

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County.	DOCKET NO. 030423-WU ORDER NO. PSC-04-0356-PAA-WU ISSUED: April 5, 2004
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The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER REQUIRING REFUNDS AND REDUCING RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. BACKGROUND

Residential Water Systems, Inc. (RWS or utility) is a Class C water utility serving approximately 650 customers in Marion County in Sun Tree, High Point, Edgewood Country Estates, Buffington Addition, Dalton Woods, and Wineberry subdivisions. According to its 2002 Annual Report, the utility reported operating revenues of \$198,018 and operating expenses of \$177,150. This resulted in a net operating income of \$20,868.

Pursuant to Order No. 12842, issued January 4, 1984, in Docket No. 830436-W, In Re: Application of Residential Water Systems, Inc., for a certificate to provide water service in Marion County, pursuant to the provisions of Section 367.041, Florida Statutes, this Commission granted RWS Certificate No. 419-W. The facility was not yet constructed; however, rate base and initial rates and charges were tentatively established at that time based on estimates of investment and expenses. In Order No. PSC-98-1152-FOF-WU, issued August 25, 1998, in Docket No. 961310-WU, In Re: Application for transfer of majority organizational control of Residential Water Systems, Inc, holder of Certificate No. 419-W in Marion County, to Charles deMenzes, p. 6, we approved a transfer of majority organizational control from Nancy and Elaine Finney to Charles deMenzes. In addition, the utility has taken advantage of price indexing and pass-through opportunities. A 2002 price index resulted in a \$2,473 annual

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revenue increase effective May 31, 2002, and a 2003 price index resulted in a \$2,083 annual increase in revenues effective June 6, 2003.

An analysis of the RWS 2002 Annual Report indicated that the utility may have exceeded its authorized rate of return and was overearning by \$21,838. Pursuant to Order No. PSC-03-0709-PCO-WU, issued June 13, 2003, in this docket, we initiated an investigation of the rates and charges of RWS. In that Order, we found that there was a potential overearnings on an annual basis of \$21,838, but that only \$19,365 had to be held subject to refund and protected by security. The difference in the amount held subject to refund and protected by a security arrangement is the 2002 price index increase. Pursuant to Section 367.081(4)(d), Florida Statutes, the revenues associated with a price index are already subject to refund and need not be protected by a security arrangement.

At the request of the utility, a meeting was held October 27, 2003, to discuss the overearnings which was attended by the utility's attorney, Office of Public Counsel (OPC) and our staff. The utility requested copies of the audit work papers and other staff documents. By letter dated November 6, 2003, the utility requested additional time to analyze the information. In an effort to work with the parties to reach a possible settlement, our staff postponed filing its final recommendation on the overearnings. However, because of the extension of time requested by the utility, and to insure that the appropriate amount of possible overearnings was made subject to refund and protected, we issued Order No. PSC-03-1411-FOF-WU on December 15, 2003. In that Order we ordered RWS, in addition to the \$19,365 already held subject to refund, to hold additional revenues of \$51,653 subject to refund. Again, we recognized that \$2,083 in revenues from the 2003 price index increase were already subject to refund and need not be protected by a security arrangement.

This Order addresses the utility's earnings for the test years ended December 31, 2002, 2003, and 2004. We examined the test years 2002 and 2003 to determine the utility's excess earnings and the amount of refunds. In addition, we have addressed a rate reduction based on projected revenues and expenses for 2004. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

II. QUALITY OF SERVICE

In reviewing the quality of the utility's service, we address the following three areas: Quality of Utility's Product; Operational Conditions of Utility's Plant and Facilities; and Utility's Attempt to Address Customer Satisfaction. Our analysis of each area is set forth below.

A. Quality of Utility's Product

In RWS, the potable water program is regulated by the Central District of the Florida Department of Environmental Protection (FDEP) in Orlando and consumptive use is permitted by the St. Johns River Water Management District. According to FDEP's records, the utility is

currently up-to-date with all chemical analysis and all test results are satisfactory. The utility serves water which meets or exceed all standards for safe, potable water. Therefore, the water quality is considered satisfactory.

B. Operational Conditions at the Plant

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Our staff's investigation shows that the building which houses the well and pump at the water treatment plant is well maintained. Also, during the engineering field inspection, maintenance at the water plant-site appeared to have been given adequate attention. Water plant equipment appeared to have been receiving periodic maintenance and many improvements have been made. The plant ground within the fenced-in area was organized. Therefore, the quality of the water treatment plant and the operational conditions of the water treatment plant-in-service are considered satisfactory.

C. Utility's Attempt to Address Customer Satisfaction

Because this docket was an overearnings investigation, there was no customer meeting. Therefore, there was no direct input from the customers on the utility's attempt to address customer satisfaction. However, our staff did have limited contact with the customers, and upon reviewing the Consumer Affairs data base and upon checking with FDEP, our staff discovered no complaints. Therefore, the utility's attempt to address customer satisfaction appears to be satisfactory.

Based on all the above, we find that the quality of service provided by the utility is satisfactory.

III. RATE BASE

A. Unaccounted for Water

We generally allow 10% of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc. The total treated water pumped from the wells was compared with the total water sold to the customers during the test year 2002. The total unaccounted for water was determined to be 41.73 gallons per minute (gpm) (21.71%). The reasonable unaccounted amount was determined to be 19.22 gpm (10% of average daily flow). The excessive unaccounted for water was calculated to be 22.51 gpm which was 11.71%. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. It appears that a large portion of the unmetered water relates to brittle laterals or pipes that are leaking. Therefore we find that this 11.71% shall be considered excessive and that allowable expenses for purchased electricity and chemicals shall be reduced by 11.71% in the year 2002.

In the years 2003 and 2004 the complete data for the total treated water pumped from the wells and the total water sold to the customers was not available; therefore, our staff was not able to calculate whether there was actual excessive unaccounted for water in those years. However, in 2003, the utility owner made substantial improvements and repairs to water loss sources (such as: replacing the current one-inch lateral services with new thick wall poly services and replacing old meters with automatic meter readers (AMR)). Because of these improvements, we find that there shall be no excessive unaccounted for water for these two years.

B. Used and Useful Percentages

1. Water Treatment Plant – Year 2002

The water treatment plant is a closed system operation that relies on two 8-inch diameter wells. Each well is equipped with a 30 horsepower (hp) submersible pump that pumps at 475 gpm. The pumps operate alternately. The treated water from two wells enters into three 20,000 gallon hydro-pneumatic tanks. Each pump turns on/off via the pressure switches from the hydro-tanks. An 8-inch diameter line connects the hydro-tanks to the distribution system. The fire hydrants and irrigation systems are connected to the potable water system. Only six customers in Dalton Wood Subdivision have separate wells for irrigation.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. Because this water plant has two wells with equal volume capacities, we have removed one well. Therefore, considering one well with the volume capacity of 475 gpm and no usable storage, the firm reliable capacity of RWS's water plant is 475 gpm.

During the 12-month test year review period, the peak month of water usage occurred during May, 2002. The single maximum day was a one-day spike (902,000 gallons per day (gpd)) that had no resemblance to the average of the next highest five days in the peak month (656,000 gpd) and appears to be an anomaly. Therefore, we have used the average of the five highest days, which is 656,000 gpd (455.55 gpm). Since the water plant is a closed system operation having three hydro-tanks (no storage tank), we have considered the actual peak hours of the average of 5 maximum days. Therefore, the actual peak hours {2 x (average of five highest days – excessive unaccounted water)} was used in the used and useful formula. The average daily flow is 276,800 gpd or 192.20 gpm.

The utility provides fire protection via fire hydrants throughout the distribution system. The Marion County fire code requires a minimum of 500 gpm, sustainable for a period of 4 hours which is considered in the calculations. A regression analysis was performed and shows a growth of 23 ERCs for the next year which results in a projection of 171.48 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., Florida Statutes. Using the 11.71% rate, the excessive unaccounted for water was calculated to be 22.52 gpm. Therefore, as shown in

Attachment A, page 1 of 6, we calculate the used and useful percentage for the water treatment plant to be 100%.

2. Water Distribution System – Year 2002

The Water distribution system has the potential of serving 675 customers (675 ERCs) and 2 general service (4 ERCs), for a total estimated ERCs of 679. The average number of customers served during the test year was estimated to be 611 ERCs. A regression analysis of growth over the past five years indicates that next year's growth should be 23 ERCs. Applying the 23 ERCs to the statutory growth period, we calculate future growth to be 115 ERCs. By the formula approach, we calculate the distribution system to be 100% used and useful (Attachment A, page 2 of 6).

3. Water Treatment Plant - Year 2003

The FDEP issued a permit on August 11, 2003 for replacing two existing well pumps with two new well pumps at RWS's High Pointe Water Plant. The utility replaced two existing well pumps (30 hp/475 gpm) with two new 50 hp Vertical Turbine pumps in 2003. The two new pumps are rated at 750 gpm. Considering one well with the volume capacity of 750 gpm and no usable storage, the firm reliable capacity of RWS's water plant in year 2003 was determined to be 750 gallons per minute.

Since the 2003 data was not available, the used and useful calculation was projected based on 20 new customers (according to the utility's letter dated October 10, 2003). The results for the projected test year (Jan. 03 – Dec. 03) follow: The average of five highest days was 470.46 gpm. The actual peak hours {2 x (average of five highest days less excessive unaccounted for water)} was used in the used and useful formula in the year 2003. The average daily flow was 198.49 gpm. The fire flow of 500 gpm was considered in the calculations. A separate regression analysis resulted in a projected growth of 25.4 ERCs (Approx. 26 ERCs) or 190.53 gpm for the statutory growth period. Because substantial improvements and leak repairs have been made, we have presumed no excessive unaccounted for water and made no adjustment for excessive unaccounted for water for 2003. Therefore, as shown in Attachment A, Page 3 of 6, we find that the used and useful percentage for the 2003 water treatment plant is 100%.

4. Water Distribution System – Year 2003

In 2003, new areas known as Dalton Wood, First Addition and Buffington Estates were developed near the RWS service area. Based on information provided to our staff, RWS will serve drinking water to 70 new residential customers in the new areas. Therefore, the water distribution system has the potential of serving 745 residential customers (745 ERCs) and 2 general services (4 ERCs), for total estimated ERCs of 749. The average number of customers served during the projected test year 2003 was estimated to be 642 ERCs. A regression analysis of growth over the past five years indicates that next year's growth should be 26 ERCs. When

the 26 ERCs are applied to the statutory growth period, the future growth is calculated to be 130 ERCs. By the formula approach, we calculate the distribution system for 2003 to be 100% used and useful (Attachment A, page 4 of 6).

5. Water Treatment Plant - 2004

As previously stated, the utility replaced the two existing well pumps (30 hp/475 gpm) with two new 50 hp Vertical Turbine pumps in 2003. The two new pumps are rated at 750 gpm. Considering one well with the volume capacity of 750 gpm and no usable storage, the firm reliable capacity of RWS's water plant in 2004 was determined to be 750 gpm.

The used and useful calculation for year 2004 was projected based on 64 new residential customers. The capacity of the plant was considered to be 750 gpm. The average of five highest days was 517.36 gpm. The actual peak hours {2 x (average of five highest days less excessive unaccounted for water)} was used in the used and useful formula in the year 2004. The average daily flow was 218.28 gpm. The fire flow of 500 gpm was considered in the calculations. A separate regression analysis results in a projected growth of 37.4 ERCs (Approximately 38 ERCs) or 287.42 gpm for the statutory growth period. As previously stated, because substantial improvements and leak repairs were made in 2003, we have presumed no excessive unaccounted for water and made no adjustment for excessive unaccounted for water for 2004. As shown in Attachment A, Page 5 of 6, the used and useful percentage for the water treatment plant for 2004 is 100%.

6. Water Distribution - Year 2004

As mentioned above, RWS will serve drinking water to 70 new residential customers in the new areas known as Dalton Wood, First Addition and Buffington Estates. Therefore, the water distribution system has the potential of serving 745 customers (745 ERCs) and two general services (4 ERCs) resulting in 749 ERCs. The average number of customers served during the projected 2004 test year is estimated to be 684 ERCs. A regression analysis for the past five years indicates that next year's growth should be 38 ERCs. When the 38 ERCs are applied to the statutory growth period, the future growth is calculated to be 190 ERCs. By the formula approach, we calculate the distribution system for 2004 to be 100% used and useful (Attachment A, page 6 of 6).

IV. OVEREARNINGS FOR AVERAGE TEST YEAR ENDED DECEMBER 31, 2002

Based on our staff's audit and analysis, we find that the following adjustments shall be made to the utility's December 2002 general ledger balances:

A. Rate Base

As stated above, rate base for RWS was tentatively established based on estimates of investment and expenses pursuant to Order No. 12842. During the audit investigation of the test

year ended December 31, 2002, our staff discovered that the utility did not have sufficient documentation to support its investment in plant. Therefore, an original cost study was conducted by our staff. Rate base components have been updated using the original cost study for plant balances through December 31, 2002. A discussion of each component follows:

1. Utility Plant in Service (UPIS): The utility recorded UPIS of \$701,940 for the test year ended December 31, 2002. Based on the original cost study, UPIS should be \$910,935 for the same period. Hence, we have increased UPIS by \$208,995 pursuant to the original cost study. Per a November 18, 2003 letter, RWS identified \$3,084 for office furniture and equipment, and \$4,920 for miscellaneous equipment that was not included in the original cost study. These amounts were verified through the utility's annual reports. Therefore, we have further increased UPIS by \$3,084 and \$4,920.

According to the utility, in 2002, it began a two-year project to remove and replace old laterals and potable water lines, per county code, and replace all regular meters with Automated Meter Reading (AMR) type meters. The utility stated that it was experiencing constant leaks due to the original installation of thin walled blue poly, the expected life of which is 10 to 15 years. The utility's excessive unaccounted for water appears to be caused by brittle laterals and leaking pipes. In addition, the utility stated that the meters, after 20 years, have begun to degrade and were not recording consumption accurately. The utility believes the AMR meters will make meter reading more efficient and accurate. This project is expected to be completed in 2004. Therefore, we have decreased UPIS by \$6,397 to retire all meters recorded prior to 2002. Included in the adjustment for the original cost study is \$18,836 for meters installed in 2002. Further, UPIS was decreased by \$17,968 to reflect an averaging adjustment.

The total adjustment for UPIS is an increase of \$192,634. Therefore, we find that UPIS is \$894,574.

2. Land: RWS did not record an amount for land. Per audit Exception No. 3, we have used the records at the Marion County courthouse to determine the original cost of utility land. Therefore, we have increased land by \$7,704 to reflect the estimated land value.

3. Non-used and Useful Plant: As stated earlier in this Order, we have determined that the utilities water treatment plant and distribution system are 100% used and useful. Therefore, we have made no adjustment.

4. Contributions in Aid of Construction (CIAC): The utility recorded CIAC of \$508,358 for the test year ended December 31, 2002. This amount included transmission and distribution lines (\$132,714 recorded in 2000 plus \$64,078 recorded in 2001), and hydrants (\$10,000 recorded in 2001) contributed by developers and the collection of connection fees. These fees do not cover the value of the transmission and distribution lines identified in the original cost study. Based on the utility's Annual Reports, CIAC was not recorded for contributed transmission and distribution lines prior to 2000. In addition, the utility recorded transmission and distribution

lines of only \$861 in plant-in-service prior to 2000. As stated above, because of the lack of adequate property records, our staff conducted an original cost study and estimated the cost of transmission lines and other plant for 1984 through 2002. Included in the audit work papers are developer agreements dated 1984, 1999 and 2003, which state that the developer will construct the lines and convey them to the utility at no cost. Therefore, it appears that the utility did not record lines in plant-in-service because they were contributed by developers. Rule 25-30.570, Florida Administrative Code (F.A.C.), specifies that:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant cost charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Although the utility did record an amount for CIAC, our staff was able to identify these amounts as coming solely from connection fees collected from 1984 through 2000. Because all lines were donated by the developer, they should have been included as CIAC. Therefore, because the utility has not provided competent substantial evidence to ascertain the amount of CIAC, consistent with Rule 25-30.570, F.A.C., we shall impute CIAC of \$397,527 to cover the cost of the transmission and distributions lines. Included in this imputed amount is a \$66,470 reduction to CIAC to reflect CIAC repaid to a developer pursuant to a developer agreement. The 1984 developer agreement stated that the developer had installed a central water system that was connected to the distribution system of RWS; that the system would become the property of RWS; and that RWS would pay the developer \$200 per lot for every lot sold in the subdivision.

Pursuant to the meter replacement project discussed above, we have decreased CIAC by \$4,860 to retire meters contributed by developers. We have also decreased this account by \$1,490 to reflect an averaging adjustment.

The total adjustment to CIAC is an increase of \$373,177, for a total CIAC of \$881,535.

5. Accumulated Depreciation: The utility recorded an accumulated depreciation balance of \$185,669. Consistent with Rule 25-30.140(3), F.A.C., for additions to plant after 1984, we have recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Plant recorded in 1984, prior to the implementation of Rule 25-30.140, F.A.C., was depreciated at 2.5%. We have calculated accumulated depreciation on December 31, 2002 to be \$190,850, and this account has been increased by \$5,181 accordingly. This adjustment includes the accumulated depreciation related to the office furniture and miscellaneous equipment, as well as the impact of the retirement of meters. In addition, we have decreased this account by \$10,431 to reflect an averaging adjustment.

Per Audit Exception 2, the utility has been using 2.5% to depreciate its plant since 1984 because those were the rates in effect at the time rate base was established. Subsequent to that proceeding, new Commission-approved depreciation rates became effective. Therefore, on a prospective basis the utility shall use the depreciation rates prescribed in Rule 25-30.140, F.A.C.

The total adjustment to accumulated depreciation is a decrease of \$5,250. Therefore, the total amount for accumulated depreciation is \$180,419.

6. Amortization of CIAC: Based on the utility's records at December 31, 2002, the utility recorded amortization of CIAC of \$198,326. Amortization of CIAC was recalculated using composite depreciation rates. This account has been increased by \$86,494 to reflect our recalculated amortization of CIAC of \$284,820. This adjustment includes the impact of the retirement of meters. An averaging adjustment was made to decrease CIAC amortization by \$13,088.

The total adjustment to amortization of CIAC is an increase of \$73,406, for a total amortization of CIAC of \$271,732.

7. Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., we have used the one-eighth of operation and maintenance (O&M) expense formula approach to calculate the appropriate working capital allowance. Applying that formula, and based on O&M of \$114,328, we calculate working capital to be \$14,291, and we have increased working capital by that amount.

8. Rate Base Summary: Based on the foregoing, we find that the appropriate average rate base for the test year ended December 31, 2002, is \$126,347. Our calculation of rate base is shown on Schedule No. 1-A, and the adjustments to rate base are shown on Schedule No. 1-B.

B. Cost of Capital

According to our staff's audit, the utility recorded the following items from its general ledger in capital structure for the test year: common stock \$100, negative retained earnings of \$46,003, paid in capital of \$400, long term debt of \$292,639, and customer deposits of \$3,015 for a total capital of \$250,151. The utility had no equity in its capital structure.

The long term debt is made up of three loans with interest rates of 3.90%, 8.75% and 3.55%. The long term debt represents 98.97% of the utility's capital structure. The interest cost of customer deposits is a minimum of 6.0% pursuant to Rule 25-30.311(4)(a), F.A.C. Customer deposits represent 1.03% of the utility's capital structure.

Per Audit Exception No. 8, the utility does not adjust its general ledger at year-end for closing adjusting journal entries. However, the annual report is adjusted to reflect these entries.

Retained earnings shall be increased by \$2,756 and long term debt, owed to Bobcat & Kubota of Ocala, shall be reduced by \$1,700 to agree with the annual report.

Pursuant to Section 367.082(5)(b)3., Florida Statutes, the maximum of the range of the last authorized rate of return on equity is used to calculate earnings. In Order No 12842, the utility's return on equity was set at 16.35% with a range of 15.35% - 17.35%. Applying the upper boundary of 17.35% for return on equity, in conjunction with the appropriate cost rates for other components in the utility's capital structure, yields a 5.09% overall rate of return. It should be noted that this utility has no equity in its capital structure; therefore, the overall rate of return is based upon low cost debt and customer deposits.

The utility's capital structure was reconciled with our approved rate base. Our calculations of the return on equity and overall rate of return are shown of Schedule No. 1-C.

C. Operating Income

1. Operating Revenue: The utility recorded revenues of \$194,937 for the test year ended December 31, 2002, of which \$8,035 is Other Revenues. The utility's residential tariff authorized rates from January 1, 2002, to May 31, 2002, of \$9.58 and \$23.96 for 5/8-inch and one-inch meters, respectively, with a \$1.35 per 1,000 gallons gallonage charge. On May 31, 2002, the utility implemented a price index rate adjustment, which increased revenues by \$2,473. As of June 1, 2002, the utility's authorized rates were a base facility charge of \$9.75 and 24.38 for 5/8-inch and one-inch meters, respectively, with a \$1.37 gallonage charge.

Using these new rates and multiplying by the number of bills and consumption provided in the billing analysis, we calculate total test year revenues (including \$8,035 of Other Revenues) to be \$198,157. Therefore, we have increased revenues by \$3,220 to reflect annualized test year revenues of \$198,157. Our calculation of the test year revenue is shown on Schedule No. 1-D, and our adjustments to revenues are shown on Schedule No. 1-E.

2. Operation and Maintenance Expenses (O&M): The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the twelve-month period ending December 31, 2002. Using documents provided by the utility, the staff auditor calculated the appropriate operating expenses for the test year and a breakdown of expenses by account.

The utility recorded O&M expenses of \$158,998 for the test year ended December 31, 2002.

a. Salaries and Wages – Employees – (601) – The utility recorded salary of \$41,800 for its vice-president for the test year ended December 31, 2002. The vice president is currently paid \$26.79 per hour and estimates she will spend 30 hours per week on utility business. Per Audit Disclosure No. 2, the auditor was told that the vice president worked 40 hours per week and worked only for RWS. According to Data Request Response No. 2, the vice president works 41

hours per week. Per the utility's response, in addition to 30 hours per week with RWS, the vice president also spends one hour each per week on responsibilities with BFF Corp. (BFF), and C.F.A.T.H2O, Inc. (C.F.A.T), and nine hours per week on Tradewinds Utilities, Inc. (Tradewinds). Her duties at RWS include scheduling maintenance department work orders, scheduling monthly meter reading, billing calculations and mailing, collecting and posting payments to customer accounts, preparing bank deposits, opening new customer accounts, customer relations, delivering day labor to field personnel, and working with the maintenance man when required for safety reasons. She and the president are on call for emergencies.

While the vice president performs a variety of duties, we find that \$26.79 per hour is unreasonable for a part time office manager of a water-only utility. We find that the more appropriate rate is \$19.00 per hour for the vice president for an annual amount of \$29,640 (\$19 per hour x 30 hours x 52 weeks). We determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey, and taking the average salary of the office/management function and adjusting for inflation. This is also consistent with our decision in Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU. Therefore, we have decreased this account by \$12,160 to reflect an annual salary of \$29,640 for the vice president.

b. Salaries and Wages – Officers – (603) – The utility recorded salary of \$59,800 for its president for the test year ended December 31, 2002. The president is currently paid \$38.33 per hour, and estimates he will spend 30 hours per week on RWS utility business. Per Audit Disclosure No. 2, the auditor was told that the president worked 35 hours per week for RWS. According to Data Request Response No. 2, the president works 64 hours per week. Per the utility's response, in addition to 30 hours per week with RWS, the president also spends 30 hours per week on Tradewinds, two hours per week on MIRA International, Inc. (MIRA), his management company, and one hour each per week on BFF, C.F.A.T., and Alternative Phone, Inc. His duties at RWS include oversight of maintenance, repairs and construction, responding to county and state agencies, maintaining the NARUC accounting system, verifying, paying and posting invoices, bank reconciliations, and communications with customers, suppliers and developers. He and the vice president are on call for emergencies.

While we understand the variety of responsibilities and skills required for this position, we find that \$38.33 per hour is unreasonable for a part time manager of a water-only utility. After reviewing prior rate cases and a history of salary amounts approved for utility managers, and taking into account the many years of experience of the president, we find that a rate of \$34.00 per hour for the president for a total annual amount of \$53,040 (\$34.00 per hour x 30 hours x 52 weeks) is appropriate. Therefore, this account shall be decreased by \$6,760 to reflect an annual salary of \$53,040 for the president.

c. Employee Pension and Benefits - (604) - The utility recorded \$1,324 in this account for health insurance for the test year ended December 31, 2002. According to Audit Exception No. 5, the utility also recorded \$4,785 for health insurance in Account No. 636, Contractual Services

- Other. In response to Data Request No. 15, the utility stated that the annual cost of health insurance for the vice president was \$5,967, and that RWS was not charged for this expense. In a November 18, 2003 letter, the utility requested \$5,568 (\$5,967 - \$399) for health insurance for the vice president.

Given the conflict in information provided to our staff and to the auditor, we will accept the opinion of the auditor. Therefore, per Audit Exception No. 5, we have increased this account by \$4,785 to reclassify health insurance from Account No. 636. In addition, we have decreased this account by \$399 to remove the vice president's medical bills that were charged to the utility. Because the utility provides health insurance, the individual shall be responsible for any co-payments. Further, we have decreased this account by \$1,542 to allocate the vice president's health insurance among the utilities for which she works. This allocation of the insurance is based on the ratio of hours worked for each entity to total hours worked.

The total adjustment to Account No. 604 is an increase of \$2,844, for a total of \$4,168 for Employee Pensions & Benefits.

d. Purchased Power - (615) - The utility recorded \$6,273 in this account for the test year ended December 31, 2002. Based on our finding that the utility has 11.71% excessive unaccounted for water, we have decreased this account by \$735, for a total of \$5,538 for Account No. 615.

Although the utility began a project to upgrade its distribution system in 2002 and reduce leakage, the project had just begun in 2002. Therefore we find it appropriate to adjust purchased power for excessive unaccounted for water in 2002. However, because it appears that the problem will be corrected for the future, we will not make such an adjustment for 2003 and 2004.

e. Chemicals - (618) - The utility recorded \$712 in this account for the test year ended December 31, 2002. Per Audit Exception No. 5, we decreased this account by \$50 to remove out of period expense. As in Purchased Power above, we decrease this account by \$78, based on the fact that the utility had 11.71% excessive unaccounted for water for 2002 for a total of \$584 for Account No. 618. Again, we will make no adjustment for excessive unaccounted for water for 2003 and 2004 because it appears the problem will be corrected.

f. Contractual Services - Testing - (635) - Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Chapters 62-550 and 62-551, F.A.C., which are enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

WATER-DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological	Monthly	\$480
Primary Inorganics	36 mos.	\$49
Secondary Inorganics	36 mos.	\$29
Asbestos	1/9 Years	\$35
Volatile Organics	qtrly 1 st yr /36mos. Subsequent/Annual	\$110
Pesticides & PCB	36 mos.	\$146
Nitrates & Nitrites	12 mos.	\$80
Radionuclides I	36 mos.	\$42
Radionuclides II	36 mos.	\$250
Unregulated Organics I	qtrly 1 st yr/9 yrs.	\$112
Unregulated Organics II	36 mos.	\$18
Unregulated Organics III	36 mos.	\$83
Lead & Copper	Biannual	<u>\$300</u>
Total		<u>\$1,734</u>

The utility recorded \$400 in this account for the test year ended December 31, 2002. Therefore, this account shall be increased by \$1,334 to reclassify the testing costs that were included in the operator's fee and originally recorded in Account No. 636, Contractual Services – Other, for a total amount of \$1,734 for Account No. 635.

g. Contractual Services - Other - (636) - The utility recorded \$14,831 for MIRA International management fees and \$4,514 for Aqua Pure operator services in this account for the test year ended December 31, 2002. We have decreased this account by \$1,699 to reclassify testing costs included in the operator's fee to Account No. 635, Contractual Services - Testing. We have also decreased this account by \$4,785 to reclassify health insurance costs that were included in the management fee to Account No. 604, Employees Pension and Benefits, per Audit Exception No. 5. This account was increased by \$2,638 to reclassify repairs and maintenance costs that were recorded in Account 675, Miscellaneous Expenses, per Audit Exception No. 5. Further, we have decreased this account by \$702 to amortize nonrecurring repairs of \$877 over 5 years.

The total adjustment to this account is a decrease of \$4,548, for a total for Contractual Services - Other of \$14,797.

h. Rents - (640) - The utility recorded \$5,350 in this account for the test year ended December 31, 2002. The president and a partner own the building which houses the RWS office. RWS, MIRA, BFF, C.F.A.T, Alternative Phone and Tradewinds share the office space. Per the utility's response to Data Request No. 12, the allocated annual costs of the office of \$2,941, which includes the mortgage payment, are included in the MIRA management fee. Therefore, we have decreased this account by \$5,350.

i. Transportation Expenses - (650) - The utility recorded \$4,408 in this account for the test year ended December 31, 2002. Per Audit Disclosure No. 1, this amount related to the lease of a 2002 Lincoln Navigator for the vice president's use to run errands to the bank, post office, and other offices. We find that it is unreasonable for RWS customers to bear this expense. By Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU, we approved the reduction of expenses for luxury cars leased for company executives. We find that an allowance based on 29 cents per mile in accordance with allowances for state travel and 100 miles per week is more appropriate. Therefore, we have decreased this account by \$2,900 for a total transportation expense of \$1,508 (100 miles x .29 x 52 weeks).

j. Insurance Expenses - (655) - The utility recorded \$5,920 for life insurance for the president and \$678 for insurance on plant and equipment in this account for the test year ended December 31, 2002. Per Audit Disclosure No. 5, the life insurance was required pursuant to the sales contract between the buyer and seller of the utility. The seller was the beneficiary of this life insurance policy, thus there was no benefit to ratepayers. In a December 18, 2003 letter, RWS advised our staff that the beneficiary had been changed and that RWS was now a 40% beneficiary. However, pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class C Water Utilities, life insurance on officers and employees where the utility is beneficiary are non-utility expenses. These expenses are recorded below the line as non-utility expenses in Account 426, Miscellaneous Non-utility Expenses. This is consistent with our Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, in Docket No. 971065-SU, in which we disallowed expenses associated with Keyman Life Insurance where the utility was the beneficiary. Therefore, we have decreased this account by \$5,920, for a total of \$678 for insurance expense on plant and equipment.

k. Miscellaneous Expenses - (675) - The utility recorded the following amounts in this account for the test year ended December 31, 2002: repairs of \$1,779; maintenance expenses of \$859; interest expense of \$1,740; State Tax expense of \$109; and payroll taxes of \$6,991. We have reclassified all of these costs to the proper account per Audit Exception No. 5. The maintenance and repairs expense totaling \$2,638 have been reclassified to Account No. 636, Contractual Services - Other. The interest expense of \$1,740 has been reclassified below the line to Account No. 427, Interest Expense. In a December 18, 2003 letter, the utility stated that it believed the auditor's finding that \$1,740 in this account was interest is erroneous, but provided no evidence to refute the finding. The \$109 of state tax expense has been reclassified to Account

408, Taxes Other Than Income. Finally, we have decreased this account by \$6,991 to reclassify payroll taxes to Account No. 408, Taxes Other Than Income.

In a December 18, 2003 letter, RWS requested \$3,115 for miscellaneous expense for bank charges, bank charges related to direct deposit and administration of payroll and related expense, and fees for credit card sales. We find that the general body of ratepayers shall not bear the cost of credit card sales used by some of the customers. In addition, we find that the use of direct deposit and payroll services for one officer and one employee is imprudent. Therefore, we find that expenses shall only be increased by \$1,129 for bank service charges.

The total adjustment to this account is a decrease of \$10,349, for a total Miscellaneous Expense of \$1,129.

1. Operation and Maintenance Expense Summary - The total O&M adjustment is a decrease of \$44,670, for total O&M expenses of \$114,328. Our calculations are shown on Schedule Nos. 1-E and 1-F.

3. Depreciation Expense (Net): The utility recorded \$23,634 of depreciation expense and \$17,116 in amortization of CIAC for a net depreciation expense of \$6,518 in the test year ended December 31, 2002. We have recalculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C., for plant additions after 1984 and 2.5% for plant recorded in 1984. Using these rates, we calculate depreciation expense of \$27,258, and this account is increased by \$3,624 accordingly.

CIAC amortization and non-used and useful depreciation have a negative impact on depreciation expense; however, since the water treatment and distribution system are considered 100% used and useful there is no non-used and useful depreciation. Using the appropriate composite rates, we have recalculated an amortization of CIAC of \$26,175, which is a \$9,059 increase. Subtracting this \$26,175 from the depreciation expense of \$27,258 results in a net depreciation expense of \$1,083.

4. Taxes Other Than Income: The utility recorded taxes other than income of: \$413 in property tax; \$2,264 in tangible personal property tax; and \$8,772 in Regulatory Assessment Fees (RAFs). We have increased this account by \$145 to reflect RAFs on our adjustment to test year revenues. We have also increased this account by \$109 and by \$6,991 to reclassify corporate tax and payroll taxes, respectively, from Account 675. Per Audit Exception No. 5, we increased this account by \$50 for a correction to the amount of corporate tax. In addition, we decreased this account by \$930 and \$517 to decrease payroll taxes for the reduction in the vice president and president's salaries, respectively.

The total adjustment to this account is an increase of \$5,848, for total Taxes Other Than Income of \$17,297.

5. Income Tax - RWS is a SubChapter S corporation. Therefore, pursuant to Rule 25-30.433(7), F.A.C., income tax expense shall not be allowed.

Our calculation of the appropriate operating expenses is shown on Schedule No. 1-D, and the related adjustments are shown on Schedule No. 1-E.

6. Summary: Based on the above, our adjusted test year figures for the test year ended December 31, 2002, produce revenues of \$198,157 and operating expenses of \$132,707. The utility's revenues exceed its authorized rate of return by \$61,800 for the test year ended December 31, 2002.

V. EARNINGS LEVEL FOR INTERIM COLLECTION PERIOD ENDED
DECEMBER 31, 2003

The interim collection test period began on June 13, 2003, with the issuance of Order No. PSC-03-0709-PCO-WU, and will continue until we set final rates and the utility begins charging the new rates. For determining the level of earnings for the interim test period, we used the average test year ended December 31, 2003, as a proxy for the interim.

The utility did not file data for the test year ended December 31, 2003. As beginning balances for the average test year, we used our approved December 31, 2002 ending balances for rate base and operating income. Our adjustments to these balances, revenues and expenses are outlined below:

A. Rate Base

1. Utility Plant in Service (UPIS): To obtain the beginning balances for 2003 for this account, we added back the 2002 averaging adjustments to rate base. Therefore, the beginning balance for this account is \$912,542. Per Data Request Response No. 39, we increased plant-in-service by \$82,145 for the following plant completed in 2003: \$1,610 re-roofing of the plant building; \$41,724 for an upgrade of well pumps; \$13,233 for replacing laterals; and \$25,578 for meters. Pursuant to a November 18, 2003 letter from RWS, we updated the cost of the well pumps from \$39,906 to \$41,724. In addition, we decreased plant by \$32,163 for retirements which included: \$1,208 for the retirement of the old roof based on 75% of cost of the new roof (we were unable to identify the original cost of the roof); \$1,976 for office furniture; and \$28,979 for pumping equipment. In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, this Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. RWS supplied the retirement amount for pumping equipment. However, due to a difference in the amount of plant booked by the utility and our staff's original cost study, we calculated the retirement of pumping equipment based on the ratio of the utility's retirement amount to the utility's booked pumping equipment and applied it to staff's plant amount for pumping equipment. We also decreased this account by \$24,991 to reflect an averaging adjustment. The

above referenced adjustment results in UPIS of \$937,533 for the test year ended December 31, 2003.

2. Contributions in Aid of Construction (CIAC): After adding back the 2002 averaging adjustment, the beginning balance for this account is \$883,025. We increased CIAC by a total of \$43,410 for contributed plant and connection fees. Per Data Request Response No. 41, the contributed plant was identified as \$30,000 for the upgrade of water plant for fire flow capability paid for by the developer plus \$3,150 for meters. The connection fees were \$10,260 for 18 new customers projected for 2003. We also decreased this account by \$21,705 to reflect an averaging adjustment. With these adjustments, we calculate CIAC of \$904,730 for the test year ended December 31, 2003.

3. Accumulated Depreciation: The beginning balance of this account is \$190,850 after adding back the 2002 averaging adjustment. Consistent with Rule 25-30.140(3), F.A.C., for additions to plant after 1984, we recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Plant recorded in 1984, prior to the implementation of Rule 25-30.140, F.A.C., was depreciated at 2.5%. We calculated accumulated depreciation on December 31, 2003 to be \$188,813. This amount includes the accumulated depreciation on the 2003 additions and the impact of the retirements. Therefore, we have decreased this account by \$2,037 to reflect our calculated accumulated depreciation. It should be noted that accumulated depreciation decreased because of the impact of plant that was retired before it was fully depreciated as discussed above. In addition, we have increased this account by \$1,019 to reflect an averaging adjustment.

The total adjustment to Accumulated Depreciation is a decrease of \$1,018, for a total Accumulated Depreciation of \$189,832.

4. Amortization of CIAC: The beginning balance for this account is \$284,820 after adding back the 2002 averaging adjustment. We calculated Amortization of CIAC to be \$313,323 using composite depreciation rates, and increased this account by \$28,503 to reflect this calculation. An averaging adjustment was made to decrease CIAC amortization by \$14,251. With these adjustments, Amortization of CIAC is \$299,071 for the test year ended December 31, 2003.

5. Working Capital Allowance: Consistent with Rule 25-30.433(2), F.A.C., we have used the one-eighth of O&M expense formula to calculate a working capital allowance of \$18,216 (based on O&M of \$145,725). Working capital has been increased by \$3,925 to reflect one-eighth of our approved O&M expenses.

6. Rate Base Summary: Based on the foregoing, the appropriate average rate base for the test year ended December 31, 2003, is \$167,962. Our calculation of rate base is shown on Schedule No. 2-A, and the adjustments to rate base are shown on Schedule No. 2-B.

B. Cost of Capital

Our approved 2002 capital structure components were used as beginning balances for 2003. We then adjusted these balances for known changes in 2003.

Per a November 18, 2003 letter from RWS and documentation provided, the utility owner repaid the \$84,065 Wachovia Bank loan and will provide \$35,661 in funds to continue the distribution system upgrade. Therefore, we have decreased the Wachovia loan by \$84,065 and increased Paid in Capital by \$119,726 (\$84,065 + \$35,661).

In addition, the utility provided documentation that the Bobcat & Kubota of Ocala and State of Florida loan balances were reduced by \$5,224 and \$7,854, respectively. We have decreased the loan balances for these changes. Finally, we have increased Customer Deposits by \$360 to include the deposits of 18 new customers in 2003. Based on these changes, the utility's capital structure now consists of 27.85% equity, 70.13% long term debt, and 2.01% customer deposits.

As discussed above, the midpoint of the utility's return on equity was set at 16.35%, and the utility's capital structure was reconciled with our approved rate base. Applying the upper limit of 17.35% for return on equity, in conjunction with the appropriate cost rates for other components in the utility's capital structure, yields a 7.46% overall rate of return. Our calculations of the return on equity and rate of return are shown on Schedule No. 2-C.

C. Operating Income

1. Operating Revenue: Pursuant to the utility's 2003 Annual Report, we used actual revenues for 2003. Therefore, we increased 2002 revenues by \$16,144 to reflect 2003 service revenues of \$206,266. In addition, we reduced 2002 other revenues by \$1,351 to reflect 2003 actual other revenues. Therefore, we project total test year revenues (including \$6,684 of Other Revenues) to be \$212,950. Our calculation of test year revenue is shown on Schedule No. 2-D, and the adjustments to revenues are shown on Schedule No. 2-E.

2. Operation and Maintenance Expenses: Except for Purchased Power, the president's salary, and the management fees recorded in Contractual Services – Other, we adjusted the approved 2002 O&M expenses for inflation. This resulted in an increase of \$576 to O&M expenses.

a. Purchased Power - (615) - This account was not indexed to 2003 costs because purchased power is poorly correlated with inflation, but rather with increases and decreases in rates charged by the utilities' electric providers. We increased the \$5,538 (2002 expense) by \$422 to allow for new customers added in 2003, for a total Purchased Power expense of \$5,960 for the test year ended December 31, 2003.

b. Chemicals - (618) - As stated above, this account was indexed for inflation. In addition, we increased this account by \$44 to allow for the additional treatment required by the increased gallonage for new customers, for a total Chemical Expense of \$636 for the test year ended December 31, 2003.

c. Contractual Services - Professional (631) - This account was indexed for inflation, as stated above. Per Audit Exception No. 1, the books and records of RWS were not maintained in compliance with the NARUC Uniform System of Accounts. As requested in the utility's November 18, 2003 letter, we increased this account by \$1,500 to include the cost of outside accountants to assist in assuring record keeping is in conformance with NARUC and Commission directives and in dealing with indexes and annual report review.

In a November 18, 2003 letter, the utility requested \$2,000 for legal fees. Although our staff requested support and documentation for this expense, RWS did not supply the documentation. Therefore, we find the Contractual Services - Professional Expense to be \$3,030 for the test year ended December 31, 2003.

d. Contractual Services - Other - (636) - Per Response to Data Request No. 12, in 2003, MIRA charged RWS a weekly fee of \$500 for services. In a December 18, 2003 letter, the utility stated that the MIRA fee should be \$782 per week and that the \$500 per week was understated, did not reflect a fair allocation of costs, and excluded the maintenance department. However, based on response to Data Request No. 10, it appears that the maintenance department is included in the \$782 fee.

We find that \$782 per week is reasonable for a utility this size. Therefore, we have increased the 2002 expense (\$11,807) by \$28,857 to allow \$40,664 annually for MIRA charges based on \$782 per week.

As stated above, the operator and repair expense included in this account were indexed. Based on the foregoing, we find Contractual Services - Other to be \$43,693 for the test year ended December 31, 2003.

e. Operation and Maintenance Expense Summary - The total O&M adjustment is an increase of \$31,399. Our approved O&M expenses are \$145,725, and our calculations are shown on Schedule Nos. 2-E and 2-F.

3. Depreciation Expense (Net): We calculated 2003 test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C., for plant additions after 1984, and 2.5% for plant recorded in 1984. Based on our calculated depreciation expense of \$30,125, we have increased this account by \$2,867.

Also, we calculated amortization of CIAC based on composite rates. Based on our calculated amortization of CIAC of \$28,503, we have increased amortization of CIAC by

\$2,328. Amortization of CIAC has a negative impact on depreciation expense. Therefore, net depreciation expense is \$1,622.

4. Taxes Other Than Income: We increased 2002 expenses for this account by \$666 to reflect RAFs on adjusted 2003 test year revenues. We also increased this account by \$1,679 for payroll taxes on the vice president and president's salary increases. In addition, we increased tangible personal property taxes by \$996 to reflect actual taxes paid in 2003 per the November 18, 2003 letter. Further, we decreased this account by \$108 to reflect actual property taxes paid in 2003 per the November 18, 2003 letter. The total adjustment to this account is an increase of \$3,232, for total Taxes Other Than Income of \$20,529.

5. Summary: Based on the above, our adjusted test year figures for the test year ended December 31, 2003, result in revenues of \$212,950 and operating expenses of \$167,876. The utility's revenues exceed its authorized rate of return of 7.46% by \$34,077, or 16.00%, for the interim collection period ended December 31, 2003. Our calculation of operating expenses is shown on Schedule No. 2-D, and the related adjustments are shown on Schedule No. 2-E.

VI. UPDATING OF UTILITY'S AUTHORIZED RETURN ON EQUITY

As stated above, the utility's return on equity (ROE) was established at 16.35% pursuant to Order No. 12842, issued January 4, 1984. Since that time, the cost of capital has changed. Therefore, we find it is necessary to reestablish the utility's return on equity for the projected test year ended December 31, 2004, and on a going-forward basis. Pursuant to Section 367.081(4)(f), Florida Statutes, the leverage formula may be used in establishing a rate of return on equity in lieu of presenting evidence.

Using the current leverage formula approved by Order No. PSC-03-0707-PAA-WS, issued June 16, 2003, in Docket No. 030006-WS, the appropriate rate of return on equity is 11.46% with a range of 10.46% to 12.46%.

VII. METHODOLOGY FOR PROJECTING CUSTOMERS AND CONSUMPTION

As discussed above, this Order addresses the utility's earnings for the test years ended December 31, 2002, 2003 and 2004. Due to high customer growth, we find that a prospective rate reduction shall be based on projected revenues and expenses for 2004. Our analysis of the appropriate customer growth and consumption projection figures included an examination of the utility's historical billing determinants, utility responses to staff data requests, and our staff's conversations with the utility's owner and examinations of the utility's service area. Our discussion of each topic follows.

A. Customer Growth Projections

The utility provided information regarding its anticipated number of additional customers, by meter size, for the years 2003 and 2004. The utility anticipates that there will be

no growth in the 5/8-inch meter category and 20 additional 1-inch meter customers during the 2004 calendar year. To more closely evaluate the utility's growth, our staff asked the utility to provide data regarding the utility's growth over the past five years. The utility provided information detailing the number of customers, by month and meter size, for the period January 1998 through December 2002. Comparable information for the year 2003 was obtained from detailed utility billing records. A summary of the information is provided in the Actual Customer Growth Table (Growth Table) set out below.

Actual Customer Growth Table: 1998 – 2003						
	5/8" Customers		1" Customers		Total Customers	
Year End	Year-End Number of Customers	Customer Growth	Year-End Number of Customers	Customer Growth	Year-End Number of Customers	Customer Growth
1997	519	---	n/a	n/a	519	---
1998	524	5	n/a	n/a	524	5
1999	533	9	n/a	n/a	533	9
2000	532	-1	0	n/a	532	-1
2001	533	1	57	57	590	58
2002	535	2	97	40	632	42
2003	535	0	115	18	650	18

As shown in the Growth Table, the utility experienced modest growth during the years 1998 – 2000. The utility's response that it projects no additional growth in 5/8-inch meter customers and growth of 20 additional 1-inch meter customers in 2004 appears to closely match the actual growth experienced by RWS during 2003 (no growth in customers with 5/8-inch meters and growth of 18 customers with 1-inch meters).

As also shown in the Growth Table, beginning in January 2001, the utility experienced significant growth in a new, upscale subdivision called Dalton Woods. In order to better understand the differences between the two customer bases, our staff conducted a site visit in December 2003. During that visit, our staff learned that all homes in the Dalton Woods subdivision have 1" meters, are situated on 3/4 acre lots, and that there are 128 total lots available. In addition, according to the utility's owner, Mr. Charles deMenzes, Dalton Woods' deed restrictions require each lawn to be landscaped with St. Augustine grass, and that all lawns remain watered to keep the grass green. Our staff's visual inspection of the subdivision supported Mr. deMenzes' statements. Also according to the utility, the greater meter size is necessary to provide adequate water pressure to both the home and irrigation systems during

peak usage periods. During its December 2003 site visit, our staff also learned that customers with 5/8-inch meters are located in several different subdivisions, live in homes ranging in size from approximately 1,300 square feet to approximately 1,850 square feet, and have no requirements regarding landscaping or watering.

During the December 2003 site visit, our staff also discussed the potential growth of the 1-inch customer base with Mr. deMenzes. He informed staff that, although the Dalton Woods subdivision was approaching buildout, there are two new subdivisions in the utility's service area in various stages of development. One subdivision is located adjacent to Dalton Woods and is referred to as Dalton Woods 1st Addition. During the visit, staff observed that all infrastructure (water lines, underground utilities and streets) were in place. The other subdivision is referred to as Buffington Estates. Land had been cleared, but no infrastructure other than water lines had been installed. According to Mr. deMenzes, Dalton Woods 1st Addition will have 31 lots, Buffington Estates will have 32 lots, and all will have 1-inch meters. It was Mr. deMenzes' belief that, due to the continuation of relatively low mortgage interest rates, all 63 new lots (31 + 32) would be built out. Additionally, the 13 remaining lots in the original Dalton Woods subdivision may possibly be built out as well, placing the utility's projected increase in 1-inch customers in a range from 63 customers to 76 customers during 2004.

Because we believe the simple linear regression methodology accurately quantifies a relationship between time and growth, we find that it is appropriate to use simple linear regression analysis to project customer growth in this case. Furthermore, the use of simple linear regression to project customer growth is consistent with our prior practice. (See, Order No. PSC-97-0618-FOF-WS, issued May 30, 1997 in Docket No. 960451-WS, and Order No. PSC-99-0513-FOF-WS, issued March 12, 1999 in Docket No. 980214-WS). Due to the different demand requirements of those customers with 5/8-inch" meters vs. customers with 1-inch meters, separate regression analyses were performed on these different customer bases. This analysis produced projected growth of 6 customers for the 5/8-inch customer base during 2004, with growth of 53 customers projected for the 1-inch meter customer base in 2004.

Although this analysis projects modest growth for the 5/8-inch meter customer base, a review of the number of 5/8-inch meter customers from 1999 – 2003 shows that buildout at 535 customers has occurred. Our staff's site visit of the service area in December 2003 supports this conclusion. However, in comparison to the table on the preceding page, annual growth of 63 customers would represent the greatest growth experienced by the utility in any one year – approximately 9% greater than the maximum growth of 58 customers experienced by the utility in 2001, while growth of 76 customers would be approximately 30% greater than the growth in 2001. Due to the differences in anticipated growth as stated by the utility in its data response vs. our staff's discussions with the utility owner vs. the results of the regression analyses, our staff thought it was important to obtain the most recent information regarding the two new subdivisions for use in its analysis.

Our staff has recently learned that substantial construction progress has been made in the Buffington Estates area. The underground utilities have been installed, and curbs were installed during the first part of February. In addition, the lots in Dalton Woods 1st Addition are ½ acre in size, while those in Buffington Estates range in size from 1/3 acre to ½ acre. Based on the analysis of information obtained in this case, we find that the projected growth for 1-inch meter customers should be 53, rather than 76, for 2004. Average growth over the year will therefore be approximately 27 customers.

As shown in Part [A] of the Projected Customer Growth and Consumption Table (Projection Table), based on the number of sold and reserved lots thus far in 2004, it appears that Buffington Estates will in fact reach buildout of 32 customers (16 average) in 2004. The remaining projected growth of 21 customers (11 average) shall be divided between Dalton Woods (projected growth of 11 customers) and Dalton Woods 1st Addition (projected growth of 10 customers). This results in average projected growth in 2004 of 6 customers in Dalton Woods, 5 customers in Dalton Woods 1st Addition, and 16 customers in Buffington Estates.

It is also our practice to project growth (and consumption) differentiated between residential and general service customers. (See, Order No. PSC-99-0513-FOF-WS, issued March 12, 1999 in Docket No. 980214-WS.) During 2003, 17.2 percent of the 1-inch meter customers represented general service customers. This equates to an increase in general service customers of one in Dalton Woods, one in Dalton Woods 1st Addition, and three in Buffington Estates. The remaining projected customers in each subdivision (5, 4, and 13, respectively) represent projected growth in residential customers.

Based on the foregoing, we find that there will be an average of 535 5/8-inch customers and 142 1-inch customers (115 customers at year-end + 27 projected average additions) during the 2004 test year. This equates to 10,680 projected ERCs ((535 customers x 1 ERC x 12 months) + (142 customers x 2.5 ERCs x 12 months)) to be used for setting rates for the year 2004.

B. Customer Consumption Projections

Since there is no actual data regarding the consumption patterns of customers in the new subdivisions, we have estimated the projected average consumption based upon a ratio of the average consumption of residential and general service customers in Dalton Woods. As indicated in part [B] of the Projection table, a lot in Dalton Woods 1st Addition is 67 percent of the size of a Dalton Woods lot, while a lot in Buffington Estates is approximately 56 percent of the size of those in Dalton Woods. Using these ratios, we prorated the historical monthly average general service consumption of 22,538 gallons per customer to arrive at comparable consumption figures for the projected additional customers in Dalton Woods 1st Addition and Buffington Estates. As shown in part [B] of the Projection table, based on projections regarding additional customers per subdivision and average anticipated monthly consumption per customer per subdivision, we project 846,679 gallons that will be attributable to general service growth

during 2004. Comparable residential service calculations are shown in part [C] of the Projection table, resulting in 4,751,157 gallons attributable to projected residential growth in 2004. The projected consumption growth, when combined with actual 2003 consumption of 83,016,596 gallons, results in projected 2004 consumption of 88,614,432 gallons. Based on all the above, we find that the appropriate billing determinants to be used for setting rates for the 2004 projected test year are 10,680 ERCs and 88,614,432 gallons.

Projected Customer Growth and Consumption						
	Subdivision	Total 1st Cust Growth	Average 1st Cust Growth	Pct GS Custs	Addl GS Custs in 2004	Addl RS Custs in 2004
[A]	Dalton Woods	11	6	17.2%	1	5
	Dalton 1 st Add	10	5	17.2%	1	4
	Buffington	32	16	17.2%	3	13
	Total	53	27		5	22
	Subdivision	Avg Acre per Lot	Ratio to Dalton Woods	Avg Cons per GS Cust	Addl GS Custs in 2004	Addl GS Consump in 2004
[B]	Dalton Woods	0.75	1.00	22,538	1	278,784
	Dalton 1 st Add	0.50	0.67	15,025	1	154,884
	Buffington	0.42	0.56	12,512	3	413,016
	Total				5	846,679
	Subdivision	Avg Acre per Lot	Ratio to Dalton Woods	Avg Cons per RS Cust	Addl RS Custs in 2004	Addl RS Consump in 2004
[C]	Dalton Woods	0.75	1.00	26,235	5	1,564,404
	Dalton 1 st Add	0.50	0.67	17,490	4	869,112
	Buffington	0.42	0.56	14,575	13	2,317,632
	Total				22	4,751,157

VIII. REVENUE REQUIREMENT FOR PROJECTED 2004 TEST YEAR

The utility did not file data for the projected test year ended December 31, 2004. For beginning balances for the projected test year, we used the December 31, 2003 ending balances for rate base, and operating income. Our adjustments to these balances, revenues, and expenses are outlined below:

A. Rate Base

1. Utility Plant in Service (UPIS): To obtain the beginning balances for 2004, we added back the 2003 averaging adjustments to rate base. Therefore, the beginning balance for this account is \$962,524.

As discussed above, the utility is involved in a distribution system project to replace old laterals and potable water lines, per county code, and replace all regular meters with Automated Meter Reading (AMR) type meters. All meters were retired in 2002.

However, our staff was provided conflicting information on the status of the above-noted projects. Because of the conflict in information provided, our staff first calculated the total cost of the meter replacement project then subtracted the meters replaced in 2002 and 2003. Our staff then subtracted the services replaced in 2002 and 2003 from the utility's estimated cost for the new services. Based on our projections, the utility will have 168 customers with one-inch meters and 535 customers with 5/8-inch meters in 2004. According to the utility, the cost of one-inch and 5/8-inch meters is \$175 and \$99 respectively. One-inch meters are contributed by contractors and therefore are CIAC. However, they are also recorded as plant-in-service. The cost of one-inch meters to be included in plant and CIAC is \$19,910 (168 meters x \$175 = \$29,400 - \$6,340 replaced in 2002 - \$3,150 replaced in 2003). The cost of 5/8-inch meters to be included in plant is \$18,041 (535 meters x \$99 = \$52,965 - \$12,496 replaced in 2002 - \$22,428 replaced in 2003). The cost of services for the replacing of laterals to be included in plant is \$58,767 (\$72,000 estimated - \$13,233 replaced in 2003). Therefore, plant shall be increased by \$96,718 (\$19,910 + \$18,041 + \$58,767) for pro forma distribution upgrades. Because we are including the costs of all of the above-noted pro forma improvements in rate base for the 2004 projected test year, and rates will be set with those costs included, the utility shall be required to complete these pro forma additions by December 31, 2005.

Per the December 18, 2003 letter, the building addition will not be completed until the end of 2005. Therefore, it was not included in the pro forma adjustment. We have also decreased this account by \$48,359 to reflect an averaging adjustment.

Taking into account the above-noted averaging adjustment, we have increased the beginning plant-in-service of \$962,524 by \$48,359 for a total UPIS of \$1,010,883 for the projected test year ended December 31, 2004.

2. Contributions in Aid of Construction (CIAC): After adding back the 2003 averaging adjustment, the beginning balance for this account is \$926,435. The utility is authorized a customer connection or tap-in fee of \$500 and a \$70 meter installation fee. Therefore, we have increased CIAC by \$30,210 to include the tap-in and meter fees for 53 new customers. In addition, we increased this account by \$19,910 for pro forma meters as discussed above. Further, we decreased this account by \$25,060 to reflect an averaging adjustment. Therefore, we increase CIAC by \$25,060 for a total CIAC of \$951,495 for the projected test year ended December 31, 2004.

3. Accumulated Depreciation: The beginning balance of this account is \$188,813, after adding back the 2003 averaging adjustment. Consistent with Rule 25-30.140(3), F.A.C., for additions to plant after 1984, we have recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Plant recorded in 1984, prior to the implementation of Rule 25-30.140, F.A.C., was depreciated at 2.5%. Our calculated accumulated depreciation for the test year ended December 31, 2004 is \$222,841, an increase of \$34,028. This amount includes the accumulated depreciation on the pro forma additions. Taking into account an averaging adjustment of \$17,014, we have increased this account by a total of \$17,014 for a total Accumulated Depreciation of \$205,827.

4. Amortization of CIAC: The beginning balance for this account is \$313,323, after adding back the 2003 averaging adjustment. We calculated Amortization of CIAC of \$343,696, and increased this account by \$30,373 accordingly. Taking into account an averaging adjustment of \$15,186, the total increase to amortization of CIAC was \$15,187, for a total amortization of CIAC of \$328,510 for the projected test year ended December 31, 2004.

5. Working Capital Allowance: The working capital allowance as of December 31, 2003, was \$18,216. Consistent with Rule 25-30.433(2), F.A.C., we calculated working capital using the one-eighth of O&M expense formula approach to be \$19,113 (based on O&M of \$152,907). Therefore, we have increase working capital by \$897.

6. Rate Base Summary: Based on the foregoing, the appropriate average rate base for the projected test year ended December 31, 2004, is \$208,888. Our calculation of rate base is shown on Schedule No. 3-A and the adjustments to rate base are shown on Schedule No. 3-B.

B. Cost of Capital

The approved 2003 capital structure components were used as beginning balances for 2004. We adjusted these balances for projected changes in 2004.

Per a November 18, 2003 letter from the utility, the owner will fund the completion of the distribution system update. Therefore, we have increased Paid in Capital by \$76,808 (\$58,767 + \$18,041). Equity represents 44.99% of the utility's capital structure.

The long term debt is made up of two loans with interest rates of 3.90% and 3.55%. We have decreased the Bobcat & Kubota and Wachovia Bank loans by \$5,224 and \$7,854, respectively, to reflect amounts projected to be paid to principal in 2004. The long term debt represents 52.86% of the utility's capital structure.

We have increased Customer Deposits by \$1,060 to include the deposits of 53 new customers projected in 2004. Customer deposits represent 2.15% of the utility's capital structure.

The utility's capital structure was reconciled with the approved rate base, and we have also used the current leverage formula to determine the appropriate ROE for the utility. Based on the above, we calculate the return on equity to be 11.46%, with a range of 10.46% - 12.46%, and an overall rate of return of 7.17%. Our calculation of the ROE and rate of return is shown on Schedule No. 3-C.

C. Operating Income

1. Operating Revenue: For 2004, we projected service revenue based on the average number of new customers plus existing customers times current rates. Consumption was projected based on 2003 gallons adjusted for the usage of the average number of new customers. Therefore, we have increased 2003 revenues by \$21,081 to reflect 2004 service revenues of \$227,347. Adding in \$6,684 of Other Revenues, we calculate projected test year revenues to be \$234,031. Our calculation of projected test year revenue is shown on Schedule No. 3-D and the adjustments to revenues are shown on Schedule No. 3-E.

2. Operation and Maintenance Expenses: The 2003 O&M expenses were indexed for inflation, except for Purchased Power and the president's salary. This resulted in an increase of \$737.

a. Purchased Power - (615) - This account was not indexed to 2004 costs because purchased power does not correlate with inflation, but rather with increases and decreases in rates charged by electric providers. We increased the \$5,960 (2003 expense) by \$424 to allow for new customers added in 2004. Therefore, the total Purchased Power expense is \$6,384 for the projected test year ended December 31, 2004.

b. Chemicals - (618) - As stated above, this account was indexed for inflation. In addition, we increased this account by \$45 to allow for the additional treatment required by the increased gallonage for new customers. Therefore, the total Chemical Expense is \$691 for the projected test year ended December 31, 2004.

c. Regulatory Commission Expense - (675) - The utility requested rate case expense of \$23,900 for outside accounting and legal consultation. This total includes expenses billed to date as well as an estimate for rate case expense through the agenda, rate implementation and refund. The utility provided our staff with documentation to justify its requested rate case expense. This amount appears to be reasonable, and we have increased this account by \$5,975 (\$23,900/ 4 years) to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Therefore, we calculate regulatory commission expense to be \$5,975.

d. Operation and Maintenance Expense Summary - The total O&M adjustment is an increase of \$7,181. Our calculations show that O&M expenses are \$152,907, and these calculations are shown on Schedules Nos. 3-E and 3-F.

3. Depreciation Expense (Net): We calculated projected 2004 test year depreciation expense to be \$35,985 using the rates prescribed in Rule 25-30.140, F.A.C. The calculation results in an increase of \$5,860 to 2003 depreciation expense. We calculated amortization of CIAC based on composite rates. We have increased 2003 amortization of CIAC by \$4,124 to reflect our calculated amortization of \$32,627. Amortization of CIAC has a negative impact on depreciation expense. Net depreciation expense is \$3,358 for the projected test year ended December 31, 2004.

4. Taxes Other Than Income: We have increased 2003 expenses for this account by \$948 to reflect RAFs on our adjustment to 2004 test year revenues. We have also increased this account by \$36 for payroll taxes on the vice president's salary increase.

The total adjustment to this account is an increase of \$985, for a total for Taxes Other Than Income of \$21,514.

5. Operating Revenues: An adjustment to decrease operating revenues by \$43,219 was made to reflect the change in revenue required to cover expenses and allow the approved return on investment.

6. Taxes Other Than Income: An adjustment to decrease taxes other than income by \$1,945 was made to reflect regulatory assessment fees of 4.5% on the change in operating revenues.

7. Operating Expenses Summary: The application of our adjustments to the projected test year operating expenses results in operating expenses of \$175,834. Our calculation of operating expenses is shown on Schedule No. 3-D The related adjustments are shown on Schedule No. 3-E.

D. Revenue Requirement

The appropriate revenue requirement is \$190,811. Based on projected test year revenues of \$234,031, the utility shall decrease its revenues by \$43,219 (-18.47%). This will allow the utility the opportunity to recover its expenses and earn a 7.17% return on its investment. The calculations are as follows:

	Water	
Adjusted Rate Base		\$208,888
Rate of Return	X	<u>.0717</u>
Return on Investment		\$ 14,977
Adjusted O & M Expense		\$152,907
Depreciation Expense (Net)		\$3,358
Taxes Other Than Income		<u>\$19,569</u>
Revenue Requirement		<u><u>\$190,811</u></u>
Adjusted Test Year Revenues		<u>\$234,031</u>
Percent Increase/(Decrease)		<u><u>(18.47%)</u></u>

Our calculation of the revenue requirement is shown on Schedule No. 3.

IX. REFUND OF 2002 PRICE INDEX

For service rendered after May 31, 2002, RWS implemented a price index rate adjustment increase. The rate adjustment was designed to increase revenues on an annual basis by 1.76%. Pursuant to Section 367.081(4)(d), Florida Statutes, this Commission may order a utility to refund, with interest, a price index and pass-through if, within 15 months after the filing of a utility's annual report for the year the rates were implemented, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity. The utility's 2002 annual report was filed on February 3, 2003 and fifteen months from that date is May 3, 2004, which is the deadline for determining possible overearnings for 2002.

For the test year ended December 31, 2002, the utility's earnings exceeded the range of its authorized return by \$61,800. Pursuant to Section 367.081(4)(d), Florida Statutes, only those revenues related to the price-index rate adjustment are required to be refunded.

Based on the above, the utility shall refund to its customers 1.76% of revenue collected from June 1, 2002 until the effective date of the new rates. The refunds shall be made with interest as required by Rule 5-30.360(4), F.A.C., within 90 days of the effective date of the Consummating Order. The utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund shall be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C.

In no instance should the maintenance and administrative costs associated with a refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. The utility shall treat any unclaimed refunds as CIAC in accordance with Rule 25-30.360(8), F.A.C.

X. DISPOSITION OF OVEREARNINGS FOR INTERIM COLLECTION PERIOD AND REFUND OF 2003 PRICE INDEX

Pursuant to Order No. PSC-03-0709-PCO-WU (First Interim Rate Order), issued June 13, 2003, in this docket, we initiated an investigation of the rates and charges of RWS. In that Order, we found that water revenues of \$19,365 should be held subject to refund pending the outcome of an overearnings investigation. Upon further review, it was determined that an additional \$51,653 in revenues should be held subject to refund, and we issued Order No. PSC-03-1411-FOF-WU (Second Interim Rate Order) accordingly.

The rates from the 2002 price index increase were in effect from January 1, 2003 through June 6, 2003. For service rendered after June 6, 2003, RWS implemented a 2003 price index rate adjustment increase. The rate adjustment was designed to increase revenues on an annual basis by 1.04%. Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and pass-through if, within 15 months after the filing of a utility's annual report for the year the rates were implemented, the Commission finds

that the utility exceeded the range of its last authorized rate of return on equity. The utility did exceed the range of its last authorized rate of return for the time of the 2003 Price Index. Moreover, the utility's 2003 annual report has not been filed and so the 15-month deadline has clearly not passed.

To determine the amount of earnings related to the price index rate adjustment, staff reviewed the earnings level for the test year ended December 31, 2003, the interim collection period. As stated above, the interim collection test period began on June 13, 2003, and will continue until we vote to allow the utility to discontinue holding its revenues subject to refund. For the test year ended December 31, 2003, the utility's earnings exceeded the range of its authorized return by \$34,077 or 16.00%. Also, the utility continues to overearn with the present rates. Therefore, the revenues from the 2003 Price Index shall be refunded.

In the First Interim Rate Order we required the utility to hold \$19,365 subject to refund. This equates to 9.09% of 2003 revenues (\$19,365/ \$212,950) for the period June 13, 2003 through December 14, 2003. The Second Interim Rate Order required the utility to hold an additional \$51,653 subject to refund, and our calculations show that 16.00% of the revenues collected in that period represent overearnings. However, we note that the utility now must complete pro forma projects costing \$96,718 by December 31, 2005. Of the \$96,718, developers will contribute \$19,910. Therefore, the remaining \$76,808 will have to be funded by the utility. Instead of refunding these overearnings, the utility shall use those revenues to fund those pro forma projects and book those revenues to CIAC.

The percent of service revenues to be refunded is shown below:

<u>2003 INDEX</u>		
	June 6, 2003 – Effective Date of New Rates	1.04% *
The percent of revenues that shall be booked to CIAC to be used to complete the required pro forma projects is shown below:		
<u>INTERIM PERIODS</u>		
	June 13, 2003 – December 14, 2003	9.09% *
	December 15, 2003 – Effective Date of New Rates	16.00% *
* Water Service Revenue Collected During Respective Periods		

The index refunds shall be made with interest as required by Rule 5-30.360(4), F.A.C., within 90 days of the effective date of the Consummating Order. The utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund shall be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. After the utility makes the refund to customers, the escrow account shall be released.

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

XI. RATE STRUCTURE

The utility's current rate structure consists of a traditional base facility charge (BFC)/uniform gallonage charge for both the residential and general service classes. The current BFC for a 5/8-inch meter is \$9.85, with a \$1.38 charge for each 1,000 (1 kgal) sold. The utility is located in the St. Johns River Water Management District (SJRWMD or District). The District advocates a rate structure change to an inclining-block rate structure, and the District is requiring all utilities, as conditions of their Consumptive Use Permits (CUP), to implement inclining-block rate structures. This is because the entire District has been declared a Water Resource Caution Area, and the District has advocated rate structures that provide pricing incentives to conserve water for the past eight years.

We have approved a revenue requirement reduction of approximately \$43,000, representing over an 18% reduction from projected 2004 revenues. This presented a challenge to design a rate structure which, despite the revenue requirement reduction, still conformed to Commission practice regarding sending pricing incentives to encourage water conservation. There are several steps involved in evaluating, designing and calculating an appropriate rate structure, including but not limited to determining: 1) the appropriate BFC cost recovery percentage; 2) the appropriate usage blocks, if any; 3) the appropriate usage block rate factors; and 4) whether the recommended rate structure is consistent with Commission practice. This evaluation is for the residential class only; consistent with Commission practice, an inclining-block rate structure will not be applied to the general service class.

As shown in the Rate Structure Comparisons Table (Table) on the following page below, our staff developed a series of different rate structures based on BFC cost recovery percentages of 25%, 40% and 50% (see the shaded portions of the table). As indicated in the table, a BFC which generates 25% in cost recovery results in a BFC of \$4.45, which is a 55% reduction from the current BFC of \$9.85. This would remove an amount greater than the entire revenue reduction from the BFC, while resulting in a charge of \$1.56 per kgal – an \$.18 per kgal increase from the current (uniform) gallonage charge of \$1.38. While a BFC that equals 25% represents a better cost recovery allocation percentage for water conservation purposes, we find that a reduction in the BFC of this magnitude is potentially harmful to the utility's fixed revenue stream, and does not appropriately spread the revenue reduction burden between the BFC and gallonage charges. Therefore, we find that a BFC cost recovery allocation of 25% is not appropriate.

Also, we find that a BFC cost recovery percentage of 50% leaves too little revenue to be recovered through the gallonage charge, and, as indicated with each rate structure compared in the BFC = 50% column in the table, the resulting gallonage charges ranged from \$1.04 under a uniform gallonage charge to \$0.95 for the first block under a two-tier inclining-block structure. Gallonage charges below \$1.00 are contrary to our practice. Therefore, in consideration of the water resource concerns in the area, we find that a BFC cost recovery allocation of 50% is not appropriate.

Our staff also examined rates based on a BFC cost recovery allocation of 40%, which represents the maximum BFC cost recovery percentage that is consistent with Commission practice. As shown in the table, a BFC cost recovery of 40% results in a BFC of \$7.12, which is a 28% reduction from the current rate of \$9.85. The gallonage charges range from \$1.25 under a uniform gallonage charge rate structure to \$1.13 for the first block under a two-tier inclining-block structure.

The BFC/uniform gallonage charge rate structure and a two-tier inclining-block structure were further analyzed to determine which rate structure best meets our practice of sending increasingly greater price signals as consumption increases. Under the BFC/uniform gallonage charge rate structure, the percentage point spread, which measures how aggressive the price changes are, is 17.6 percentage points for consumption ranging from 0 kgal to 200 kgal per month, while the corresponding spread under a two-tier structure is 28.0 percentage points. Assuming the same BFC cost recovery allocation of 40%, the two-tiered rate structure sends a more aggressive price signal to customers with higher consumption than the BFC/uniform gallonage charge rate structure.

Based on the foregoing, we find that the appropriate rate structure for this utility is a two-tier inclining-block rate structure for the residential class. The inclining-block structure shall have rate factors for the first and second blocks of 1.0 and 1.25, respectively, and have a base facility charge (BFC) cost recovery percentage of 40%. The BFC/uniform gallonage charge rate structure shall be continued for the general service class.

RATE STRUCTURE COMPARISONS: ANTICIPATED PRICE CHANGES				
		Base Facility Charge Cost Recovery Percentages		
Usage Blocks and Rate Factors	Cons (kgal)	BFC = 25% BFC = \$4.45 UGC = \$1.56	BFC = 40% BFC = \$7.12 UGC = \$1.25	BFC = 50% BFC = \$8.90 UGC = \$1.04
BFC/unif gal chg	0	-54.8%	-27.7%	-9.7%
	5	-26.9%	-20.2%	-15.8%
	10	-15.2%	-17.1%	-18.4%
	15	-8.8%	-15.3%	-19.8%
	20	-4.8%	-14.2%	-20.7%
	30	0.0%	-12.9%	-21.8%
	50	4.6%	-11.7%	-22.8%
	70	6.8%	-11.1%	-23.3%
	100	8.5%	-10.6%	-23.6%
	200	10.7%	-10.1%	-24.1%
		BFC too low; Gal chg is OK	Spread = 17.6 pts	Increasing price breaks
Usage Blocks and Rate Factors	Cons (kgal)	BFC = \$4.45 \$1.42 / \$1.78	BFC = \$7.12 \$1.15 / \$1.41	BFC = \$8.90 \$0.95 / \$1.19
Blocks 0-10	0	-54.8%	-27.7%	-9.7
Factors 1/1.25	5	-31.1%	-23.8%	-18.5%
	10	-21.1%	-22.1%	-22.2%
	15	-9.9%	-16.6%	-20.3%
	20	-2.8%	-13.1%	-19.2%
	30	5.7%	-8.9%	-17.8%
	50	13.7%	-5.0%	-16.4%
	70	17.6%	-3.1%	-15.8%
	100	20.7%	-1.67%	-15.3%
	200	24.5%	0.3%	-14.6%
		BFC too low Gal chgs are OK	Spread = 28.0 pts	Increasing price breaks; Gal chg below \$1.00

XII. REVENUE REPRESSION ADJUSTMENT

As shown above, we have approved a revenue requirement reduction of over 18%. Also as shown above, the approved rate structure results in price decreases at virtually all consumption levels. Therefore, a repression adjustment is not appropriate. However, in order to monitor the effects of the approved revenue requirement and rate structure changes, the utility shall prepare monthly reports, filed on a quarterly basis, detailing the number of bills, the gallons billed and the revenues billed. The reports shall be prepared by customer class, meter size and usage block, for a period of two years, after the first month that the rates go into effect.

XIII. MONTHLY RATES

As stated above, the appropriate revenue requirement is \$190,811. The utility had other revenues totaling \$6,684 during the test year. Other revenues shall be used to reduce the revenue requirement recovered through rates. Therefore, the rates set forth below are designed to produce revenues of \$184,127 (\$190,811 - \$6,684).

Monthly Rates – Water
Residential and General Service

Base Facility Charge

<u>Meter Size</u>	<u>Test Year Rates</u>	<u>Commission Approved Rates</u>
5/8"	\$9.85	\$7.12
3/4"	N/A	\$10.68
1"	\$24.63	\$17.79
1 1/2"	\$49.27	\$35.59
2"	\$78.86	\$56.94
3"	\$157.71	\$113.88
4"	\$246.43	\$177.93
6"	N/A	\$355.86

Gallonage Charge

Residential Per 1,000 Gallons

0-10,000 Gallons	\$1.38	\$1.13
Above 10,000 Gallons	\$1.38	\$1.41

General Service

Per 1,000 Gallons	\$1.38	\$1.25
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These service rates are designed to decrease annual water service revenues by \$43,219 or approximately 18.47% on an annual basis. Approximately 40% (\$73,551) of the service revenues are recovered through the base facility charge, and the remaining 60% (\$110, 576) of the service revenues represents revenues collected through the consumption charge based on the number of factored gallons.

In addition to reducing its water service rates, the utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The

utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

XIV. FOUR-YEAR STATUTORY RATE REDUCTION

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$6,257 annually. Using the utility's current revenues, expenses, capital structure, and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

XV. COMPLIANCE WITH NARUC USOA

To ensure that the utility adjusts its books in accordance with our decision, RWS shall provide proof, within 90 days of the consummating order, that the adjustments for all the applicable National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) primary accounts have been made. To assist the utility, we have reflected the approved 2002 year-end plant balance, by primary account, in Schedule No. 5.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Residential Water Systems, Inc., shall reduce its rates and modify its rate structure as set forth in the body of this Order. It is further

ORDERED that except for the requirement to comply with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA) and the statutory four-year rate reduction which are final agency action, the provisions of this Order are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Residential Water Systems, Inc., shall file revised tariff sheets and a proposed customer notice to reflect the rates approved in this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. It is further

ORDERED that Residential Water Systems, Inc., shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Residential Water Systems, Inc., shall comply with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) as set forth in the body of this Order and shall provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that Residential Water Systems, Inc. shall reduce its rates following the expiration of the four-year rate case expense recovery period pursuant to Section 367.0816, Florida Statutes, as shown on Schedule 4. It is further

ORDERED that Residential Water System, Inc. shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall file a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reductions. It is further

ORDERED that if Residential Water Systems, Inc., files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Residential Water Systems, Inc., shall refund the 2002 and 2003 price indexes within 90 days of the date of the Consummating Order, with interest as required by Rule 25-30.360(3), Florida Administrative Code, and as set forth in the body of this Order. It is further

ORDERED that Residential Water Systems, Inc. shall treat any unclaimed refunds as contributions in aid of construction. It is further

ORDERED that when the refunds are completed, the escrow account shall be released. It is further

ORDERED that Residential Water Systems, Inc., shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code, and the refunds shall be made to customers of record as of the date of the Consummating Order. It is further

ORDERED that the overearnings for the interim collection period shall be used to pay for the costs of the pro forma improvements and shall be booked as contributions in aid of construction. It is further

ORDERED that 9.09% of revenues collected during the period from June 13, 2003, through December 14, 2003, and that 16.00% of annual revenues from December 15, 2003 through the effective date of the new rates shall be booked as contributions in aid of construction. It is further

ORDERED that Residential Water Systems, Inc., shall complete the pro forma improvements described in this Order by no later than December 31, 2005. It is further

ORDERED that to monitor the effects of the approved revenue requirement and rate structure changes, Residential Water Systems, Inc., shall prepare monthly reports, filed on a quarterly basis, detailing the number of bills, the gallons billed and the revenues billed. The reports shall be prepared by customer class, meter size and usage block, for a period of two years, after the first month that the rates go into effect. It is further

ORDERED that if no timely protest is received from a substantially affected person within 21 days of the date of the Proposed Agency Action Order, the Order will become final upon the issuance of a Consummating Order. It is further

ORDERED that this docket shall remain open to allow our staff time to verify that the utility has completed the pro forma distribution project and to verify that the refunds have been made to the customers. Upon verification of the above by our staff, the docket shall be administratively closed.

ORDER NO. PSC-04-0356-PAA-WU
DOCKET NO. 030423-WU
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By ORDER of the Florida Public Service Commission this 5th day of April, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions, except for the requirement to comply with the National Association of Regulatory Utility Commissioners Uniform System of Accounts and the statutory four-year rate reduction which are final agency action, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 26, 2004. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request:

- (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Residential Water Systems Inc.

Attachment A Page 1 of 6
 Historical Test Year 2002

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)	Capacity of Plant	475.00	gallons per min
2)	Average of 5 Highest Days From Maximum Month	455.55	gallons per min
2a)	Max. day @ peak	911.10	gallons per min
3)	Average Daily Flow	192.20	gallons per min
4)	Fire Flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)	Growth		
a)	Average Test Year Customers in ERCs: Historical Test Year: Jan. 2002 - Dec. 2002	611	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	23	ERCs
c)	Statutory Growth Period	5	Years
d)	Growth = (5b)x(5c)x [2a\^(5a)]	171.48	gallons per min
6)	Excessive Unaccounted for Water (EUW)	22.51	gallons per min
a)	Percentage of Excessive amount	11.71%	
b)	Total Unaccounted for Water	41.73	gallons per min
c)	Reasonable Amount (10% of average Daily Flow)	19.22	gallons per min
d)	Excessive Amount	22.51	gallons per min

USED AND USEFUL FORMULA

$$[2 \times (\text{Ave. of Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (455.50 - 22.51) + 500 + 171.48] / 475 = 100\% \quad \text{Used \& Useful}$$

Residential Water Systems Inc.

Attachment A, page 2 of 6
Historical Test Year 2002

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)	Capacity of System (ERCs)	679	ERCs
2)	Test Year Connections Average Test Year	611	ERCs
3)	Growth		
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	23	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a)x(b) Connections allowed for growth	115	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 107\% = 100\% \quad \text{Used and Useful}$$

Residential Water Systems Inc.

Attachment A, page 3 of 6
 Projected Test Year 2003

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)	Capacity of Plant	750.00	gallons per min
2)	Average of 5 Highest Days From Maximum Month	470.46	gallons per min
a)	Max. day @ peak	940.92	gallons per min
3)	Average Daily Flow	198.49	gallons per min
4)	Fire Flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)	Growth		
a)	Average Test Year Customers in ERCs: Projected Test Year: Jan. 2003 - Dec. 2032	642	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	26	ERCs
c)	Statutory Growth Period	5	Years
d)	Growth = (5b)x(5c)x [2a\5a]	190.53	gallons per min
6)	Excessive Unaccounted for Water (EUW)	0.00	gallons per min
a)	Percentage of Excessive amount	0.00	
b)	Total Unaccounted for Water	0.00	gallons per min
c)	Reasonable Amount (10% of average Daily Flow)	19.85	gallons per min
d)	Excessive Amount	0.00	gallons per min

USED AND USEFUL FORMULA

$$[2 \times (\text{Ave. of Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (470.46 - 0) + 500 + 190.53] / 750 = 100\% \quad \text{Used \& Useful}$$

Residential Water Systems Inc.

Attachment A, page 4 of 6
Projected Test Year 2003

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)	Capacity of System (ERCs)	749	ERCs
2)	Test Year Connections - Projected Average Test Year	642	ERCs
3)	Growth		
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	26	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a)x(b) Connections allowed for growth	130	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 103.1\% = 100\% \quad \text{Used and Useful}$$

Residential Water Systems Inc.

Attachment A, page 5 of 6
 Projected Test Year 2004

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)	Capacity of Plant	750.00	gallons per min
2)	Average of 5 Highest Days From Maximum Month	517.36	gallons per min
2a)	Max. day @ peak	1034.72	gallons per min
3)	Average Daily Flow	218.28	gallons per min
4)	Fire Flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	500	gallons per min
5)	Growth		
a)	Average Test Year Customers in ERCs: Projected Year: Jan. 2003 - Dec. 2004	684	ERCs
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	38	ERCs
c)	Statutory Growth Period	5	Years
d)	Growth = (5b)x(5c)x [2a/(5a)]	287.42	gallons per min
6)	Excessive Unaccounted for Water (EUW)	0.00	gallons per min
a)	Percentage of Excessive amount	0.00	
b)	Total Unaccounted for Water	0.00	gallons per min
c)	Reasonable Amount (10% of average Daily Flow)	21.83	gallons per min
d)	Excessive Amount	0.00	gallons per min

USED AND USEFUL FORMULA

$$[2 \times (\text{Ave. of Max days} - \text{EUW}) + \text{FF} + \text{Growth}] / \text{Capacity of Plant}$$

$$[2 \times (517.36 - 0) + 500 + 287.42] / 750 = 100\% \quad \text{Used \& Useful}$$

Residential Water Systems Inc.
Docket No: 030423-WU

Attachment A, page 6 of 6
Projected Test Year 2004

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)	Capacity of System (ERCs)	749	ERCs
	Test Year Connections - Projected		
2)	Average Test Year	684	ERCs
3)	Growth		
a)	Customer growth in connections for last 5 years including test year using Regression Analysis	38	ERCs
b)	Statutory Growth Period	5	Years
c)	Growth = (a) x (b)		
	Connections allowed for growth	190	ERCs

USED AND USEFUL FORMULA

$$[2+3]/(1) = 116.7\% = 100\% \quad \text{Used and Useful}$$

RESIDENTIAL WATER SYSTEMS, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/02			
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$701,940	\$192,634	\$894,574
2. LAND & LAND RIGHTS	0	\$7,704	\$7,704
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(508,358)	(\$373,177)	(\$881,535)
5. ACCUMULATED DEPRECIATION	(185,669)	\$5,250	(\$180,419)
6. AMORTIZATION OF CIAC	198,326	\$73,406	\$271,732
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$14,291</u>	<u>\$14,291</u>
8. WATER RATE BASE	<u>\$206,239</u>	<u>(\$79,892)</u>	<u>\$126,347</u>

RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/02

SCHEDULE NO. 1-B
 DOCKET NO. 030423-WU

ADJUSTMENTS TO RATE BASE

WATER

UTILITY PLANT IN SERVICE

1. Plant per original cost study	\$208,995
2. To include office furniture & equipment	3,084
3. To include miscellaneous equipment	4,920
4. Retirement of meters	(6,397)
5. Averaging adjustment	(17,968)
Total	<u>\$192,634</u>

LAND AND LAND RIGHTS

1. Land value determined by auditor	<u>\$7,704</u>
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NON-USED AND USEFUL

1. To reflect non-used and useful plant	
2. To reflect non-used and useful accumulated depreciation	
Total	<u>\$0</u>

CIAC

1. CIAC imputed by staff	(\$379,527)
2. Retirement	4,860
3. Averaging adjustment	1,490
Total	<u>(\$373,177)</u>

ACCUMULATED DEPRECIATION

1. Accumulated depreciation per Rule 25-30.140, F.A.C.	(\$5,181)
2. Averaging adjustment	10,431
Total	<u>\$5,250</u>

AMORTIZATION OF CIAC

1. To adjust amortization based on composite rates	\$86,494
2. Averaging adjustment	(13,088)
Total	<u>\$73,406</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$14,291</u>
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RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/02
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 1-C
 DOCKET NO. 030423-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER COMM.	PERCENT OF TOTAL	WEIGHTED COST	
1. COMMON STOCK	\$100	\$0	\$100					
2. RETAINED EARNINGS	(46,003)	2,756	(\$43,247)					
3. PAID IN CAPITAL	400	0	\$400					
4. OTHER COMMON EQUITY	0	42,747	\$42,747					
5. TOTAL COMMON EQUITY	(\$45,503)	\$45,503	0	0	0	0.00%	17.35%	
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	21,926	(1,700)	20,226	(11,532)	8,694	6.88%	3.90%	
Wachovia Bank	84,065	0	84,065	(47,932)	36,133	28.60%	8.75%	
N/P State of Florida	186,648	0	186,648	(106,423)	80,225	63.50%	3.55%	
TOTAL LONG TERM DEBT	292,639	(1,700)	290,939	(165,888)	125,051	98.97%		
7. CUSTOMER DEPOSITS	3,015	0	3,015	(1,719)	1,296	1.03%	6.00%	
8. TOTAL	\$250,151	\$43,803	\$293,954	(\$167,607)	\$126,347	100.00%	5.09%	
RANGE OF REASONABLENESS							LOW	HIGH
RETURN ON EQUITY							15.35%	17.35%
OVERALL RATE OF RETURN							5.09%	5.09%

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 1-D DOCKET NO. 030423-WU		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$194,937</u>	<u>\$3,220</u>	<u>\$198,157</u>	<u>(\$61,800)</u> -31.19%	<u>\$136,357</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	158,998	(44,670)	114,328	0	114,328
3. DEPRECIATION (NET)	6,518	(5,435)	1,083	0	1,083
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	11,449	5,848	17,297	(2,781)	14,516
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$176,965</u>	<u>(\$44,258)</u>	<u>\$132,707</u>	<u>(\$2,781)</u>	<u>\$129,926</u>
8. OPERATING INCOME/(LOSS)	<u>\$17,972</u>		<u>\$65,450</u>		<u>\$6,431</u>
9. WATER RATE BASE	<u>\$206,239</u>		<u>\$126,347</u>		<u>\$126,347</u>
10. RATE OF RETURN	<u>8.71%</u>		<u>51.80%</u>		<u>5.09%</u>

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/02 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 1-E DOCKET NO. 030423-WU PAGE 1 OF 2
OPERATING REVENUES	
To adjust utility revenues to staff calculation.	<u>\$3,220</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages Employees (601)	
To reduce the salary of the Vice President	<u>(\$12,160)</u>
2. Salaries and Wages Officers (603)	
To reduce the salary of the President	<u>(\$6,760)</u>
3. Employees Pension and Benefits (604)	
Reclassify health insurance from Account 655	\$4,785
To remove charges for doctors and dentists	(399)
To allocate Vice President's health insurance	<u>(1,542)</u>
Subtotal	<u>\$2,844</u>
4. Purchased Power (615)	
Reduce 11.71% for excessive unaccounted for water	<u>(\$735)</u>
5. Chemicals (618)	
Remove out of period chemical expense	(\$50)
Reduce 11.71% for excessive unaccounted for water	<u>(78)</u>
Subtotal	<u>(\$128)</u>
6. Contractual Services - Professional (631)	
	<u>\$0</u>
7. Contractual Services - Testing (635)	
Reclassify testing costs from Account 636	<u>\$1,334</u>
8. Contractual Services - Other (636)	
Reclassify testing costs to Account 635	(\$1,699)
Reclassify health insurance included in Admin Fee to Account 604	(4,785)
Reclassify repairs and maintenance from Account 675	2,638
Amortize nonrecurring repairs over 5 years	<u>(702)</u>
Subtotal	<u>(\$4,548)</u>
9. Rents (640)	
To remove rent expense included in management fee	<u>(\$5,350)</u>
10. Transportation Expenses (650)	
To remove Lincoln Navigator expenses	<u>(\$2,900)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)	
RESIDENTIAL WATER SYSTEMS, INC.	SCHEDULE NO. 1-E

TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO OPERATING INCOME

DOCKET NO. 030423-WU
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)**WATER**

11. Insurance Expenses (655)	
To remove life insurance premium	<u>(\$5,920)</u>
12. Miscellaneous Expenses (675)	
Reclassify repairs and maintenance to Account 636	(2,638)
Reclassify interest expense to Account 427	(1,740)
Reclassify corporate tax to Account 408, Taxes Other	(109)
Reclassify payroll taxes to Account 408, Taxes Other	(6,991)
To include bank charges	1,129
Subtotal	<u>(\$10,349)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$44,670)</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-130.140, F.A.C.	\$3,624
2. To include amortization of CIAC per composite rates	<u>(9,059)</u>
3.	
Total	<u>(\$5,435)</u>
TAXES OTHER THAN INCOME	
1. To include RAFs on annualized revenue	\$145
2. Reclassify corporate tax from Account 675	109
3. Reclassify payroll taxes from Account 675	6,991
4. To increase corporate tax per Audit Exception No. 5	50
5. To reduce payroll taxes for Vice President's salary	(930)
6. To reduce payroll taxes for President's salary	(517)
Total	<u>\$5,848</u>

RESIDENTIAL WATER SYSTEMS, INC.		SCHEDULE NO. 1-F	
TEST YEAR ENDING 12/31/02		DOCKET NO. 030423-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMM. ADJUST.	TOTAL PER COMMISSION
(601) SALARIES AND WAGES – EMPLOYEES	41,800	(12,160)	29,640
(603) SALARIES AND WAGES – OFFICERS	59,800	(6,760)	53,040
(604) EMPLOYEE PENSION & BENEFITS	1,324	2,844	4,168
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	6,273	(735)	5,538
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	712	(128)	584
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES – BILLING	0	0	0
(631) CONTRACTUAL SERVICES – PROFESSIONAL	1,510	0	1,510
(635) CONTRACTUAL SERVICES – TESTING	400	1,334	1,734
(636) CONTRACTUAL SERVICES – OTHER	19,345	(4,548)	14,797
(640) RENTS	5,350	(5,350)	0
(650) TRANSPORTATION EXPENSE	4,408	(2,900)	1,508
(655) INSURANCE EXPENSE	6,598	(5,920)	678
(665) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>11,478</u>	<u>(10,349)</u>	<u>1,129</u>
	158,998	(44,670)	114,328

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/03 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 2-A DOCKET NO. 030423-WU	
DESCRIPTION	12/31/02 BALANCE PER COMM.	COMM ADJUST. TO 2002 BAL.	12/31/03 BALANCE PER COMM.
1. UTILITY PLANT IN SERVICE	\$912,542	\$24,991	\$937,533
2. LAND & LAND RIGHTS	7,704	\$0	\$7,704
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(883,025)	(\$21,705)	(\$904,730)
5. ACCUMULATED DEPRECIATION	(190,850)	\$1,018	(\$189,832)
6. AMORTIZATION OF CIAC	284,820	\$14,251	\$299,071
7. WORKING CAPITAL ALLOWANCE	<u>14,291</u>	<u>\$3,925</u>	<u>\$18,216</u>
8. WATER RATE BASE	<u>\$145,482</u>	<u>\$22,480</u>	<u>\$167,962</u>

RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/03
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 2-B
 DOCKET NO. 030423-WU

WATER**UTILITY PLANT IN SERVICE**

1. Plant additions in 2003	\$82,145
2. Retirements	(32,163)
3. Averaging adjustment	(24,991)
4.	
Total	<u>\$24,991</u>

LAND AND LAND RIGHTS

1. Land value determined by auditor	<u>\$0</u>
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Non-Used and Useful

1. To reflect non-used and useful plant	
2 To reflect non-used and useful accumulated depreciation	
Total	<u>\$0</u>

CIAC

1. Per staff calculation based on composite rates	(\$43,410)
2. Averaging adjustment	21,705
Total	<u>(\$21,705)</u>

ACCUMULATED DEPRECIATION

1. Accumulated depreciation per Rule 25-30.140, F.A.C.	\$2,037
2. Averaging adjustment	(1,019)
3.	
4.	
Total	<u>\$1,018</u>

AMORTIZATION OF CIAC

1. To adjust amortization based on composite rates	\$28,503
2. Averaging adjustment	(14,252)
Total	<u>\$14,251</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$3,925</u>
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RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/03
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2-C
 DOCKET NO. 030423-WU

CAPITAL COMPONENT	2002 PER COMM.	SPECIFIC ADJUST- MENTS	BALANCE		BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS				
1. COMMON STOCK	\$100	\$0	\$100					
2. RETAINED EARNINGS	(43,247)	0	(\$43,247)					
3. PAID IN CAPITAL	400	119,726	\$120,126					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>\$0</u>					
5. TOTAL COMMON EQUITY	(\$42,747)	\$119,726	76,979	(30,188)	46,791	27.86%	17.35%	4.83%
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	20,226	(5,224)	15,002	(5,883)	9,119	5.43%	3.90%	0.21%
Wachovia Bank	84,065	(84,065)	0	0	0	0.00%	8.75%	0.00%
N/P State of Florida	<u>186,648</u>	<u>(7,854)</u>	<u>178,794</u>	<u>(70,117)</u>	108,677	<u>64.70%</u>	3.55%	2.30%
TOTAL LONG TERM DEBT	290,939	(89,289)	193,796	(76,000)	117,796	70.13%		
7. CUSTOMER DEPOSITS	<u>3,015</u>	<u>360</u>	<u>3,375</u>	<u>0</u>	3,375	<u>2.01%</u>	6.00%	<u>0.12%</u>
8. TOTAL	<u>\$251,207</u>	<u>\$30,797</u>	<u>\$274,150</u>	<u>(\$106,188)</u>	<u>\$167,962</u>	<u>100.00%</u>		<u>7.46%</u>
			RANGE OF REASONABLENESS			<u>LOW</u>	<u>HIGH</u>	
			RETURN ON EQUITY			<u>15.35%</u>	<u>17.35%</u>	
			OVERALL RATE OF RETURN			<u>6.91%</u>	<u>7.46%</u>	

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/03 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 2-D DOCKET NO. 030423-WU		
	12/31/02 TEST YEAR PER COMM.	COMM. ADJUSTMENTS	COMM. ADJ. 12/31/03 TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$198,157</u>	<u>\$14,793</u>	<u>\$212,950</u>	<u>(\$34,077)</u> -16.00%	<u>\$178,873</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	114,326	31,399	145,725	0	145,725
3. DEPRECIATION (NET)	1,083	539	1,622	0	1,622
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	17,297	3,232	20,529	(1,533)	18,996
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$132,706</u>	<u>\$35,170</u>	<u>\$167,876</u>	<u>(\$1,533)</u>	<u>\$166,343</u>
8. OPERATING INCOME/(LOSS)	<u>\$65,451</u>		<u>\$45,074</u>		<u>\$12,530</u>
9. WATER RATE BASE	<u>\$145,482</u>		<u>\$167,962</u>		<u>\$167,962</u>
10. RATE OF RETURN	<u>44.99%</u>		<u>26.84%</u>		<u>7.46%</u>

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/03 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 2-E DOCKET NO. 030423-WU PAGE 1 OF 2
OPERATING REVENUES	
1 To adjust utility revenues to annualized amount.	\$16,144
2 To adjust other revenues to annualized amount	<u>(1,351)</u>
Subtotal	<u>\$14,793</u>
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages Employees (601)	
To index 2002 expenses to 2003	<u>\$388</u>
2. Employees Pension and Benefits (604)	
To index 2002 expenses to 2003	<u>\$55</u>
3. Purchased Power (615)	
To increase for new customers	\$422
Subtotal	<u>\$422</u>
4. Chemicals (618)	
To index 2002 expenses to 2003	\$8
To increase for new customers	<u>44</u>
Subtotal	<u>\$52</u>
5. Contractual Services - Professional (631)	
To increase for pro forma additional accounting expenses	\$1,500
To index 2002 expenses to 2003	<u>20</u>
Subtotal	<u>\$1,520</u>
6. Contractual Services - Testing (635)	
To index 2002 expenses to 2003	<u>\$23</u>
7. Contractual Services - Other (636)	
To increase management fees	\$28,857
To index operator & repair expense	<u>39</u>
Subtotal	<u>\$28,896</u>
8. Rents (640)	<u>\$0</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)	

RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/03
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 2-E
 DOCKET NO. 030423-WU
 PAGE 2 OF 2

(O & M EXPENSES CONTINUED)

WATER

9. Transportation Expenses (650)	
To index 2002 expenses to 2003	<u>\$20</u>
10. Insurance Expenses (655)	
To index 2002 expenses to 2003	<u>\$9</u>
11. Miscellaneous Expenses (675)	
To index 2002 expenses to 2003	<u>\$15</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$31,399</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-130.140, F.A.C.	\$2,867
2. To include amortization of CIAC per composite rates	<u>(2,328)</u>
3.	
Total	<u>\$539</u>
TAXES OTHER THAN INCOME	
1. To include RAFs on annualized revenue	\$666
2. To increase payroll taxes for salaries	1,679
3. To increase tangible personal property taxes	996
4. To decrease real estate taxes	(108)
 Total	 <u>\$3,232</u>

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/03 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 2-F DOCKET NO. 030423-WU	
	12/31/02 TOTAL PER COMM.	COMM. ADJUST.	ADJUSTED TOTAL PER COMM.
(601) SALARIES AND WAGES – EMPLOYEES	29,640	388	30,028
(603) SALARIES AND WAGES – OFFICERS	53,040	0	53,040
(604) EMPLOYEE PENSION & BENEFITS	4,168	55	4,223
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,538	422	5,960
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	584	52	636
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES – BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,510	1,520	3,030
(635) CONTRACTUAL SERVICES – TESTING	1,734	23	1,757
(636) CONTRACTUAL SERVICES – OTHER	14,797	28,896	43,693
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,508	20	1,528
(655) INSURANCE EXPENSE	678	9	687
(665) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>1,129</u>	<u>15</u>	<u>1,144</u>
	114,326	31,399	145,725

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/04 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 3-A DOCKET NO. 030423-WU	
DESCRIPTION	12/31/03 BALANCE PER COMM.	COMM ADJUST. TO 2003 BAL.	12/31/04 BALANCE PER COMM
1. UTILITY PLANT IN SERVICE	\$962,524	\$48,359	\$1,010,883
2. LAND & LAND RIGHTS	7,704	\$0	\$7,704
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(926,435)	(\$25,060)	(\$951,495)
5. ACCUMULATED DEPRECIATION	(188,813)	(\$17,014)	(\$205,827)
6. AMORTIZATION OF CIAC	313,323	\$15,187	\$328,510
7. WORKING CAPITAL ALLOWANCE	<u>18,216</u>	<u>\$897</u>	<u>\$19,113</u>
8. WATER RATE BASE	<u>\$186,519</u>	<u>\$22,369</u>	<u>\$208,888</u>

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 3-B
DOCKET NO. 030423-WU

WATER

UTILITY PLANT IN SERVICE

1. Pro forma plant additions in 2004	\$96,718
2. Averaging adjustment	(48,359)
Total	<u>\$48,359</u>

LAND AND LAND RIGHTS

\$0

Non-Used and Useful

1. To reflect non-used and useful plant	
2. To reflect non-used and useful accumulated depreciation	
Total	<u>\$0</u>

CIAC

1. Per staff calculation based on composite rates	(\$30,210)
2. Pro forma CIAC	(19,910)
3. Averaging adjustment	25,060
Total	<u>(\$25,060)</u>

ACCUMULATED DEPRECIATION

1. Accumulated depreciation per Rule 25-30.140, F.A.C.	(\$34,028)
2. Averaging adjustment	17,014
Total	<u>(\$17,014)</u>

AMORTIZATION OF CIAC

1. To adjust amortization based on composite rates	\$30,373
2. Averaging adjustment	(15,186)
Total	<u>\$15,187</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$897</u>
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RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 3-C
DOCKET NO. 030423-WU

CAPITAL COMPONENT	2003 PER COMM.	SPECIFIC ADJUST- MENTS	BALANCE		BALANCE PER COMM	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS				
1. COMMON STOCK	\$100	\$0	\$100					
2. RETAINED EARNINGS	(43,247)	0	(\$43,247)					
3. PAID IN CAPITAL	120,126	76,808	\$196,934					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>\$0</u>					
5. TOTAL COMMON EQUITY	\$76,979	\$76,808	153,787	(59,818)	93,969	44.99%	11.46%	5.16%
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	15,002	(5,224)	9,778	(3,803)	5,975	2.86%	3.90%	0.11%
Wachovia Bank	0	0	0	0	0	0.00%	8.75%	0.00%
N/P State of Florida	<u>178,794</u>	<u>(7,854)</u>	<u>170,940</u>	<u>(66,490)</u>	<u>110,425</u>	<u>50.00%</u>	3.55%	1.78%
TOTAL LONG TERM DEBT	193,796	(13,078)	180,718	(70,293)	110,425	52.86%		
7. CUSTOMER DEPOSITS	<u>3,435</u>	<u>1,060</u>	<u>4,495</u>	<u>0</u>	<u>4,495</u>	<u>2.15%</u>	6.00%	<u>0.13%</u>
8. TOTAL	<u>\$274,210</u>	<u>\$64,790</u>	<u>\$339,000</u>	<u>(\$130,112)</u>	<u>\$208,888</u>	<u>100.00%</u>		<u>7.17%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>	
OVERALL RATE OF RETURN						<u>6.72%</u>	<u>7.62%</u>	

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/04 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-D DOCKET NO. 030423-WU		
	12/31/03 TEST YEAR PER COMM.	COMMISSION ADJUSTMENTS	COMM. ADJ. 12/31/04 TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$212,950</u>	<u>\$21,081</u>	<u>\$234,031</u>	<u>(\$43,219)</u> -18.47%	<u>\$190,811</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	145,726	7,181	152,907	0	152,907
3. DEPRECIATION (NET)	1,622	1,736	3,358	0	3,358
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	20,529	985	21,514	(1,945)	19,569
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$167,877</u>	<u>\$9,902</u>	<u>\$177,779</u>	<u>(\$1,945)</u>	<u>\$175,834</u>
8. OPERATING INCOME/(LOSS)	<u>\$45,073</u>		<u>\$56,252</u>		<u>\$14,977</u>
9. WATER RATE BASE	<u>\$186,519</u>		<u>\$208,888</u>		<u>\$208,888</u>
10. RATE OF RETURN	<u>24.17%</u>		<u>26.93%</u>		<u>7.17%</u>

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04
ADJUSTMENTS TO OPERATING INCOME

OPERATING REVENUES

To adjust utility revenues to annualized amount. \$21,081

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages Employees (601)	
To index 2003 expenses to 2004	<u>\$480</u>
2. Employees Pension and Benefits (604)	
To index 2003 expenses to 2004	<u>\$68</u>
3. Purchased Power (615)	
To increase for new customers	<u>\$424</u>
4. Chemicals (618)	
To index 2003 expenses to 2004	<u>\$10</u>
To increase for new customers	<u>45</u>
Subtotal	<u>\$55</u>
5. Contractual Services - Professional (631)	
To index 2003 expenses to 2004	<u>\$48</u>
6. Contractual Services - Testing (635)	
To index 2003 expenses to 2004	<u>\$28</u>
7. Contractual Services - Other (636)	
To index 2003 expenses to 2004	<u>\$48</u>
8. Rents (640)	<u>\$0</u>
Transportation Expenses (650)	
9. To index 2003 expenses to 2004	<u>\$24</u>
Insurance Expenses (655)	
10. To index 2003 expenses to 2004	<u>\$11</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-E
DOCKET NO. 030423-WU
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)

11. Regulatory Expense (665)
To include rate case expense \$5,975

12. Miscellaneous Expenses (675)
To index 2003 expenses to 2004 \$18

TOTAL OPERATION & MAINTENANCE ADJUSTMENTS \$7,181

DEPRECIATION EXPENSE

1. To reflect test year depreciation calculated per 25-130.140,
F.A.C. \$5,860
2. To include amortization of CIAC per composite rates (4,124)

Total \$1,736

TAXES OTHER THAN INCOME

1. To include RAFs on annualized revenue \$948
2. To increase payroll taxes for salaries 36

Total \$985

RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/04
**ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE**

SCHEDULE NO. 3-F
 DOCKET NO. 030423-WU

	12/31/03	COMMISSION	ADJUSTED
	TOTAL	ADJUST.	TOTAL
	PER		PER
	COMM.		COMM.
(601) SALARIES AND WAGES – EMPLOYEES	30,028	480	30,508
(603) SALARIES AND WAGES – OFFICERS	53,040	0	53,040
(604) EMPLOYEE PENSION & BENEFITS	4,223	68	4,291
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,960	424	6,384
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	636	55	691
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES – BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,030	48	3,078
(635) CONTRACTUAL SERVICES – TESTING	1,757	28	1,785
(636) CONTRACTUAL SERVICES – OTHER	43,693	48	43,741
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,528	24	1,552
(655) INSURANCE EXPENSE	687	11	698
(665) REGULATORY COMMISSION EXPENSE	0	5,975	5,975
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>1,144</u>	<u>18</u>	<u>1,162</u>
	145,726	7,181	152,907

RATE REDUCTION SCHEDULE		
RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/04		SCHEDULE NO. 4 DOCKET NO. 030423-WU
<u>CALCULATION OF RATE REDUCTION AMOUNT</u> <u>AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS</u>		
<u>MONTHLY WATER RATES</u>		
<u>RESIDENTIAL, MULTI-RESIDENTIAL,</u> <u>AND GENERAL SERVICE</u> BASE FACILITY CHARGE:	<u>MONTHLY</u> <u>APPROVED</u> <u>RATES</u>	<u>MONTHLY</u> <u>RATE</u> <u>REDUCTION</u>
Meter Size:		
5/8"X3/4"	\$ 7.12	0.23
3/4"	10.68	0.35
1"	17.79	0.58
1-1/2"	35.59	1.17
2"	56.94	1.87
3"	113.88	3.73
4"	177.93	5.83
6"	355.86	11.67
 <u>RESIDENTIAL GALLONAGE CHARGE</u> (Per 1,000 gallons)		
0 - 10,000 gallons	\$ 1.15	0.04
Above 10,000 gallons	1.44	0.05
 <u>GENERAL SERVICE GALLONAGE CHARGE</u> Per 1,000 gallons	\$ 1.26	0.04

BALANCES FOR YEAR END DECEMBER 31, 2002

RESIDENTIAL WATER SYSTEMS, INC.
 TEST YEAR ENDING 12/31/02

SCHEDULE NO. 5
 DOCKET NO. 030423-WU

ACCOUNT	Depr. Rate Per Rule 25-30.140	DESCRIPTION	Debit	Credit
			PLANT 12/31/2002	ACCUM. DEPR. 12/31/2002
301	2.50%	Organization	1,000	463
304	3.57%	Structures and Improvements	24,860	9,578
307	3.70%	Wells & Springs	19,657	6,128
309	3.13%	Supply Mains	6,379	1,282
310	5.88%	Power Generation Equip.	20,720	(4,890)
311	5.88%	Pumping Equipment	34,401	10,747
320	5.88%	Water Treatment Equip.	1,984	771
330	3.03%	Distribution Reservoirs	150,154	4,099
331	2.63%	Trans. & Distrib. Mains CIAC	511,628	136,081
333	2.86%	Services to Customers CIAC	77,173	23,897
334	5.88%	Meters and Meter Installation	18,836	(5,286)
335	2.50%	Hydrants	14,820	676
339	5.00%	Other Plant & Misc. Equipment	4,920	3,075
340	6.67%	Office Furniture & Equipment	3,084	3,084
345	10.00%	Power Operated Equip.	22,926	1,146
		TOTAL	912,542	190,850
		Land	7,704	
		CIAC at 12/31/2002		883,025
	Composite	Amortization of CIAC at 12/31/2002	284,820	