjust for non-used and useful depreciation expense and to adjust for related taxes other than income (Schedules 3A and 3B).

REVENUE REQUIREMENT

Based on the above adjustments, staff recommends revenue requirements of \$1,038,940 for water and \$1,034,391 for wastewater. This represents interim increases in annual revenues of \$47,301 (or 4.77 percent) for water and \$238,093 (or 29.90 percent) for wastewater. This will allow the utility the opportunity to recover its water and wastewater operating expenses and earn a 8.81 percent return on its water and wastewater rate bases.

Issue 3: What are the appropriate interim water and wastewater rates?

Recommendation: The water and wastewater service rates for Southlake in effect as of December 31, 2007, should be increased by 4.77 percent and 29.90 percent, respectively, to generate the recommended revenue increase for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1)(a), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice. (Mann)

Staff Analysis: Staff recommends that interim water and wastewater service rates for Southlake be designed to allow the utility the opportunity to generate annual operating revenues of \$1,038,940 for water operations and \$1,034,391 for wastewater operations. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
1 Total 2007 Test Year Revenues	\$991,639	\$796,297
2 Less: Miscellaneous Revenues	<u>18,128</u>	<u>0</u>
3 Test Year Revenues from Service Rates	\$973,511	\$796,297
4 Revenue Increase	<u>\$47,301</u>	<u>\$238,093</u>
5 % Service Rate Increase (Line 4/Line 3)	<u>4.86%</u>	<u>29.90%</u>

The interim rate increase of 4.86 percent for water and 29.90 percent for wastewater should be applied as an across-the-board increase to the service rates in effect as of December 31, 2007. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff verifies that the tariff sheets are consistent with the Commission decision, the proposed customer notice is adequate, and the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.

Southlake's proposed interim and staff's recommended interim rates are shown on Schedule 4-A for water and Schedule 4-B for wastewater.

Issue 4: What is the appropriate security to guarantee the interim increase?

Recommendation: Staff recommends that Southlake be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refund. Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C. (Mann)

Staff Analysis: Pursuant to Section 367.082, F.S., revenues collected under interim rates shall be placed under bond, escrow, letter of credit, or corporate undertaking, subject to refund with interest, at a rate ordered by the Commission. As recommended in Issue 2, the total annual interim increase is \$285,393 for water and wastewater. In accordance with Rule 25-30.360, F.A.C., staff has calculated the potential refund of revenues and interest collected under interim conditions to be \$166,742. This amount is based on an estimated seven months of revenue being collected from staff's recommended interim rates over the utility's current authorized rates shown on Schedule 4-A and 4-B.

Southlake has requested a corporate undertaking in the amount of \$166,742. The utility has no corporate undertaking amount outstanding. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. Staff reviewed the financial statements of the company to determine if it can support a corporate undertaking. Southlake's 2005, 2006, and 2007 annual reports were used to determine the financial condition of the utility.

The utility's equity ratio has been within acceptable parameters throughout the review period. Southlake's working capital, current ratio, and interest coverage ratio were also within acceptable parameters in 2007, but these measures were deficient in 2005 and 2006. While the utility reported positive net income in 2007, it reported net losses in 2005 and 2006. This contributed to the utility's average net loss during the period of over \$117,000 per year. The utility also reported a negative return on equity (ROE) in 2005 and 2006, and its ROE for 2007 was barely positive at 0.20%. For these reasons, staff believes Southlake does not have the financial capability to support a corporate undertaking in the amount of \$166,742. Based on this analysis, staff recommends that Southlake be required to secure a surety bond, letter of credit, or escrow agreement to guarantee any potential refund.

Pursuant to Rule 25-30.360(6), F.A.C., the utility should provide a report by the 20th day of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, F.A.C.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

Docket No. 080597-WS

Date: January 29, 2009

Issue 5: Should this docket be closed?

Recommendation: No. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (Mann, Brown)

Staff Analysis: The docket should remain open pending the Commission's final action on the utility's requested rate increase.

Southlake Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/07			Schedule No. 1-A Docket No. 080597-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	\$7,011,442	\$0	\$7,011,442	(\$533,069)	\$6,478,373	
2 Land and Land Rights	133,286	0	133,286	0	133,286	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(870,163)	0	(870,163)	92,936	(777,228)	
5 CIAC	(3,939,479)	0	(3,939,479)	156,916	(3,782,563)	
6 Amortization of CIAC	827,836	0	827,836	(59,252)	768,585	
7 Construction Work in Progress	778,064	0	778,064	301,159	1,079,223	
8 Advances for Construction	(123,121)	0	(123,121)	0	(123,121)	
9 Working Capital Allowance	0	68,090	68,090	(464)	67,626	
10 Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
11 Rate Base	<u>\$3,817,865</u>	<u>\$68,090</u>	<u>\$3,885,955</u>	<u>(\$41,775)</u>	<u>\$3,844,181</u>	

Southlake Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/07			Schedule No. 1-B Docket No. 080597-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	\$7,287,302	\$0	\$7,287,302	(\$263,935)	\$7,023,367
2 Land and Land Rights	558,446	0	558,446	0	558,446
3 Non-used and Useful Components	0	0	0	(838,893)	(838,893)
4 Accumulated Depreciation	(1,458,018)	0	(1,458,018)	126,626	(1,331,393)
5 CIAC	(5,341,309)	0	(5,341,309)	197,500	(5,143,809)
6 Amortization of CIAC	1,450,736	0	1,450,736	(108,834)	1,341,903
7 Construction Work in Progress	0	0	0	0	0
8 Advances for Construction	(295,893)	0	(295,893)	0	(295,893)
9 Working Capital Allowance	0	104,103	104,103	(304)	103,799
10 Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
11 Rate Base	<u>\$2,201,264</u>	<u>\$104,103</u>	<u>\$2,305,367</u>	<u>(\$887,840)</u>	<u>\$1,417,527</u>

Southlake Utilities, Inc.		Schedule No. 1-C	
Staff Adjustments to Rate Base		Docket No. 080597-WS	
Test Year Ended 12/31/07			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
To reflect the 2007 simple average balance.	<u>(\$533,069)</u>	<u>(\$263,935)</u>	
<u>Land</u>			
	<u>\$0</u>	<u>\$0</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$838,893)</u>	
<u>Accumulated Depreciation</u>			
To reflect the 2007 simple average balance.	<u>\$92,936</u>	<u>\$126,626</u>	
<u>CIAC</u>			
To reflect the 2007 simple average balance.	<u>\$156,916</u>	<u>\$197,500</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect the 2007 simple average balance.	<u>(\$59,252)</u>	<u>(\$108,834)</u>	
<u>Construction Work in Progress</u>			
To reflect the 2007 simple average balance.	<u>\$301,159</u>	<u>\$0</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance.	<u>(\$464)</u>	<u>(\$304)</u>	

Southlake Utilities, Inc. Capital Structure Test Year Ended 12/31/07		Schedule No. 2 Docket No. 080597-WS						
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility (Year End)								
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	6,264,583	0	6,264,583	0	6,264,583	96.73%	8.93%	8.64%
5 Customer Deposits	212,083	0	212,083	0	212,083	3.27%	6.00%	0.20%
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
7 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
8 Total Capital	<u>\$6,476,666</u>	<u>\$0</u>	<u>\$6,476,666</u>	<u>\$0</u>	<u>\$6,476,666</u>	<u>100.00%</u>		<u>8.83%</u>
Per Staff (Simple Average)								
9 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
10 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	6,264,583	(44,099)	6,220,484	(1,165,973)	5,054,512	96.06%	8.93%	8.58%
13 Customer Deposits	212,083	(4,887)	207,196	0	207,196	3.94%	6.00%	0.24%
14 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%
15 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
16 Total Capital	<u>\$6,476,666</u>	<u>(\$48,986)</u>	<u>\$6,427,680</u>	<u>(\$1,165,973)</u>	<u>\$5,261,708</u>	<u>100.00%</u>		<u>8.81%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>8.93%</u>	<u>10.93%</u>	
OVERALL RATE OF RETURN						<u>8.81%</u>	<u>10.74%</u>	

Southlake Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/07		Schedule No. 3-A Docket No. 080597-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>\$945,518</u>	<u>\$103,026</u>	<u>\$1,048,544</u>	<u>(\$56,905)</u>	<u>\$991,639</u>	<u>\$47,301</u> 4.77%	<u>\$1,038,940</u>
Operating Expenses							
2 Operation & Maintenance	\$550,083	(\$5,363)	\$544,720	(\$3,712)	\$541,008		\$541,008
3 Depreciation	185,867	0	185,867	0	185,867		185,867
4 Amortization	(118,502)	0	(118,502)	0	(118,502)		(118,502)
5 Taxes Other Than Income	87,513	5,831	93,344	(\$3,756)	89,588	2,129	91,717
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>704,961</u>	<u>468</u>	<u>705,429</u>	<u>(7,468)</u>	<u>697,961</u>	<u>2,129</u>	<u>700,090</u>
8 Operating Income	<u>\$240,557</u>	<u>\$102,558</u>	<u>\$343,115</u>	<u>(\$49,437)</u>	<u>\$293,678</u>	<u>\$45,172</u>	<u>\$338,850</u>
9 Rate Base	<u>\$3,817,865</u>		<u>\$3,885,955</u>		<u>\$3,844,181</u>		<u>\$3,844,181</u>
10 Rate of Return	<u>6.30%</u>		<u>8.83%</u>		<u>7.64%</u>		<u>8.81%</u>

Southlake Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/07						Schedule No. 3-B Docket No. 080597-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>\$698,113</u>	<u>\$470,634</u>	<u>\$1,168,747</u>	<u>(\$372,449)</u>	<u>\$796,298</u>	<u>\$238,093</u> 29.90%	<u>\$1,034,391</u>
Operating Expenses							
2 Operation & Maintenance	\$837,819	(\$4,992)	\$832,827	(\$2,433)	\$830,394		\$830,394
3 Depreciation	253,249	0	253,249	(43,480)	209,769		209,769
4 Amortization	(\$217,667)	0	(217,667)	0	(217,667)		(217,667)
5 Taxes Other Than Income	76,380	20,402	96,782	(20,551)	76,231	10,714	86,945
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>949,781</u>	<u>15,410</u>	<u>965,191</u>	<u>(66,464)</u>	<u>898,727</u>	<u>10,714</u>	<u>909,441</u>
8 Operating Income	<u>(\$251,668)</u>	<u>\$455,224</u>	<u>\$203,556</u>	<u>(\$305,985)</u>	<u>(\$102,429)</u>	<u>\$227,378</u>	<u>\$124,950</u>
9 Rate Base	<u>\$2,201,264</u>		<u>\$2,305,367</u>		<u>\$1,417,527</u>		<u>\$1,417,527</u>
10 Rate of Return	<u>-11.43%</u>		<u>8.83%</u>		<u>-7.23%</u>		<u>8.81%</u>

Southlake Utilities, Inc.		Schedule 3-C	
Staff Adjustments to Operating Income		Docket No. 080597-WS	
Test Year Ended 12/31/07			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested interim revenue increase.	<u>(\$56,905)</u>	<u>(\$372,449)</u>	
<u>Operation and Maintenance Expense</u>			
To remove pro forma salary & wages and benefits.	<u>(\$3,712)</u>	<u>(\$2,433)</u>	
<u>Net - Depreciation Expense</u>			
To adj. for non-used and useful depr. expense.	<u>\$0</u>	<u>(\$43,480)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$2,561)	(\$16,760)	
2 To adjust for non-used and useful property taxes.	\$0	(\$4,568)	
3 To remove pro forma payroll taxes.	<u>(1,195)</u>	<u>777</u>	
Total	<u>(\$3,756)</u>	<u>(\$20,551)</u>	

Southlake Utilities, Inc. Water Monthly Service Rates Test Year Ended 12/31/07		Schedule 4-A Docket No. 080597-WS			
	Test Year Rates	Present Rates	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.98	\$8.98	\$9.50	\$8.82	\$9.42
1"	\$22.45	\$22.45	\$23.76	\$22.05	\$23.54
1-1/2"	\$44.90	\$44.90	\$47.52	\$44.11	\$47.08
2"	\$71.85	\$71.85	\$76.05	\$70.58	\$75.34
3"	\$143.70	\$143.70	\$152.10	\$141.17	\$150.68
4"	\$224.51	\$224.51	\$237.63	\$220.55	\$235.42
6"	\$449.03	\$449.03	\$475.28	\$441.11	\$470.85
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gallonage Charge, per 1,000 Gallons	\$0.84	\$0.84	\$0.89	\$0.92	\$0.88
<u>Irrigation-General Service</u>					
Base Facility Charge by Meter Size:					
5/8"	\$8.98	\$8.98	\$9.50	\$8.82	\$9.42
Gallonage Charge	\$0.84	\$0.84	\$0.89	\$1.05	\$0.88
<u>Irrigation-Bulk Rate</u>					
Gallonage Charge	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$11.50		\$12.17	\$11.58	\$12.06
5,000 Gallons	\$13.18		\$13.95	\$13.42	\$13.82
10,000 Gallons	\$17.38		\$18.40	\$18.02	\$18.22

Southlake Utilities, Inc.		Schedule 4-B			
Wastewater Monthly Service Rates		Docket No. 080597-WS			
Test Year Ended 12/31/07					
	Test Year Rates	Present Rates	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$9.76	\$9.76	\$14.33	\$10.02	\$12.68
Gallorage Charge - Per 1,000 gallons (20,000 gallon cap)	\$0.86	\$0.86	\$1.26	\$1.76	\$1.12
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.76	\$9.76	\$14.33	\$54.82	\$12.68
1"	\$24.41	\$24.41	\$35.83	\$0.00	\$31.71
1-1/2"	\$48.80	\$48.80	\$71.63	\$274.10	\$63.39
2"	\$78.08	\$78.08	\$114.60	\$438.56	\$101.43
3"	\$156.18	\$156.18	\$229.23	\$877.12	\$202.88
4"	\$224.02	\$224.02	\$328.80	\$1,370.50	\$291.00
6"	\$448.02	\$448.02	\$716.28	\$2,741.00	\$581.98
8"	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Gallorage Charge, per 1,000 Gallons	\$1.02	\$1.02	\$1.50	\$2.11	\$1.32
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$12.34		\$18.11	\$15.30	\$16.03
5,000 Gallons	\$14.06		\$20.63	\$18.82	\$18.26
10,000 Gallons	\$18.36		\$26.93	\$27.62	\$23.85
(Wastewater Gallorage Cap - 10,000 Gallons)					

Southlake Utilities, Inc.
January 1 – December 31, 2007
Water Treatment Plant and Storage Used and Useful Analysis

			Test Year Gallons	Gallons Per Day
1	Firm Reliable Capacity (1000 gpm, 1200 gpm)			2,112,000
2	Usable Storage Capacity			2,500,000
3	Single Maximum Day			2,759,000
4a	Total Test Year Water Produced	100%	636,657,000	
4b	Total Test Year Accounted For Water	99.5%	633,455,000	
4c	Total Test Year Unaccounted for Water	.5%	3,202,000	
4d	Excessive Unaccounted for Water (.5%-10%)		0	0
5a	Average Test Year Customers	3867 ERCs		
5b	Historical Annual Customer Growth	278 ERCs		
5c	Statutory Growth Period	5 Years		
5d	Gallons per ERC (2,759,000 - 0)/3867	713		
5e	Growth Allowance (capped @ 25%)	967 ERCs		689,471
6	Fire Flow Allowance			360,000
7	Used and Useful Water Treatment Plant²			100%
8	Used and Useful Storage³			100%

² (Max Day – EUW + FF + Growth)/FRC = (2,759,000 – 0 + 360,000 + 689,471)/ 2,112,000 =>100%

³ (Max Day – EUW + FF + Growth)/FRC = (2,759,000 – 0 + 360,000 + 689,471)/2,500,000 =>100%

Southlake Utilities, Inc.
 January 1 – December 31, 2007
 Wastewater Treatment System Used and Useful Analysis

			Gallons Per Day
1	Permitted Capacity (AADF)		1,150,000
2	Demand (AADF)		691,901
3	Excessive Infiltration and Inflow		0
3a	Water demand per ERC	492 gpd	
3b	Wastewater AADF per ERC	211 gpd	
4a	Average Test Year Customers	3281 ERCs	
4b	Historical Annual Customer Growth	268	
4c	Statutory Growth Period	5 Years	
4d	Gallons per ERC (691,901 – 0)/3281	211	
4e	Growth Allowance (capped @ 25%)	820	173,020
5	Used and Useful Wastewater Treatment Plant⁴		75%

⁴ (AADF – I&I + Growth)/Permitted Capacity = (691,901 – 0 + 173,020)/ 1,150,000= 75%