

State of Florida



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Public Service Commission
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TALLAHASSEE, FLORIDA 32399-0850
COMMISSION
CLERK

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

DATE: April 12, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Kaproth, Bulecza-Banks, Fletcher, Kyle, Lingo, Marsh, Redemann, Romig, Springer, Walten) Office of the General Counsel (Jaeger)

RE: Docket No. 060253-WS – Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
County(ies): Marion, Orange, Pasco, Pinellas and Seminole

AGENDA: 04/24/07 – Regular Agenda – Proposed Agency Action Except for Issues 30–33 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Pending

CRITICAL DATES: 05/07/07 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060253.RCM.DOC

DOCUMENT NUMBER-DATE

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FPSC-COMMISSIONER

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Case Background

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

<u>Docket No.</u>	<u>UI Subsidiary</u>
060253-WS	Utilities, Inc. of Florida
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities, Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities, Inc. of Sandalhaven

This recommendation addresses Docket No. 060253-WS.

Utilities, Inc. of Florida (UIF or utility) is a Class A utility providing water and wastewater service in Marion, Orange, Pasco, Pinellas, and Seminole counties. Water and wastewater rates were last established for this utility in its 2002 rate proceeding.

On March 20, 2006, UIF filed an Application for Rate Increase at issue in the instant docket. The utility had deficiencies in its Minimum Filing Requirements (MFRs). The deficiencies were corrected and December 7, 2007 was established as the official date of filing. The utility requested the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ending December 31, 2005.

In its filing, UIF requested interim rates for all counties except Marion. On November 21, 2006, the Commission approved interim rates¹ designed to generate the following annual water and wastewater revenues:

County	Annual Revenues	% Increase
Orange – Water	\$108,004	10.77%
Pasco – Water	\$796,634	35.80%
Pasco -Wastewater	\$431,317	13.78%
Pinellas – Water	\$114,470	48.69%
Seminole - Water	\$809,835	18.86%
Seminole - Wastewater	\$783,689	32.72%

¹ See Order No. PSC-06-1006-FOF-WS, issued December 5, 2006.

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The utility requested final rates designed to generate: annual water revenues of \$2,364,009, an increase of \$756,495 or 47.06%; and annual wastewater revenues of \$1,467,650, an increase of \$452,934 or 44.64%.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0548-PCO-WS, issued June 26, 2006, in this docket. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Utilities, Inc. of Florida (UIF) satisfactory?

Recommendation: Yes, except in Pasco County. The overall quality of the water and wastewater service for the UIF systems in Marion, Pasco, Pinellas, Orange and Seminole Counties is satisfactory, except for the Summertree water system in Pasco County. The quality of water and customer satisfaction for the Summertree system is unsatisfactory. The utility should be required to file with the Commission a copy of any response the utility provides to the Department of Environmental Protection (DEP) or the utility's Summertree customers as a result of its noncompliance with the DEP disinfection by-products rule beginning June 1, 2007, until the utility comes into compliance with the DEP disinfection by-products rule. (Redemann, Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating: 1) the quality of the utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the DEP and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints.

Staff's analysis of the overall quality of service provided by the utility is derived from the quality of the utility's water and wastewater effluent, the operational condition of the utility's plant and facilities, and customer satisfaction. Comments and complaints received by the Commission from customers were reviewed. Staff has also considered the utility's current compliance with the DEP's regulations.

Quality of the Product

In Orange and Seminole Counties, the water and wastewater operations and facilities are regulated by the Orlando District office of the DEP. The Marion and Pasco County facilities are overseen by the Tampa District office. The Pinellas County system is under the purview of the Pinellas County Health Department. These systems, except for the Summertree water system in Pasco County, meet all DEP requirements and staff believes the water quality should be considered satisfactory.

Summertree has had a problem with elevated disinfection by-products, specifically total trihalomethanes (TTHM) and five haloacetic acids (HAA5). During the second half of the test year and all of 2006, the water quality was not meeting standards for TTHMs and HAA5s as a result of the standards becoming more stringent for smaller systems. According to DEP, efforts were made to use the Florida Rural Water Association and the expertise of the association's staff, along with a flushing program to attempt to clear up the problem with disinfection by-products; however, the problem persisted.

To resolve this issue with TTHMs and HAA5s at Summertree, the utility entered into a consent order with the DEP in June 2006, to modify the disinfection system at Summertree to use chloramines in order to reduce TTHM and HAA5 formation. At the time of the staff engineer's inspection, the utility expected the completion of this modification by the end of the first quarter of 2007, thereby reducing the level of formations of disinfection by-products. In order to comply with DEP's rule on disinfection by-products, the time frame for compliance will likely be early 2008 due to the calculation of a twelve-month running annual average, which is the method used by the DEP to determine compliance.

Conversations with the Tampa office of the DEP indicate that the utility has complied with the requirements of the consent order. DEP has cleared the permit to convert disinfection from chlorine alone to chloramines, and it is expected that the new disinfection process will be on-line well before the end of June 2007, which is the time frame specified in the consent order.

Staff recommends that the quality of the water and wastewater effluent is satisfactory in all systems except the Summertree water system. The quality of water for the Summertree system is unsatisfactory.

Condition of Plant

A field investigation for UIF's Marion, Pasco, and Pinellas County systems was conducted January 24 through 25, 2007. For the Orange and Seminole County systems, an inspection was conducted January 30 through February 1, 2007. The water and wastewater treatment plants were in good working order and did not appear to have any deficiencies during the inspections.

The utility requested a number of pro forma plant additions. The systems are getting old and need attention. Staff believes the proposed plant upgrades will improve water and wastewater service for the customers. More details about pro forma plant are described in Issue 6. Staff recommends that the condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

The utility provided a copy of the customer complaints that were received during the test year. Many customer concerns were related to billing. Since customers are billed for wastewater based on their water usage, the water meter was reread for customers with billing complaints. The utility had a few electrical and mechanical problems at the lift stations. Some wastewater complaints were due to blocked sewer lines. If the blocked lines were determined to be the utility's responsibility, the utility used one or more methods to fix the blockage including use of a video camera to view the sewer line to find the problem and cleaning or replacing the line. The utility also advised the customer that a plumber should be contacted if the problem was determined to be the customer's responsibility. There are no unresolved complaints which were made directly to the utility. After reviewing the complaint files, it appears the utility is providing prompt responses to customers' water and wastewater concerns.

The Public Service Commission Complaint Tracking System was reviewed. Approximately seven complaints were filed in 2005, 2006, and 2007, with most of the customer complaints primarily related to service. All have been resolved. There were 176 letters filed in this docket in 2006 and 2007, primarily related to the Summertree water system, stating that a

rate increase was not appropriate, especially since the utility had not met drinking water standards in the last six quarters. There are currently no open complaints.

A customer meeting was held in Ocala on February 15, 2007, for the customers in Marion County. Although, no customers attended the meeting, a representative from Senator Nancy Argenziano's office did attend. Another meeting was held for the Orange and Seminole County customers on February 19, 2007, in Altamonte Springs, Florida. About fourteen customers from Seminole County, a Legislative Assistant from Senator Lee Constantine's office, the utility, and a representative from the Office of Public Counsel attended this customer meeting. No customers from Orange County attended. About 60 Pasco and Pinellas County customers attended a meeting in New Port Richey on March 6, 2007.

At the customer meetings, many customers expressed concern about the water and wastewater rate increase. Two customers served by the Weathersfield water plant were concerned with the chlorine taste and odor, or aesthetic quality of the water and a recent boil water notice. One customer had spent over \$4,000 over thirty years for a water purification home treatment system. Another customer served by the Oakland Shores water system expressed concern about several problems including the plastic meter cover that did not fit on the concrete meter box, a leak at the water plant that occurred following a water pipe/valve repair, the utility's rude response when he called to find out more about the reasons for the rate increase, and a recent boil water notice. Customers of the Summertree water system were dissatisfied with the water quality as a result of water pressure problems, the offensive smell and taste, brown color, and the utility's violation of the DEP disinfection by-products rule.

With respect to the Weathersfield customer who spoke about the taste of chlorine in the water, the utility indicated that because DEP mandates the use of chlorine for disinfection purposes and the chlorine residual has to be kept within the allowed operating range, any proposal to reduce the use of chlorine would not be consistent with DEP's regulation. The odor in the water is from hydrogen sulfide, which is common in the Central Florida area. The Weathersfield water treatment includes tray aeration to remove the hydrogen sulfide odor. In 2005, the water was tested and had an odor level of 2.5, which is below the allowed level of 3, and had a total sulfate level of 5.2 milligrams per liter (mg/l), which is also below the allowed level of 250 mg/l.

There were several boil water advisories issued in Weathersfield, Oakland Shores, and Summertree during 2005 and 2006. According to the DEP, boil water notices are required when the water pressure falls below 20 pounds per square inch (psi) or if the system is compromised, such as from a line break. As required by Rule 62-560.410, F.A.C., DEP was notified promptly on each occasion and a public notification of a boil water advisory was issued. After satisfactory testing, the boil water advisories were rescinded, the local television stations were noticed, and door tags were hung at each affected residence. According to the DEP, the utility goes an extra step which is not required and notices all schools affected.

With respect to the customer whose meter cover did not fit on the meter box, the utility replaced the plastic lid with a concrete lid that fits properly, then restored the area around the box. The customer inspected the work and expressed satisfaction.

Regarding the customer's complaint about the utility's rude response to his call, the utility indicated that it will re-emphasize to all of its customer service staff the importance of being considerate and polite at all times when interacting with the customers no matter what the issue. This will be accomplished through additional training. Also, phone calls will be monitored more frequently in an effort to measure the effectiveness of the training effort.

Pressure problems experienced by the customers in Summertree could be the result of significant irrigation from a water system without storage and high service pumping. While pressure can be diminished under these circumstances, the pressure must still be sufficient so as not to fall below the 20 psi minimum required by the DEP.

Customers became aware of the utility's noncompliance with the disinfection by-products rule as a result of the quarterly notices to customers required by DEP's rule. At the time of the customer meeting, the customers had seen no improvement. The utility is installing equipment to use chloramines to meet the parameters of the disinfection by-products rule.

Staff recommends that the quality of customers' satisfaction with the water and wastewater service is satisfactory for all systems except the Summertree water system. The quality of customers' satisfaction for the Summertree water system is unsatisfactory.

Summary

Based on all of the above, staff recommends that the overall quality of the water and wastewater service for the UIF systems in Marion, Pasco, Pinellas, Orange, and Seminole Counties is satisfactory, except for the Summertree water system in Pasco County. The quality of water and customer satisfaction for the Summertree system is unsatisfactory. The utility should be required to file with the Commission a copy of any response the utility provides to DEP or the utility's Summertree customers as a result of its noncompliance with the DEP disinfection by-products rule beginning June 1, 2007, until the utility comes into compliance with the DEP disinfection by-products rule.

RATE BASE

Issue 2: Should the audit adjustments to rate base and the corresponding net operating income adjustments with which the utility agrees, be made?

Recommendation: Yes. Based on uncontested audit adjustments, the adjustments in Table 2-1 should be made to rate base and the corresponding net operating income accounts.

Table 2-1

SUMMARY OF UTILITIES, INC. OF FLORIDA (UIF) ADJUSTMENTS								
System	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Marion Water	(14,829)	16,749				(55)	(527)	1,324
Marion Wastewater	(450)	413				(25)		
Orange Water		958	(9,893)		(32,975)			
Pasco Water	(493,947)	411,628	12,627	(43,574)	2,697	(6,430)	415	
Pasco Wastewater	(156,653)	32,576	17,232	(9,449)		(1,627)		
Pinellas Water	(15,147)	16,776				(396)		
Seminole Water	(103,759)	111,367	(107,000)	16,051	5,055	(4,271)	(3,567)	(6,266)
Seminole Wastewater	(485,393)	353,606				(5,622)		
Adjustment Totals	(1,270,178)	944,073	(87,034)	(36,972)	(25,223)	(18,426)	(3,679)	(4,942)

(Romig)

Staff Analysis: In its response to Staff's Audit Report and other correspondence, UIF agreed to the audit findings and audit adjustments shown in Tables 2-2 through 2-9. These adjustments address Audit Findings Nos. 1 through 10, Audit Finding No. 12, Audit Findings No. 14 and 15, and Audit Finding No. 22. Staff recommends the adjustments to rate base and the corresponding adjustments to net operating income that are shown in the System Tables 2-2 through 2-9 and which are shown in total in the Summary Table 2-1. Credits are shown in parenthesis and are thirteen-month averages where appropriate.

Table 2-2

Utilities, Inc. of Florida – Marion County Water								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		318						
Finding No. 3 PIS Additions	(13,726)	15,102					(527)	2,368
Finding No. 7 Plant Retirement	(1,304)	1,336				(71)		

Utilities, Inc. of Florida – Marion County Water								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Finding No. 22 Reclassification	803 (602)	(7)				16		(1,044)
Adjustment	(14,829)	16,749				(55)	(527)	1,324

Table 2-3

Utilities, Inc. of Florida – Marion County Wastewater								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Acc. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O&M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		(50)						
Finding No. 3 PIS Additions	(450)	463				(25)		
Adjustment	(450)	413				(25)		

Table 2-4

Utilities, Inc. of Florida – Orange County Water								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		958						
Finding No. 15 CIAC			(9,893)		(32,975)			
Adjustment		958	(9,893)		(32,975)			

Table 2-5

Utilities, Inc. of Florida – Pasco County Water								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		(7,208)		(1,795)		(407)		
Finding No. 2 Prior Order (Wis-Bar)	(2,910) (264,632)	199,354	12,627	(41,779)				
Finding No. 4 PIS Additions	(18,246)	19,583			2,697	(707)	415	

Utilities, Inc. of Florida – Pasco County Water								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Finding No. 8 Plant Retirement	(184,895)	197,830				(4,541)		
Finding No.10 Capitalized Salaries	(23,264)	2,069				(775)		
Adjustment	(493,947)	411,628	12,627	(43,574)	2,697	(6,430)	415	

Table 2-6

Utilities, Inc. of Florida – Pasco County Wastewater								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Acc. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O&M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		59		(1,421)				
Finding No. 2 Prior Order (Wis-Bar)	(114,133)	7,767	17,232	(8,028)		272		
Finding No. 4 PIS Additions	(3,129)	3,620				(98)		
Finding No. 8 Plant Retirement	(15,918)	17,659				(497)		
Finding No.10 Capitalized Salaries	(23,473)	3,471				(1,304)		
Adjustment	(156,653)	32,576	17,232	(9,449)		(1,627)		

Table 2-7

Utilities, Inc. of Florida – Pinellas County Water								
Audit Adjustments	Plant	Acc. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort	O & M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		452						
Finding No. 5 PIS Additions	(6,472)	6,828				(162)		
Finding No. 7 Plant Retirement	(8,675)	9,496				(234)		
Adjustment	(15,147)	16,776				(396)		

Table 2-8

Utilities, Inc. of Florida – Seminole County Water								
Audit Adjustments	Plant	Acc. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort	O & M Expenses
Finding No. 1 Prior Order (Excl. Wis-Bar)		796	(107,000)	16,051			(\$3,567)	
Finding No. 6 PIS Additions	(39,620)	43,328			4,400	(1,533) 1,760		(642)
Finding No. 9 Plant Retirement	(63,149)	67,169				(4,544)		
Finding No.10 Capitalized Salaries	(1,174)	82				(27)		
Finding No. 22 Reclassification	738 (554)	(8)			655	73		(5,624)
Adjustment	(103,759)	111,367	(107,000)	16,051	5,055	(4,271)	(3,567)	(6,266)

Table 2-9

Utilities, Inc. of Florida – Seminole County Wastewater								
Audit Adjustments	Plant	Accum. Deprec.	CIAC	Acc. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O&M Expenses
Finding No. 6 PIS Additions	(7,341)	8,008				(187)		
Finding No. 9 Plant Retirement	(165,457)	173,622				(4,745)		
Finding No. 12 Retire WWTP Treatment	(133,750)	171,976				(690)		
Finding No. 14 Condemnation	(178,845)							
Adjustment	(485,393)	353,606				(5,622)		

Audit Finding No. 1 – Adjustments To Prior Order – Excluding Wis-Bar

Order No. PSC-03-1440-FOF-WS, issued December 22, 2003,² required the utility to post several adjustments to its rate base balances as of December 31, 2001. The utility posted the above ordered adjustments to its general ledger on March 16, 2006 and April 27, 2006, with an effective date of December 31, 2005. The postings also included additional adjustments to record the cumulative effect of posting the December 31, 2001 adjustments as of December 31, 2005.

² Order issued in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

In some instances, the utility posted the average balance adjustment instead of the year-end adjustment that was displayed in the above order. Further, the utility did not post a \$107,000 adjustment to Seminole County for contributions-in-aid-of-construction it received from the City of Altamonte Springs.

The timing of recording of the ordered adjustments is addressed in Issue 34.

Audit Finding No. 2 - Adjustment To Prior Order – Wis-Bar

Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, also required the utility to post the acquisition of Wis-Bar in Pasco County to its general ledger as of December 31, 2001, including adjustments to record the cumulative effect of posting the December 2000 acquisition in June 2002.

The utility properly posted the acquisition of Wis-Bar to its general ledger on June 28, 2002. However, the utility did not include the adjustments for the cumulative effect mentioned above. Subsequently, the utility posted the acquisition of Wis-Bar a second time to its general ledger on March 16, 2006 and April 27, 2006, with an effective date of December 31, 2005. The above posting also included additional adjustments to record the cumulative effect of posting the acquisition as of December 31, 2005. Included in the second journal entry were adjustments to correct the utility's depreciation rates and record the cumulative effect of the ordered adjustments. However, the utility made errors in calculating and posting the adjustments to the proper Pasco County systems.

Audit Finding No. 3 - Adjustment To Marion County Water Plant-in-Service

The utility's general ledger reflects several capital asset additions that should have included a corresponding retirement to Utility Plant-in-Service (UPIS) and accumulated depreciation. Its general ledger also reflects three normal recurring expenses that should have been posted to operation and maintenance (O&M) expense in the year incurred. One adjustment was for a prior year and two adjustments were for the 2005 test year.

The utility's policy is to retire 75% of the capital assets' purchase price when the original cost cannot be determined. The retirement is made by crediting plant and debiting accumulated depreciation with the same amount. Some of staff's adjustments are for retirements made prior to 2005. However, because the retirement was not recorded when it should have been recorded, the utility continued to accumulate depreciation on that plant. Therefore, in most instances for retirements, staff's corresponding adjustment to accumulated depreciation exceeds the amount of plant retired and includes a test year adjustment to depreciation expense. In addition, staff's adjustment reflects the reclassification of the normal recurring expenses to O&M expense in the year incurred.

Audit Finding No. 4 - Adjustment To Pasco County Water and Wastewater Utility Plant-in-Service

The utility's general ledger reflects several capital asset additions that should have included corresponding retirements to UPIS, accumulated depreciation and depreciation expense. Its general ledger also includes an addition for the cost to renew the water use permit that should

be amortized over the ten-year life of the new permit. Further, the cost for the water use permit that was originally posted to wastewater UPIS in 2002 was correctly reclassified to water UPIS in 2004. However, the corresponding wastewater accumulated depreciation accrual was not reclassified at the same time. In addition, the utility incorrectly recorded an invoice that was a credit to the utility's vendor account as an asset addition. Lastly, the general ledger included the cost incurred to abandon the well at Water Treatment Plant No. 5.

The effect of abandonment of the well at Water Treatment Plant No. 5 is addressed in Issue 3.

Audit Finding No. 5 - Adjustment To Pinellas County Water Utility Plant-in-Service

The utility's general ledger included numerous normal recurring expenses that should have been posted to O&M expense in the year incurred. Its general ledger also included a capital asset addition that should have included a corresponding retirement to UPIS and accumulated depreciation.

Audit Finding No. 6 - Adjustment To Seminole County Water and Wastewater Utility Plant-in-Service

The utility's general ledger included numerous normal recurring expenses that should have been posted to O&M expense in the year incurred. Its general ledger also included numerous capital asset additions that should have included corresponding retirements to UPIS and corresponding reductions to accumulated depreciation and depreciation expense. It also included a capital asset addition that should have been posted to a sister subsidiary system. Further, it included costs for invoices that were posted incorrectly. One was a double-booking and the second was a retirement that was posted as a debit instead of a credit. It also included the costs to inspect the water tanks that should be amortized over five years.

Lastly, the cost of a survey of the Lincoln Heights wastewater plant and land was included in 2005 operating and maintenance expenses. However, the plant was sold in 2005 and should have been accounted for as part of the sale's transaction, rather than an operating and maintenance expense. The sale of the Lincoln Heights wastewater plant and land in Seminole County that was sold in 2005 is addressed under the heading of Audit Finding No. 14, which follows later in this issue.

Audit Finding No. 7 - Adjustments To CWIP Additions to Marion County Water and Pinellas County Water Utility Plant-in-Service

The utility's general ledger included a 2005 capital asset addition for the Marion County Water System and a 2002 capital asset addition for the Pinellas County Water System. The source for each addition was from Construction Work in Progress (CWIP) closures. As stated previously, the utility's policy is to retire 75% of the capital assets purchase or, in this case, the replacement cost when the original cost cannot be determined. The utility did not record the appropriate retirement entries to UPIS, accumulated depreciation and depreciation expense.

Audit Finding No. 8 - Adjustments To CWIP Additions to Pasco County Water and Wastewater Utility Plant-in-Service

The utility's general ledger includes numerous capital asset additions for the Pasco County Water and Wastewater Systems from CWIP closures. The utility did not make corresponding adjustments to its plant, accumulated depreciation or depreciation expense.

Audit Finding No. 9 - Adjustments To CWIP Additions to Seminole County Water and Wastewater Utility Plant-in-Service

The utility's general ledger includes numerous capital asset additions for the Seminole County Water and Wastewater Systems from CWIP closures. Its general ledger also includes a 2004 addition related to interconnecting its water system with Seminole County Utilities. The utility did not make corresponding adjustments to its plant, accumulated depreciation or depreciation expense.

Audit Finding No. 10 - Adjustments To Capitalized Salary Additions in Pasco and Seminole County Water and Wastewater Utility Plant-in-Service

The utility's general ledger reflects numerous capitalized salary additions. The utility was not able to provide sufficient documentation for the capitalized salary of two of its employees whose salaries were charged to Pasco and Seminole Counties' water and wastewater systems. For this reason, the unsupported costs have been removed for UPIS, accumulated depreciation and depreciation expense.

Audit Finding No. 12 - Adjustment To Seminole County Wastewater Utility Plant-in-Service

The utility's filing incorrectly includes amounts for the Seminole County wastewater treatment plant. Because the wastewater system interconnected with the City of Sanford, Seminole County's entire wastewater treatment plant has been removed.

Audit Finding No. 14 - Adjustment To Seminole County Wastewater Land

The utility's filing reflects a thirteen-month average wastewater land balance of \$178,845. Utility records indicate that the utility was involved in a lawsuit involving the condemnation and subsequent acquisition of a significant portion of its land located at the Lincoln Heights wastewater system in Seminole County. The utility began incurring legal and engineering fees related to the condemnation as early as February 1998. Although staff has calculated a potential gain of approximately \$676,751, the County's condemnation resulted in the utility losing some of its customers, and thus the future revenue stream from such customers. Thus, pursuant to Section 367.0813, Florida Statutes, the gain or loss from that condemnation shall be borne by the shareholders of the utility. Consequently, staff's adjustment of \$178,845 to zero out the amount in the MFRs is the only adjustment that is appropriate.

Audit Finding No. 15 – Adjustment to Orange County Contributions-in-Aid-of-Construction

During 2005, the utility's working capital allowance includes \$42,868, which is related to its payment to Orange County Utilities for a water capacity charge. During that same period, CIAC had a credit balance of \$38,753. During the 2005 test year, the utility reclassified the \$42,868 to CIAC. This reclassification resulted in the inclusion of a thirteen-month average balance of \$32,975 in working capital allowance and a \$4,115 debit balance in CIAC. The incorrect initial recording and the subsequent reclassification also resulted in an incorrect thirteen-month average test year CIAC. To correct both the working capital allowance and the CIAC for its payment to Orange County Utilities and its reclassification, staff has decreased working capital allowance by \$32,975 and increased CIAC by \$9,893.

Audit Finding No. 22 - Adjustment To O&M Expense For Items That Should Be Capitalized

The utility incorrectly recorded one capital addition to Marion County's water operating expense and one capital addition to Seminole County's water operating expense. It also recorded the full amount of water testing for permit renewal that is required every three years in its Seminole County's water operating expense.

Based on uncontested audit adjustments, the adjustments in Table 2-1 should be made to rate base and the corresponding net operating income accounts.

Table 2-1

SUMMARY OF UTILITIES, INC. OF FLORIDA (UIF) ADJUSTMENTS								
System	Plant	Accum. Deprec.	CIAC	Accum. Amort. CIAC	Working Capital Allowance	Deprec. Expense	CIAC Amort.	O & M Expenses
Marion Water	(14,829)	16,749				(55)	(527)	1,324
Marion Wastewater	(450)	413				(25)		
Orange Water		958	(9,893)		(32,975)			
Pasco Water	(493,947)	411,628	12,627	(43,574)	2,697	(6,430)	415	
Pasco Wastewater	(156,653)	32,576	17,232	(9,449)		(1,627)		
Pinellas Water	(15,147)	16,776				(396)		
Seminole Water	(103,759)	111,367	(107,000)	16,051	5,055	(4,271)	(3,567)	(6,266)
Seminole Wastewater	(485,393)	353,606				(5,622)		
Adjustment Totals	(1,270,178)	944,073	(87,034)	(36,972)	(25,223)	(18,426)	(3,679)	(4,942)

Issue 3: Should an adjustment be made to the Pasco County Water System to recognize the sale of land known as Parcel No. 6 in Utilities, Inc. of Florida's Bartelt-Wis-Bar purchase?

Recommendation: Yes. For the Pasco County Water System, land should be decreased by \$1,150; wells and springs should be decreased by \$15,174; accumulated depreciation, wells and springs should be decreased by \$15,174; and gain on sale should be increased by \$1,206. In addition, for UIF, the unamortized deferred credits in its working capital allowance should be increased by \$14,875. (Romig)

Staff Analysis: On August 23, 2004, Pasco County Water sold a parcel of land for \$20,000. This parcel is known as Parcel No. 6 and it was the property site for Well No. 5. This parcel was one of five parcels that UIF acquired in the purchase of the Bartelt-Wis-Bar utility system.

The original cost of the land is \$1,150. The original cost of the building that was transferred with the land and the well that was abandoned is \$15,174. In addition, the utility incurred a cost of \$2,920 to remove the plant assets and cap the well prior to the sale of the land. Accordingly, the following entries in Table 3-1 show the adjustments necessary to reflect the removal of these assets and recognize the gain on the sale

Table 3-1
 Pasco County Gain on Sale

Utilities, Inc. of Florida Pasco County Water			
Account No.	Account Description	Debit	Credit
303	Land		(1,150)
307	Wells & Springs		(15,174)
108	Accumulated Depreciation Wells and Springs	15,174	
414	Gain on Sale		(1,206)

Utilities, Inc. of Florida			
Account No.	Account Description	Debit	Credit
253	Deferred Credits - Other		(14,875)

The gain is calculated to be \$15,930, as follows:

Sales Price		\$20,000
Less original cost of land	\$ 1,150	
Less original cost of plant	15,174	
Plus accumulated depreciation	(15,174)	
Less dismantlement cost	2,920	
Plus salvage	<u>0</u>	
		<u>\$ 4,070</u>
Gain on Sale		<u>\$15,930</u>

Rule 250-30.433(9), F.A.C., states that:

The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Application of this rule results in an amortization period of 13.2 years or 7.57%, and an annual amortization of \$1,206 per year (\$15,930 times .0757). The calculation of the entries related to the amortization of the gain on sale which is all attributable to the land is shown in Table 3-2.

Table 3-2
 Amortization of Gain

	Deferred Debit/Gain	Amortization Rate	Amortization	Accumulated Amortization
08/31/04	15,930	.0032	51	51
09/30/04	15,930	.0063	100	151
10/31/04	15,930	.0063	100	251
11/30/04	15,930	.0063	101	352
12/31/04	15,930	.0063	100	452
12/31/05	15,930	.0757	1,206	1,658
Average Test Year	15,930	N/A	N/A	1,055

Based on the above analysis, staff recommends that: land be decreased by \$1,150; plant be decreased by \$15,174; accumulated depreciation be decreased by \$15,174; amortization of the gain on sale of assets be increased by \$1,206; and the deferred credit in UIF's working capital which is allocated to the five counties and eight systems be increased by \$14,875, the average net unamortized gain (\$15,930 less \$1,055).

Issue 4: Should an adjustment be made to the Orange County Water System to recognize the dismantlement of the Crescent Heights and Davis Shores water treatment plant?

Recommendation: Yes. For the Orange County Water System, wells and springs should be decreased by \$19,127; accumulated depreciation should be decreased by \$1,594; depreciation expense should be decreased by \$638; amortization expense for the loss on disposition should be increased by \$2,313. In addition, for UIF, the unamortized deferred debits in working capital allowance should be increased by \$24,239. (Romig)

Staff Analysis: Order No. PSC-03-1440-FOF-WS included the adjustments in Table 4-1 below to retire the land and water treatment plant associated with the Crescent Heights and Davis Shores water systems in Orange County. The utility property was retired because the utility interconnected the Crescent Heights system with the Orlando Utilities Commission and the Davis Shores water system with Orange County Utilities to provide water for its customers.

Table 4-1
Retirement Adjustments Recorded by the Utility

Account No.	Description	Utility Plant in Service at 12/31/01	Accumulated Depreciation at 12/31/01	Average Acc. Depreciation at 12/31/01
302	Land	(2,783)	0	0
304	Structures & Improvements	(5,247)	2,357	2,277
307	Wells & Springs	(11,696)	3,934	3,739
311	Pumping Equipment	(19,894)	10,471	9,973
320	Treatment Equipment	(3,769)	2,297	2,211
	Unassigned Acc. Depreciation		12,856	12,856
Total Retirement		(\$43,389)	\$31,915	\$31,056

The utility posted the above ordered adjustments to its general ledger on March 16, 2006, and April 27, 2006, with an effective date of December 31, 2005, using the average accumulated depreciation balances instead of the year-end accumulated depreciation balances. In Audit Finding No. 1 which is addressed in Issue 2, staff recommends and the utility agrees with adjustments to correct this error. Therefore, based on the correction to accumulated depreciation in Issue 2, the loss related to this transaction for the retirement of utility assets ordered by the Commission is \$11,474 (\$43,389 less \$31,915).

In addition, the utility's general ledger reflects costs of \$19,127 that were closed to Account 620, Wells & Springs in 2003. These costs were expended to dismantle and dispose of the abandoned water plant equipment and to cap the existing well. The associated test year accumulated depreciation is \$1,594 and the depreciation expense is \$638.

Staff recommends that the loss of \$30,601 (the \$11,474 loss from Order No. PSC-03-1440-FOF-WS, and the \$19,127 cost of disposal) be accounted for in accordance with Rule 25-30.433(9), F.A.C.

Application of Rule 25-30.433(9), F.A.C., results in a thirteen-year amortization period, or a 7.56% amortization rate, to apply to the \$30,601 loss calculated above. Because the \$11,474

loss and the \$19,127 loss occurred on different dates, staff believes separate calculations are appropriate. Calculation of the two parts and total entries related to the gain are shown in Tables 4-2 through 4-4.

Table 4-2
Amortization of \$11,474 Loss (2001)

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	Average
Deferred Debit/Loss	11,474	11,474	11,474	11,474	11,474	11,474
Amortization Rate	.0756	.0756	.0756	.0756	.0756	
Amortization	434	867	867	867	867	
Accum. Amortization	434	1,301	2,169	3,036	3,903	3,470
Net Deferred Debit/Loss				\$8,438	\$7,571	\$8,004

Table 4-3
Amortization of the \$19,127 Loss (2003)

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	Average
Deferred Debit/Loss			19,127	19,127	19,127	19,127
Amortization Rate			.0756	.0756	.0756	
Amortization			723	1,446	1,446	
Accum. Amortization			723	2,169	3,615	2,892
Net Deferred Debit/Loss				\$16,958	\$15,512	\$16,235

Table 4-4
Amortization of the \$30,601 Loss (2001 & 2003)

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	Average
Deferred Debit/Loss	11,174	11,174	30,601	30,601	30,601	30,601
Amortization Rate	.0756	.0756	.0756	.0756	.0756	
Amortization	434	867	1,590	2,313	2,313	
Accum. Amortization	434	1,301	2,892	5,205	7,518	6,362
Net Deferred Debit/Loss				\$25,396	\$23,083	\$24,239

Accordingly, the entries shown in Table 4-5 are necessary to remove the thirteen-month average affect of the retired assets and to reflect the amortization of the loss that was calculated above.

Table 4-5
Correcting Entries to Reflect Plant Dismantlement
For Orange County Water System

Utilities, Inc. of Florida Orange County Water			
Account No.	Account Description	Debit	Credit
307	Wells & Springs		(19,127)
108	Accumulated Depreciation Wells and Springs	1,594	
407.2	Amort. of Loss on Disposition	2,313	
403	Depreciation Expense		(638)

Table 4-5
Correcting Entries to Reflect Plant Dismantlement
For UIF Total

Account No.	Account Description	Debit	Credit
186	Deferred Debits - Other	24,239	

Based on the above analysis, staff recommends that: plant be decreased by \$19,127; accumulated depreciation be decreased by \$1,594; depreciation expense be decreased by \$638; amortization of the loss on disposition of assets be increased by \$2,313; and the deferred debit in UIF's working capital which is allocated to the five counties and eight systems be increased by \$24,239, the average net unamortized loss.

Issue 5: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida rate base allocations for the utility?

Recommendation: The appropriate WSC net rate base allocation for UIF is \$71,813. Accordingly, UIF's rate base and depreciation expense should be increased as follows:

Table 5-1

County	Water Rate Base	Wastewater Rate Base	Water Deprec. Expense	Wastewater Deprec. Exp.
Marion	\$4,053	\$514	\$598	\$76
Orange	2,392	-	353	-
Pasco	22,105	8,422	3,261	1,242
Pinellas	3,216	-	474	-
Seminole	19,850	11,261	2,928	1,661
Total	\$51,616	\$20,197	\$7,614	\$2,979

Further, the appropriate common rate base allocation for UIF is \$323,304. Accordingly, UIF's plant, accumulated depreciation, and depreciation expense should be adjusted as follows:

Table 5-2

County	Plant	Accum. Deprec.	Deprec. Expense
Marion - Water	\$8,692	(\$5,719)	\$463
Marion - Wastewater	1,125	(739)	58
Orange - Water	7,208	(3,897)	(25)
Pasco - Water	(45,108)	28,431	(21,597)
Pasco - Wastewater	8,314	(5,293)	(996)
Pinellas - Water	9,380	(5,945)	(1,266)
Seminole - Water	81,497	(46,426)	2,387
Seminole - Wastewater	44,494	(24,944)	19,240
Total	\$115,602	(\$64,532)	(\$1,736)

Note: Credits are shown in parenthesis

(Fletcher)

Staff Analysis: According to its filing, the utility did not reflect any WSC rate base allocations. UIF recorded common rate base allocation of \$272,234. Staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of UIF and its sister companies. WSC (a subsidiary service company of UI) supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. As discussed below, staff believes several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These

adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, the staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS. First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices requested. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate simple average WSC rate base before any allocation is \$2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, staff recommends that the appropriate simple average UIF rate base before any allocation is \$1,113,433 as reflected in UIF's general ledger.

ERC Methodology

WSC utilizes 11 different allocation factors to allocate its rate base and expenses. Prior to January 1, 2004, WSC's allocation codes one, two, three, and five were based on customer equivalents (CEs). By Order No. PSC-03-1440-FOF-WS, pp. 23-30, the Commission found that WSC's method of allocating its common costs based on CEs is unsupported and unreasonable. Further, the Commission found that UI shall use ERCs, measured at the end of the applicable test year, as the primary factor in allocating affiliate costs in Florida as of January 1, 2004.

In Audit Finding No. 4 of the AT Audit, staff auditors stated that WSC allocates its common plant and expenses quarterly as of June 30, 2005. In addition, WSC utilizes the following: "(1) If the operating system has both water and wastewater, the wastewater customer is counted as one and one-half; (2) If the customer is an availability customer only, the customer is counted as one-half; (3) If the water company is a distribution company only, the customer is counted as one-half; and, (4) If the wastewater company is a collection company only, the customer is counted as one-half." Staff believes that these additional four factors unnecessarily complicate the allocation process versus the use of an ERC-only methodology. With this additional methodology, staff notes that WSC's ERC count will not conform to the ERC count in each Florida subsidiaries' annual report filed with the Commission. Further, the use of an ERC-only methodology is consistent with the methodology used by the Commission to set rates for water and wastewater utilities. Accordingly, staff recommends that UI should use the ERC-only methodology for its allocation codes one, two, three, and five.

Conclusion

Based on the above, staff recommends that the appropriate WSC net rate base allocation for UIF is \$71,813. Accordingly, UIF's rate base and depreciation expense should be increased as follows:

Table 5-1

County	Water Rate Base	Wastewater Rate Base	Water Deprec. Expense	Wastewater Deprec. Exp.
Marion	\$4,053	\$514	\$598	\$76
Orange	2,392	-	353	-
Pasco	22,105	8,422	3,261	1,242
Pinellas	3,216	-	474	-
Seminole	19,850	11,261	2,928	1,661
Total	\$51,616	\$20,197	\$7,614	\$2,979

Further, staff recommends the appropriate common rate base allocation for UIF is \$323,304. Accordingly, UIF's plant, accumulated depreciation, and depreciation expense should be adjusted as follows:

Table 5-2

County	Plant	Accum. Deprec.	Deprec. Expense
Marion - Water	\$8,692	(\$5,719)	\$463
Marion - Wastewater	1,125	(739)	58
Orange - Water	7,208	(3,897)	(25)
Pasco - Water	(45,108)	28,431	(21,597)
Pasco - Wastewater	8,314	(5,293)	(996)
Pinellas - Water	9,380	(5,945)	(1,266)
Seminole - Water	81,497	(46,426)	2,387
Seminole - Wastewater	44,494	(24,944)	19,240
Total	\$115,602	(\$64,532)	(\$1,736)
<u>Note:</u> Credits are shown in parenthesis.			

Issue 6: Should adjustments be made to the utility's pro forma plant additions?

Recommendation: Yes. UIF's pro forma plant, accumulated depreciation and depreciation expense should be adjusted as shown in Table 6-1.

Table 6-1
Summary
Utilities, Inc. of Florida Pro Forma Adjustments

Description	Pro forma		Include		Exclude	
	Water	W/Water	Water	W/Water	Water	W/Water
County						
Marion	10,290	3,180	0	0	(10,290)	(3,180)
Pasco	150,298	190,580	98,127	155,116	(52,171)	(35,464)
Pinellas	4,738	0	0	0	(4,738)	0
Seminole	239,017	60,612	58,233	62,672	(180,784)	2,060
Total Plant	404,343	254,372	156,360	217,788	(247,983)	(36,584)
Acc. Depreciation	6,791	4,450	1,538	3,518	(5,253)	(932)
Net Rate Base Adjustment	411,134	258,822	157,898	221,306	(253,236)	(37,516)
Depreciation Expense	12,425	8,888	5,454	7,412	(6,971)	(1,476)

(Romig, Redemann, Walden)

Staff Analysis: On Schedule A-3 of its MFRs, UIF requested inclusion of \$658,715 in pro forma plant additions. It also included \$11,241 of related accumulated depreciation and \$21,313 of depreciation expense. In its third data request, staff asked the utility to provide invoices and signed contracts for the requested pro forma plant along with other supporting documentation. Based on its response, staff made adjustments to remove non-specific, routine additions, costs related to completed projects that were less than projected, and costs for which inadequate support was provided.

Tables 6-2 through 6-5 show the utility's pro forma and staff's recommended pro forma plant, accumulated depreciation and depreciation expense, along with staff's corresponding adjustments to each category by county and by system.

Table 6-2
Marion County Pro Forma Adjustments

Description	Pro forma		Include		Exclude		Justification
	Water	W/Water	Water	W/Water	Water	W/Water	
UTILITY PLANT							
Acct. 311.2 – Electric Pump Equipment - Actual and estimated plant additions to 07/15/06 – System 630	4,709		0		(4,709)		Routine
Acct. 333.4 – Service Lines – Actual and estimated plant additions to 07/15/06 – Systems 630 & 635	5,581		0		(5,581)		Routine
Acct. 363.2 – Sewer Service Lines – Actual and estimated plant additions to 07/15/06 – System 635		3,180		0		(3,180)	Routine
Total Plant	10,290	3,180	0	0	(10,290)	(3,180)	

Description	Pro forma		Include		Exclude		Justification
	Water	W/Water	Water	W/Water	Water	W/Water	
UTILITY PLANT							
Acc. Depreciation	(374)	(106)	0	0	374	106	
Depreciation Expense	374	106	0	0	(374)	(106)	

Table 6-3
Pasco County Pro Forma Adjustments

Description	Pro forma		Include		Exclude		Justification
	Water	W/Water	Water	W/Water	Water	W/Water	
UTILITY PLANT							
Account 310.2 – Project 1645 – Generator at Well No. 3	70,131		43,807		(26,324)		Complete; in service; under budget
Acct. 320.3 – Project 3576 – Summertree bleach conversion	39,395		39,395				Complete
Acct. 331.4 – Galvanized mains – Actual & est. to 07/15/06 – System 626	5,045		0		(5,045)		Routine
Acct. 333.4 – Service Lines – Actual & est. to 07/15/06 – Systems 615, 626 & 629	3,618		0		(3,618)		Routine
Acct. 333.4 – Meters – Actual & est. to 07/15/06 – Systems 615, 626 & 629	7,726		0		(7,726)		Routine
Acct. 335.4 – Hydrants - Project 2759 – Replace fittings and piping for 33 hydrants	24,925		9,600		(15,325)		Completed 12 hydrants at \$800 each – invoice provided for \$9,600
Retirement for Project 2759	(9,542)		(3,675)		5,867		Pro rata calculation
Acct. 361.2 – Sewer Mains – Project 160 in System 625 – Point West Sewer Main Repair Phase 2		179,420		159,916		(19,504)	Invoices provided for \$149,100
Acct. 371.3 – Project 3821 – System 625 – Summertree Master Life Station Pump #1		13,000		7,619		(5,381)	100% complete
Retirement for Project 3821		(5,833)		(3,419)		2,414	Pro rata calculation
Acct. 380.4 – Sewer Lagoons – Actual & est. additions to 07/15/06		12,993		0		(12,993)	Costs accounted for in Project 3821 above
Account 303.2	9,000		9,000			0	Reclassification
Account 353.4		(9,000)		(9,000)		0	Reclassification
Total Plant	150,298	190,580	98,126	155,116	(52,172)	(35,464)	
Acc. Depreciation	3,095	405	(506)	(519)	(3,601)	(924)	
Depreciation Expense	6,235	5,234	4,098	3,749	(2,137)	(1,485)	

Table 6-4
Pinellas County Pro Forma Adjustments

Description	Pro forma		Include		Exclude		Justification
	Water	W/Water	Water	W/Water	Water	W/Water	
UTILITY PLANT							
Acct. 333.4 – Service Lines – Actual & est. to 07/15/06 – System 637	2,558		0		(2,558)		Routine
Acct. 333.4 – Meter Installations – Actual & est. to 07/15/06 – System 637	2,180		0		(2,180)		Routine
Total Plant	4,738	N/A	0	N/A	(4,738)	N/A	
Acc. Depreciation	(173)	N/A	0	N/A	173	N/A	
Depreciation Expense	173	N/A	0	N/A	(173)	N/A	

Table 6-5
Seminole County Pro Forma Adjustments

Description	Pro forma		Include		Exclude		Justification
	Water	W/Water	Water	W/Water	Water	W/Water	
UTILITY PLANT							
Acct. 330.4 – Dist. Res. & Standpipes – Project 150 in System 604 – Oakland Shores GST Rehabilitation	5,000		0		(5,000)		Closed to 186 – Deferred Debit in 2006
Acct. 331.4 – T & D Mains – Project 4221 in System 612 – Water Main Replacement – Phase 2	179,420		61,715		(117,705)		Hurricane activity – limited to invoices
Retirement related to Project 4221	(10,122)		(3,482)		6,640		Pro rata Calculation
Actual & est. to 07/15/06 – System 612	45,290		0		(45,290)		Routine
Acct. 333.4 – Service Lines – Actual & est. to 07/15/06 – Systems 602, 606, 608, 612, 616 & 618	18,536		0		(18,536)		Routine
Acct. 333.4 – Meter Installations – Actual & est. to 07/15/06 – System 614	893		0		(893)		Routine
Acct. 371.3 – Project 3344 in System 602		16,924		16,681		(243)	Limited to invoiced costs
Acct. 371,3 – Project 3449 in System 614		50,244		53,955		3,711	Invoiced for \$53,647
Retirement for Project 3344		(1,838)		(1,838)		0	
Retirement for Project 3449		(6,126)		(6,126)		0	
Actual & est. to 07/15/06 – System 602		1,408		0		(1,408)	Routine
Total Plant	239,107	60,612	58,233	62,672	(180,784)	2,060	
Acc. Depreciation	4,243	4,151	2,044	4,036	(2,199)	(115)	
Depreciation Expense	5,643	3,548	1,357	3,663	(4,286)	115	

Based on the above, UIF's pro forma plant, accumulated depreciation and depreciation expense should be adjusted as shown in Table 6-1.

Table 6-1
 Summary
 Utilities, Inc. of Florida Pro Forma Adjustments

Description	Pro forma		Include		Exclude	
	Water	W/Water	Water	W/Water	Water	W/Water
County						
Marion	10,290	3,180	0	0	(10,290)	(3,180)
Pasco	150,298	190,580	98,127	155,116	(52,171)	(35,464)
Pinellas	4,738	0	0	0	(4,738)	0
Seminole	239,017	60,612	58,233	62,672	(180,784)	2,060
Total Plant	404,343	254,372	156,360	217,788	(247,983)	(36,584)
Acc. Depreciation	6,791	4,450	1,538	3,518	(5,253)	(932)
Net Rate Base Adjustment	411,134	258,822	157,898	221,306	(253,236)	(37,516)
Depreciation Expense	12,425	8,888	5,454	7,412	(6,971)	(1,476)

Issue 7: What are the used and useful percentages of the utility's water and wastewater systems?

Recommendation: UIF water plants, transmission and distribution systems, and wastewater collection lines and lift stations should be considered to be 100% used and useful, except for the Crownwood wastewater treatment plant which should be 68.65% used and useful. No adjustment should be made for excess unaccounted for water for any of the utility's water systems. The appropriate non-used and useful rate base component, depreciation expense, and property taxes should be \$3,656, \$8, and \$0 respectively. Accordingly, rate base should be decreased by \$3,656 and depreciation expense should be decreased by \$8. (Redemann, Walden, Romig)

Staff Analysis: The utility has sixteen water systems in this docket. Crescent Heights and Davis Shores in Orange County and Wis-Bar in Pasco County purchase water. The other thirteen systems in Marion, Pasco, Pinellas, and Seminole Counties have water plants that produce and chlorinate the water.

UIF has five wastewater systems in this proceeding. The Summertree and Wis-Bar systems in Pasco County purchase bulk wastewater treatment from Pasco County, while the Ravenna Park and Weathersfield systems in Seminole County purchase bulk wastewater from the cities of Sanford and Altamonte Springs. The utility has a 40,000 gpd wastewater plant serving Crownwood in Marion County.

In its MFRs, the utility did not include used and useful adjustments for any of its water or wastewater systems except for the Marion County Crownwood wastewater system. In the utility's last rate case, in Order No. PSC-03-1440-FOF-WS, the Commission found all of the water and wastewater plants and lines to be 100% used and useful except the Crownwood wastewater treatment plant which was 68.65% U&U.

All the UIF systems were built sometime from the 1950s through the 1970s. Summertree in Pasco County has continued to grow through the current test year, although the system is now approaching build out. Phase III with about 150 lots in Cross Creek (one of the developments in the subdivision) is the final area being built. For all other systems there has been no significant growth since the last rate case. Staff agrees with the utility that, consistent with the last rate case, the water and wastewater plants and lines, except the Crownwood wastewater treatment plant, are 100% used and useful because none of the systems are oversized and the service areas are substantially built out.

The Crownwood wastewater plant serves the Crownwood quadruplex subdivision and flows from BFF Corp. The flows from BFF Corp. are metered amounts. There has been no change to the number of quadruplexes since the last case, and BFF has added eleven connections. No modifications have been made to the wastewater treatment plant.

The utility's wastewater treatment plant used and useful calculation was performed in accordance with Rule 25-30.432, F.A.C. The Crownwood wastewater treatment plant is permitted for 40,000 gpd based on three months of average daily flows (TMADF). The customer demand based on TMADF is 22,839 gpd. The utility has a small amount of growth, but no excessive infiltration and inflow. Based on these factors, the utility would be 61.25% used and useful (Attachment A).

In the utility's last rate case, the Crownwood plant was 68.65% used and useful. A review of flows from the last case shows that flows decreased 2,443 gpd on average. This decrease in flows could be due to conservation or perhaps a margin of error from calculating plant flows using elapsed time meters and lift station pump flow ratings.

Rule 25-30.432, F.A.C., provides that in determining the amount of used and useful plant, the Commission will consider the plant capacity as permitted by the DEP, as well as a growth allowance, the extent of build out of the service area, and whether flows have decreased due to conservation or a loss of customers. Based upon a review of the Crownwood system, it appears that the reduced flows are related to conservation. Given the age of the system, the limited growth potential, and the impact of water conservation, staff recommends that the utility's wastewater plant be recognized as 68.65% used and useful as was determined by the Commission in the last rate case. This is consistent with the Commission's finding in other rate cases.³

Unaccounted for water is the amount of water produced or purchased that is not documented as sold to customers, used for flushing the system or firefighting, or lost through line breaks. It is Commission practice to allow 10% of the total water produced or purchased as an acceptable amount of unaccounted for water. The chemical, electrical and purchased water costs associated with unaccounted for water in excess of 10% should be adjusted so that rate payers do not bear those costs. In Orange County, the Davis Shores system had excessive unaccounted for water of 1.7%, and in Seminole County, the Little Wekiva and Crystal Lake systems had excessive unaccounted for water of 6.7%, and 2.1%, respectively. Staff recommends that no adjustment be made for those systems because the amount would not be material.

In Marion County, the Golden Hills system had a correction to the total gallons pumped amount based upon a review of the water plant's flow meter by the Florida Rural Water Association. Prior to this correction, the unaccounted for water was 21.45%. After correction to the total gallons pumped, the unaccounted for water was 5.7%. Staff is satisfied that the approach taken by the utility in soliciting assistance from the water association is a correct one; therefore, staff is persuaded that a reduction to expenses is not necessary. Likewise, in Pinellas County, Lake Tarpon showed 22.2% unaccounted for water in its MFRs. The utility explained that after review of this plant's meter by the Florida Rural Water Association, the master meter at the water plant was replaced in 2006. Staff believes that changing the meter was prudent, and that the amount of unaccounted for water was due to the water plant flow meter not registering properly. Additionally, the utility is changing customers' meters when those meters are no longer registering within tolerance levels as specified by rule. Therefore, staff recommends no adjustment to expenses resulting from excessive unaccounted for water.

Based on the analysis above, staff recommends that UIF's water plants, water transmission and distribution systems, and wastewater collection systems should be considered to be 100% used and useful (U&U). The Crownwood wastewater treatment plant should be considered 68.65% U&U. Staff recommends that no adjustment be made for excess unaccounted for water for any of the utility's water systems.

³ See Order No. PSC-07-0287-PAA-WS, issued April 3, 2007, in Docket No. 060260-WS, In re: Application for increase in water and wastewater rates in Highlands County by Lake Placid Utilities, Inc.

Docket No. 060253-WS

Date: April 12, 2007

The appropriate non-U&U rate base component, depreciation expense, and property taxes should be \$3,656, \$8, and \$0 respectively. Accordingly, rate base should be decreased by \$3,656 and depreciation expense should be decreased by \$8.

Issue 8: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance for each system is in Table 8-1.

Table 8-1
Working Capital Allowance

County	Water	Wastewater	Total
Marion	28,480	8,826	\$33,306
Orange	24,579		\$24,579
Pasco	140,794	94,006	\$234,800
Pinellas	19,785		\$19,785
Seminole	129,128	139,167	\$268,295
TOTAL	\$338,766	\$241,999	\$580,765

(Romig)

Staff Analysis: The utility calculates its working capital on a total UIF basis, based on the UIF balance sheet. It then allocates the UIF working capital to the five counties, that include eight systems, based on operating and maintenance expense. Staff believes the utility’s methodology to be a reasonable method. However, staff has made several adjustments to the UIF working capital allowance that staff believes to be appropriate. Several of staff’s adjustments are addressed in other issues. Table 8-2 shows UIF’s working capital allowance as filed, staff’s adjustments, and the staff adjusted UIF working capital allowance. Table 8-3 shows the allocation based on the recommended operating and maintenance expenses.

Table 8-2
UIF Working Capital Allowance

Account Description	Amount per MFR	Staff Adjustments					Amount per Staff
		Audit Finding No. 17	Audit Finding No. 31	Issue 2	Issue 3	Issue 4	
Cash	1,979,643	(1,903,373)					76,270
Accts. & Notes Rec.	366,375						366,375
Deferred Debits	457,532		(153,743)	(25,223)		24,239	302,805
Misc. current & Accrued Assets	1,262						1,262
Accounts Payable	(106,145)						(106,145)
Accrued Taxes	(79,380)						(79,380)
Accrued Interest	5,478						5,478
Misc. current & Accrued Liabilities	32,975						32,975
Deferred Credits – Other	0				(14,875)		(14,875)
Total	\$2,657,740	(\$1,903,373)	(\$153,743)	(\$25,223)	(\$14,875)	\$24,239	\$584,765

Table 8-3
 Allocation of Working Capital Allowance

System	O&M Expenses	Ratio to Total	Allocated WCA per Staff	Allocated WCA per MFR	Staff Adjustment
Marion Water	86,870	.0487	28,480	126,774	(98,294)
Marion W/Water	26,921	.0151	8,826	35,879	(27,053)
Orange Water	74,974	.0420	24,579	107,107	(82,528)
Pasco Water	429,464	.2408	140,794	648,489	(507,695)
Pasco W/Water	286,748	.1608	94,006	411,684	(317,678)
Pinellas Water	60,351	.0338	19,785	98,602	(78,817)
Seminole Water	393,884	.2208	129,128	626,429	(497,301)
Seminole W/Water	424,501	.2380	139,167	602,775	(463,608)
Total	\$1,783,713	1.000	\$584,765	2,657,739	(\$2,072,974)

Audit Finding No. 17

The utility included a thirteen-month average balance of \$1,972,664 for cash in a Bank of America bank account in Florida. This is part of the utility's \$1,979,643 cash that is included in its requested working capital allowance. The Bank of America account is used to transfer funds to the cash account to the parent company. The actual balances from the bank statements are displayed in Table 8-4.

Table 8-4
 Bank Balances

Bank of America		
	End of Month Balance	Highest Daily Balance
December 2004	69,491.47	
2005		
January	57,880.04	155,033.98
February	81,762.25	152,169.28
March	92,263.83	182,388.09
April	57,521.56	167,886.75
May	62,917.12	154,042.08
June	63,824.27	249,116.84
July	54,978.23	170,051.02
August	93,832.76	156,052.27
September	54,152.90	176,982.25
October	145,765.01	166,406.75
November	89,547.07	138,466.73
December	67,574.21	157,442.42
Average	76,270.06	168,834.87
Amount in MFRs	\$1,979,643.00	\$1,979,643.00
Difference	(1,903,372.94)	(\$1,810,808.13)

Timing differences create differences between the general ledger and the bank statements. The thirteen-month average bank statements balance is \$1,896,394 less than the thirteen-month average general ledger balance. The twelve-month average of the highest day's balance in the month is \$1,810,808 less than the thirteen-month average general ledger balance. Further, if this utility was a Class B or Class C utility, the UIF working capital allowance before allocation would be limited to one-eighth of operating and maintenance expense, or \$210,784 (the recommended \$1,686,271 divided by 8.) Since the purpose of the working capital allowance is to give the company enough current funds to cover its expenses and because the intercompany payable/receivable is excluded from both the capital structure and rate base, staff believes it reasonable to reduce cash in working capital allowance by \$1,903,372, to \$76,270.

Audit Finding No. 31

The utility recorded more costs for rate case expense than allowed in Order No. PSC-03-1440-FOF-WS, issued December 22, 2003. The utility included the unamortized portion of these costs in the working capital calculation. The calculation of the amount of unamortized rate case expense included in its filing and the correct amount of unamortized expense, along with the required adjustment, is shown in Table 8-5. Working capital allowance is reduced by \$153,743.

Table 8-5
Unamortized Rate Case Expense in Working Capital Allowance

Balance at 12/31/03	2004 Amortization	Balance at 12/31/04	2005 Amortization	Balance at 12/31/05	Test Year Average Balance
\$397,600	\$99,400	\$298,200	\$99,400	\$198,800	\$248,500
Unamortized Rate Case Expense per Utility					\$402,243
Adjustment per Staff					\$153,743

Issue 2 – Working Capital Impact

Numerous adjustments were made to rate base and net operating income. Based on the adjustments in Issue 2 there is a \$25,223 decrease to deferred debits, a decrease to working capital.

Issue 3 – Working Capital Impact

The gain from the retirement and sale of the Bartelt-Wis-Bar property results in a \$14,875 increase to deferred credits – other, a decrease to working capital allowance.

Issue 4 – Working Capital Impact

The loss from the dismantlement of the Crescent Heights and Davis Shores water treatment plant results in \$24,239 increase to deferred debits, an increase to working capital allowance.

Based on the foregoing adjustments, staff recommends the working capital allowances that follow in Table 8-1.

Table 8-1
Working Capital Allowance

County	Water	Wastewater	Total
Marion	28,480	8,826	\$33,306
Orange	24,579		\$24,579
Pasco	140,794	94,006	\$234,800
Pinellas	19,785		\$19,785
Seminole	129,128	139,167	\$268,295
TOTAL	\$338,766	\$241,999	\$580,765

Issue 9: What is the appropriate rate base for the December 31, 2005, test year?

Recommendation: The appropriate rate bases for the UIF systems for the test year ending December 31, 2005, are as shown in Table 9-1.

Table 9-1
 Rate Base

County	Water	Wastewater	Total
Marion	\$337,598	\$109,182	\$446,780
Orange	\$99,049		\$99,049
Pasco	\$1,906,346	\$748,738	\$2,655,084
Pinellas	\$284,269		\$284,269
Seminole	\$2,147,204	\$2,291,055	\$4,438,259
Total	\$4,774,466	\$3,148,975	\$7,923,441

(Romig, Redemann, Walden)

Staff Analysis: Staff has calculated UIF's water and wastewater rate bases by system and by county using the utility's MFRs with adjustments as recommended in the preceding issues, as shown in Table 9-1.

Table 9-1
 Rate Base

County	Water	Wastewater	Total
Marion	\$337,598	\$109,182	\$446,780
Orange	\$99,049		\$99,049
Pasco	\$1,906,346	\$748,738	\$2,655,084
Pinellas	\$284,269		\$284,269
Seminole	\$2,147,204	\$2,291,055	\$4,438,259
Total	\$4,775,466	\$3,148,975	\$7,923,441

COST OF CAPITAL

Issue 10: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.46% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Springer)

Staff Analysis: The return on equity (ROE) included in the utility's filing is 11.78%. This return is based on the application of the Commission's leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 39.96%.⁴

As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance of \$91,510,699 should be adjusted upward by \$3,093,004 to \$94,603,703. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 39.96% to 40.77%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.77%, the appropriate ROE is 11.46%.⁵ Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

⁴ Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), F.S.

⁵ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), F.S.

Issue 11: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005, is 6.92% for Marion County, 6.93% for Orange County, 7.17% for Pasco County, 7.32% for Pinellas County, and 7.33% for Seminole County. (Springer, Kyle)

Staff Analysis:

Marion County

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 6.92%. The weighted average cost of capital included in the utility's filing is 7.39%.

The test year per book amounts were taken directly from Marion County's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 10. In addition, Audit Finding No. 37 addresses the appropriate cost rates for long-term debt and short-term debt. The long-term debt cost rate was reduced from the company proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 6.92%. Schedule No. 2 details staff's recommendation.

Orange County

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 6.93%. The weighted average cost of capital included in the utility's filing is 7.86%.

The test year per book amounts were taken directly from Orange County's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 10. In addition, Audit Finding No. 37

recommended an adjustment to the cost rates for long-term debt and short-term debt. The long-term debt cost rate was reduced from the company proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 6.93%. Schedule No. 2 details staff's recommendation.

Pasco County

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.17%. The weighted average cost of capital included in the utility's filing is 7.69%.

The test year per book amounts were taken directly from Pasco County's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 10. In addition, staff auditors recommended an adjustment to the cost rates for long-term debt and short-term debt (Audit Finding No. 37). The long-term debt cost rate was reduced from the company proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.17%. Schedule No. 2 details staff's recommendation.

Pinellas County

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.32%. The weighted average cost of capital included in the utility's filing is 7.69%.

The test year per book amounts were taken directly from Pinellas County's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 10. In addition, staff auditors recommended an adjustment to the cost rates for long-term debt and short-term debt (Audit Finding No. 37). The long-term debt cost rate was reduced from the company proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.32%. Schedule No. 2 details staff's recommendation.

Seminole County

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.33%. The weighted average cost of capital included in the utility's filing is 7.71%.

The test year per book amounts were taken directly from Seminole County's MFR filing Schedule D-2. Staff made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 37, Utilities, Inc.'s average common equity balance should be adjusted upward by \$3,093,004. In addition, staff auditors recommended an adjustment of \$119,308 to decrease the balance of short-term debt.

Staff revised the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.46% is discussed in Issue 10. In addition, staff auditors recommended an adjustment to the cost rates for long-term debt and short-term debt (Audit Finding No. 37). The long-term debt cost rate was reduced from the company proposed rate of 6.65% to 6.58%. The short-term debt cost rate was increased from the utility proposed rate of 5.01% to 5.14%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding these adjustments.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, staff recommends a weighted average cost of capital of 7.33%. Schedule No. 2 details staff's recommendation.

NET OPERATING INCOME

Issue 12: Should the audit adjustments to net operating income with which the utility agrees, be made?

Recommendation: Yes. O&M expense, depreciation expense and property taxes should be decreased as shown in Tables 12-1 and 12-2.

Table 12-1
 O&M Expense

Audit Finding	19	20	21	23	24	26	27	TOTAL
Marion Water				\$80		(\$6,617)	(\$903)	(\$7,440)
Marion Wastewater	(\$431)			(80)		(836)	903	(444)
Orange Water	(586)					(3,900)		(4,486)
Pasco Water	(1,346)	\$1,237		(2,303)		(36,069)		(38,481)
Pasco Wastewater	(935)		(\$14,464)	2,303		(13,745)		(26,841)
Pinellas Water	(755)	(1,237)				(5,247)		(7,239)
Seminole Water				(4,621)	(\$4,800)	(32,389)		(41,810)
Seminole Wastewater			(1,907)	4,621		(17,285)		(14,571)
Total	(\$4,053)	\$0	(\$16,371)	\$0	(\$4,800)	(\$116,088)	\$0	(\$141,312)

Table 12-2
 Property Tax Expense

Audit Finding 32	Decrease	Increase
Marion Water	(\$1,081)	
Marion Wastewater	(137)	
Orange Water	(638)	
Pasco Water	(5,898)	\$17,186
Pasco Wastewater	(2,247)	
Pinellas Water	(858)	354
Seminole Water	(5,295)	1,440
Seminole Wastewater	(2,826)	
Total	(\$18,980)	\$18,980

(Marsh)

Staff Analysis: By letter dated February 12, 2007, UIF indicated its agreement with the following audit findings.

Audit Finding No. 19 - Adjustment To Remove Out Of Period Expenses

The utility has included more than twelve months of purchased electric, meter reading and purchased water treatment. Operating Expenses should be reduced by \$431 for Marion County, \$586 for Orange County, \$2,281 for Pasco County, and \$755 for Pinellas County to remove out-of-period expenses. Adjustments are shown in Table 12-1.

Audit Finding No. 20 & 24 - Adjustment To Lawn Mowing Expense

The utility pays Ken's Bushhogging for lawn mowing services for Lake Tarpon in Pinellas County, and Orangewood and Summertree in Pasco County. The utility usually splits these invoices equally between each of the subdivisions. However, in May 2005, the utility charged the entire amount to Summertree. According to utility personnel, the invoices should be allocated at 17% to Lake Tarpon, 33% to Orangewood, and 50% to Summertree. The auditor noted that the allocation appears reasonable based on observations of the space being mowed.

The utility also has charged \$400 a month to Acct. No. 6759415 – Mowing and Snowplowing to Water O&M Expenses in Seminole County. Invoices could not be provided for this amount. The utility determined that the charge was not related to UIF and confirmed that the amount should be removed.

Operating and Maintenance Expenses for Pasco County water should be increased by \$1,237, and decreased by \$1,237 for Pinellas County water. Water O&M Expense should be decreased by \$4,800 in Seminole County.

Adjustments are shown in Table 12-1.

Audit Finding No. 21 - Adjustment To Year End Accruals

In December of 2005, the utility accrued expenses which were paid in 2006. Some of the invoices paid were not as much as was accrued. In addition, a 2004 invoice was paid in 2005 but the accrued amount that was reversed out in January was not sufficient to cover the invoice. The difference decreases purchased wastewater expenses in Pasco County by \$14,464, and by \$1,907 for Seminole County. Adjustments are shown in Table 12-1.

Audit Finding No. 22 - Adjustment To O&M Expense For Items That Should Be Capitalized

The utility recorded two capital additions to utility plant in service in operating expenses. The items should have also included a corresponding retirement amount. The utility's policy is to retire 75% of the capital asset's purchase price when the original cost cannot be determined. They also recorded a permit renewal that should have been recorded in a deferred asset account and amortized over three years.

The effect on the respective county thirteen-month average rate base and year end net operating income balances is as follows:

Marion County

- Water net plant should be increased by \$194
- Water O&M expense should be reduced by \$1,044
- Water depreciation expense should be increased by \$16

Seminole County

- Water net plant should be increased by \$176
- Working capital should be increased by \$655
- Water O&M expense should be reduced by \$5,624 (\$275 - \$4,800 - \$1,099)
- Water depreciation expense for should be increased by \$73

Adjustments are addressed as part of Issue 2.

Audit Finding No. 23 - Adjustment To Bad Debt Expense

The utility has charged all bad debt expense to water even though many of the bills being written off also included wastewater charges. O&M expense should be increased by \$80 for water in Marion County and wastewater decreased by \$80. O&M expense should be decreased by \$2,303 for water in Pasco County and increased by \$2,303 for wastewater. O&M expense should be decreased by \$4,621 for water in Seminole County and increased by \$4,621 for wastewater. Adjustments are shown in Table 12-1.

Audit Finding No. 26 - Communications Expense

The utility charges its Nextel communication bills to UI which is allocated to the UIF systems only. Staff's review of the invoices indicates that UIF included charges for all the cell phones used by utility employees throughout the state of Florida. Using the December 2005 allocations based on equivalent residential connections (ERCs), UIF is allocated 12% of the total Florida common costs. Adjustments are shown in Table 12-1.

Audit Finding No. 27 - Chemicals Expense

The auditors determined that UIF has one wastewater treatment plant in Marion County. However, all Marion county chemicals were charged to water expenses. The utility has provided an analysis of its 2005 chemical purchases which indicates that \$903 of sodium hypochlorite was used at the Crownwood wastewater plant. As a result, O&M expenses for Marion County water should be decreased by \$903 and wastewater expenses increased by the same amount.

Audit Finding No. 32 - Adjustment To Property Taxes

In staff's analysis of the utility's property taxes, it was noted that the amounts recorded in the MFRs did not agree with the amounts listed on the actual tax bills from each county taxing district. An analysis of the individual property taxes revealed that the utility allocated \$18,980 in county specific tax bills to all five counties as common cost incurred, and that it also included \$893 for a vehicle registration fee in the allocated balance. Property tax expense should be redistributed for the respective water or wastewater systems as shown in Table 12-2.

Table 12-1
O&M Expense

Audit Finding	19	20	21	23	24	26	27	TOTAL
Marion Water				\$80		(\$6,617)	(\$903)	(\$7,440)
Marion Wastewater	(\$431)			(80)		(836)	903	(444)
Orange Water	(586)					(3,900)		(4,486)
Pasco Water	(1,346)	\$1,237		(2,303)		(36,069)		(38,481)
Pasco Wastewater	(935)		(\$14,464)	2,303		(13,745)		(26,841)
Pinellas Water	(755)	(1,237)				(5,247)		(7,239)
Seminole Water				(4,621)	(\$4,800)	(32,389)		(41,810)
Seminole Wastewater			(1,907)	4,621		(17,285)		(14,571)
Total	(\$4,053)	\$0	(\$16,371)	\$0	(\$4,800)	(\$116,088)	\$0	(\$141,312)

Table 12-2
Property Tax Expense

Audit Finding 32	Decrease	Increase
Marion Water	(\$1,081)	
Marion Wastewater	(137)	
Orange Water	(638)	
Pasco Water	(5,898)	\$17,186
Pasco Wastewater	(2,247)	
Pinellas Water	(858)	354
Seminole Water	(5,295)	1,440
Seminole Wastewater	(2,826)	
Total	(\$18,980)	\$18,980

Conclusion

Staff recommends that O&M expense and property taxes should be decreased as shown in Tables 12-1 and 12-2.

Docket No. 060253-WS
Date: April 12, 2007

Issue 13: Should an adjustment be made to Pinellas County's test year operating and maintenance expenses for billing and collection services provided by Utilities, Inc. of Florida?

Recommendation: Yes. The test year operating and maintenance expenses should be decreased by \$2,241 for the receipt of fees received from Pinellas County Utilities (PCU) for the billing and collection services provided to PCU. (Kaproth)

Staff Analysis: UIF provides water service only in Pinellas County. The wastewater service is provided by Pinellas County Utilities. In an agreement between UIF and PCU, UIF agreed to perform the billing and collection service for the wastewater services provided by PCU. As such, both the water and wastewater billings are submitted to the customers on one bill prepared by UIF. For this service and reporting costs, PCU pays UIF the postage cost for each bill, which is currently \$.39, plus the cost of the reports at \$1.29 per month. During the test year, the total was \$2,241 ((5,708 connections x .39) + (12 x \$1.29)).

As shown in Audit Finding No. 18, postage expense for UIF was allocated from its Northbrook office. Further, it was determined that this allocation from the Northbrook office was not credited for the amount paid to UIF by PCU.

To illustrate UIF's billing process, the utility provided: 1) an invoice to PCU for the amount due for bills and mailing; 2) the cash book ledger displaying the amount from the above invoice; and 3) the remittance letter from the utility to PCU, all for the billing cycle September 15 through October 15, 2006.

Staff believes that the amount on the invoices to PCU should be recorded as a contra-expense, reducing its billing and collection costs to the net cost of the billing and collection.

Therefore, test year operating and maintenance expenses should be decreased by \$2,241 for the receipt of fees received from Pinellas County Utilities (PCU) for the billing and collection services provided to PCU.

Issue 14: Should a pro forma miscellaneous service charge revenue adjustment be made to test year revenues?

Recommendation: Yes. Using the incremental increase from the recommended charges addressed in Issue 32 and the number of after hours initial connections, normal reconnections and premises visits, miscellaneous service revenues should be increased by \$306 in total and as shown by county in Table 14-1.

Table 14-1
 Pro Forma Miscellaneous Service Charges

	Incremental Increase	No. of Reconnections and Premise Visits	Incremental Revenue Increase
Marion			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	1	\$7.50
Premises Visit	\$5.00	0	0
Total - Marion			\$7.50
Orange			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	4	\$30.00
Premises Visit	\$5.00	2	\$10.00
Total - Orange			\$40.00
Pasco			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	12	\$90.00
Premises Visit	\$5.00	3	\$15.00
Total - Pasco			\$105.00
Pinellas			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	1	\$7.50
Premises Visit	\$5.00	1	\$5.00
Total - Pinellas			\$13.50
Seminole			
Initial Connections	\$7.50	0	
Normal Reconnections	\$7.50	16	\$120.00
Premises Visit	\$5.00	4	\$20.00
Total - Seminole			\$140.00
Total Adjustment			\$306.00

(Kaproth)

Staff Analysis: In its filing, UIF reflected miscellaneous service revenue charges of \$18,660 for water and no miscellaneous service revenues for wastewater. As discussed in Issue 32, staff recommends \$22.50, a \$7.50 increase, for after hours initial connections, after hours normal reconnections and after hours violation reconnections. Staff also recommends \$15, a \$5 increase, for premises visits during after hours. In its response to Staff's Seventh Data Request, the utility stated that in the 2005 test year, it had no initial connections during after hours, 34 normal reconnections during after hours, and ten premises visits during after hours. The adjustments are shown by county and in total in Table 14-1.

Table 14-1
Pro Forma Miscellaneous Service Charges

	Incremental Increase	No. of Reconnections and Premise Visits	Incremental Revenue Increase
Marion			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	1	\$7.50
Premises Visit	\$5.00	0	0
Total - Marion			\$7.50
Orange			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	4	\$30.00
Premises Visit	\$5.00	2	\$10.00
Total - Orange			\$40.00
Pasco			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	12	\$90.00
Premises Visit	\$5.00	3	\$15.00
Total - Pasco			\$105.00
Pinellas			
Initial Connections	\$7.50	0	0
Normal Reconnections	\$7.50	1	\$7.50
Premises Visit	\$5.00	1	\$5.00
Total - Pinellas			\$13.50
Seminole			
Initial Connections	\$7.50	0	
Normal Reconnections	\$7.50	16	\$120.00
Premises Visit	\$5.00	4	\$20.00
Total - Seminole			\$140.00
Total Adjustment			\$306.00

Docket No. 060253-WS
Date: April 12, 2007

Thus, applying the incremental increase for the recommended after hour charges and the test year visits for after hour reconnections and premises visits results in a \$306 increase in miscellaneous service charges, shown by county in Table 14-1.

Issue 15:

What is the appropriate amount of allocated WSC and common expenses for Utilities, Inc. of Florida?

Recommendation:

The appropriate WSC O&M expenses and taxes other than income (TOTI) for UIF are \$198,176 and \$9,571, respectively. Accordingly, UIF's O&M expenses and taxes other than income should be adjusted as follows:

Table 15-1

County	Water O&M Exp.	Wastewater O&M Exp.	Water TOTI	Wastewater TOTI.
Marion	(\$905)	(\$114)	(\$20)	(\$2)
Orange	(535)	-	(11)	-
Pasco	(4,941)	(1,882)	(107)	(41)
Pinellas	(718)	-	(15)	-
Seminole	(4,441)	(524)	(96)	38
Total	(\$11,540)	(\$2,520)	(\$249)	(\$5)

Further, the appropriate common O&M expenses for UIF are \$125,268. Accordingly, UIF's O&M expenses should also be decreased as follows:

Table 15-2

County	Water O&M Exp.	Wastewater O&M Exp.
Marion	(\$732)	(\$93)
Orange	(432)	-
Pasco	(4,612)	(1,669)
Pinellas	(957)	-
Seminole	(3,613)	(1,948)
Total	(\$10,346)	(\$3,710)

(Fletcher)

Staff Analysis:

In its filing, the utility reflected total WSC allocated O&M expenses of \$212,236 and taxes other than income of \$9,825. UIF also recorded total common allocated O&M expenses of \$129,013. As discussed below, staff believes adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include recommended audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors, officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, staff recommends that the appropriate WSC expenses, before any allocation, are \$7,458,207. Although there was no audit finding in the AT audit regarding UIF's common expenses, the audit of UIF revealed two audit findings.

In Audit Finding No. 29 of the audit for UIF, the staff auditor stated that the Cost Center 600 includes two groups: (1) those costs that are allocated to all UI subsidiaries in Florida; and (2) those costs charged directly to UIF and allocated to the utility's five county systems. The auditor also stated that the utility charged some invoices totaling \$3,049 as direct costs, but the auditor's review indicates that these costs actually benefit all of UI's subsidiaries in Florida. The auditor recommended that UIF's O&M expenses should be reduced by \$3,049 before the common costs are allocated. In Audit Finding No. 30, the auditor stated that several invoices were charged to the wrong cost center and others should also have been allocated to all Florida subsidiaries and not just the UIF county systems. The auditor recommended that UIF's O&M expenses should be reduced by \$1,174 to correct charges to the wrong cost center and reduced by \$6,089 before the common costs are allocated. In its response to the audit for this utility, UIF agreed with the above recommended audit adjustments. Thus, staff recommends that the appropriate UIF O&M expenses before any allocation are \$275,788.

As recommended in Issue 8, UI should use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, staff recommends that the appropriate WSC O&M expenses and TOTI for UIF are \$198,176 and \$9,571, respectively. Accordingly, UIF's O&M expenses and taxes other than income should be adjusted as follows:

Table 15-1

County	Water O&M Exp.	Wastewater O&M Exp.	Water TOTI	Wastewater TOTI.
Marion	(\$905)	(\$114)	(\$20)	(\$2)
Orange	(535)	-	(11)	-
Pasco	(4,941)	(1,882)	(107)	(41)
Pinellas	(718)	-	(15)	-
Seminole	(4,441)	(524)	(96)	38
Total	(\$11,540)	(\$2,520)	(\$249)	(\$5)

Further, staff recommends the appropriate common O&M expenses for UIF are \$125,268. Accordingly, UIF's O&M expenses should also be decreased as follows:

Table 15-2

County	Water O&M Exp.	Wastewater O&M Exp.
Marion	(\$732)	(\$93)
Orange	(432)	-
Pasco	(4,612)	(1,669)
Pinellas	(957)	-
Seminole	(3,613)	(1,948)
Total	(\$10,346)	(\$3,710)

Issue 16: Should an adjustment be made to the utility's pro forma salaries & wages, pensions & benefits, and payroll taxes?

Recommendation: Yes. UIF's salaries and wages, pensions and benefits, and payroll taxes should be reduced as follows:

Table 16-1

County	Salaries & Wages	Pensions & Benefits	Payroll Taxes
Marion - Water	(\$4,423)	(\$245)	(\$365)
Marion - Wastewater	(562)	(31)	(46)
Orange - Water	(2,611)	(144)	(216)
Pasco - Water	(24,126)	(1,336)	(1,996)
Pasco - Wastewater	(9,192)	(509)	(761)
Pinellas - Water	(3,509)	(194)	(290)
Seminole - Water	(21,663)	(1,200)	(1,792)
Seminole - Wastewater	(11,561)	(640)	(956)
Total	(\$77,647)	(\$4,299)	(\$6,422)

(Fletcher)

Staff Analysis: In its filing, UIF reflected historical salaries and wages, pensions and benefits, and payroll taxes of \$344,925, \$94,706 and \$35,641, respectively. The utility requested pro forma increases in salaries and wages, pensions and benefits, and payroll taxes of \$93,199, \$8,570, and \$8,029, respectively. The pro forma salaries and wages represent an increase of 27.02%.

In Staff's First Data Request in Docket No. 060261-WS, the utility was asked to explain why its pro forma salaries and wages increases were significantly greater than the Commission's 2006 price index of 2.74%. In its response, the utility explained that its increases include all new employees' salaries, payroll taxes, and benefits for office employees and operators. The utility also stated that the salaries were annualized to reflect a full year of costs and a cost of living increase was applied across the board to all Florida office employees and operators.

In Staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees through September 2006. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to June 2006. The total average salaries from 2005 to 2006 increased \$74,616; however, staff notes the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

From the information provided by UI, staff is unable to attribute the 2006 employee changes to the respective pro forma salary increases in the UI docketed cases. The utility has the burden of proving that its costs are reasonable. See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982). Staff believes that UI has not met its burden of proof of showing how the employee changes from 2005 to 2006 affect the respective rate cases.

On January 18, 2007, the utility hand delivered a two-page document reflecting the title and duties of two new employees. However, this document did not contain the annual salary for these two employees nor did it show the utility’s calculation of how their respective salaries are allocated to the UI’s Florida subsidiaries. Further, the utility has not provided any information regarding any other employee changes from July 1, 2006, to the present.

As such, with the exception of Sandalhaven (no requested salary increase),⁶ staff believes the requested pro forma salary increases in UI’s other respective rate cases are excessive. Staff notes the historical five-year average salary increase of 4.51% is 177 basis points above the Commission’s 2006 Price Index of 2.74%. With the exception of Sandalhaven, staff recommends that pro forma salary increases in all of UI’s respective cases be limited to the 4.51% above the 2005 historical salary amounts. The Commission has previously limited pro forma salaries adjustments to a utility’s historical average salary increases.⁷ Therefore, staff recommends that UIF’s salaries and wages, pensions and benefits, and payroll taxes be reduced as follows:

Table 16-1

County	Salaries & Wages	Pensions & Benefits	Payroll Taxes
Marion - Water	(\$4,423)	(\$245)	(\$365)
Marion - Wastewater	(562)	(31)	(46)
Orange - Water	(2,611)	(144)	(216)
Pasco - Water	(24,126)	(1,336)	(1,996)
Pasco - Wastewater	(9,192)	(509)	(761)
Pinellas - Water	(3,509)	(194)	(290)
Seminole - Water	(21,663)	(1,200)	(1,792)
Seminole - Wastewater	(11,561)	(640)	(956)
Total	(\$77,647)	(\$4,299)	(\$6,422)

⁶ Docket No. 060285-SU, In re: Application for increase in wastewater rates in Charlotte County by Utilities, Inc. of Sandalhaven.

⁷ By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility’s actual historical average wage increases of 3%.

Issue 17: Should an adjustment be made to purchased power expense?

Recommendation: Staff recommends that O&M expenses be reduced by \$10,163 and as indicated for the respective water or wastewater systems as shown in Table 17-1.

Table 17-1

County	Allocation Percentage	Allocation Error Office	Error Cherry Way	Add back L/S at Weathersfield	Total to Correct
Marion Water	5.70%	(\$636)	N/A	N/A	(\$636)
Marion Wastewater	0.72%	(81)	N/A	N/A	(81)
Orange Water	3.36%	(375)	N/A	N/A	(375)
Pasco Water	31.07%	(3,469)	N/A	N/A	(3,469)
Pasco Wastewater	11.84%	(1,322)	(\$358)	N/A	(1,680)
Pinellas Water	4.52%	(505)	N/A	N/A	(505)
Seminole Water	27.90%	(3,115)	N/A	N/A	(3,115)
Seminole Wastewater	14.89%	(1,662)	N/A	\$1,360	(302)
Total		(\$11,165)	(\$358)	\$1,360	(\$10,163)

(Marsh)

Staff Analysis: Two of the utility's electric meters are used for more than one purpose. The electric meter for the lift station at Cherry Way in Pasco County also services an irrigation meter not owned by UIF. The electric for the Cherry Way Lift Station in Pasco County was estimated by the utility using the elapsed time readings for the lift station pumps logged monthly by utility operators. The amount to be removed related to irrigation is \$358. The utility is in the process of disconnecting the irrigation pump from the electric meter and looking further into the matter.

The electric meter that serves the UIF main office in Altamonte Springs also serves a lift station for the Weathersfield wastewater system in Seminole County. The UIF office meter is charged to a subdivision that is allocated to UIF systems only. The UIF office is actually used for all Florida systems and should be allocated to all Florida systems. The December 2005 allocation based on ERCs allocates 12% of total Florida common expenses to the UIF systems. The staff auditors determined that the amount that should have been allocated to other Florida systems is \$11,165. The utility agrees with this adjustment. However, the total adjustment shown in the audit finding contained a mathematical error. Thus, the total amount differs from Audit Finding No. 25.

UIF O&M expenses for the irrigation meter at Cherry Way, the portion of the office electric expense related to other Florida systems, and the electric expense related to Weathersfield lift station should be adjusted are displayed below.

Table 17-1

County	Allocation Percentage	Allocation Error Office	Error Cherry Way	Add back L/S at Weathersfield	Total to Correct
Marion Water	5.70%	(\$636)	N/A	N/A	(\$636)
Marion Wastewater	0.72%	(81)	N/A	N/A	(81)
Orange Water	3.36%	(375)	N/A	N/A	(375)
Pasco Water	31.07%	(3,469)	N/A	N/A	(3,469)
Pasco Wastewater	11.84%	(1,322)	(\$358)	N/A	(1,680)
Pinellas Water	4.52%	(505)	N/A	N/A	(505)
Seminole Water	27.90%	(3,115)	N/A	N/A	(3,115)
Seminole Wastewater	14.89%	(1,662)	N/A	\$1,360	(302)
Total		(\$11,165)	(\$358)	\$1,360	(\$10,163)

Staff recommends that O&M expenses be reduced by a total of \$10,163 and as indicated for each county for the respective water or wastewater systems as shown in Table 17-1.

Issue 18: Should an adjustment be made to transportation expense?

Recommendation: Yes. O&M expense should be reduced by \$15,056, to remove an estimated amount for errors related to the assignment of transportation costs. The adjustments to the respective water or wastewater county systems are shown in Table 18-1.

Table 18-1

County	Allocation Percentage	Correction by County
Marion Water	5.70%	(\$858)
Marion Wastewater	0.72%	(109)
Orange Water	3.36%	(506)
Pasco Water	31.07%	(4,678)
Pasco Wastewater	11.84%	(1,782)
Pinellas Water	4.52%	(680)
Seminole Water	27.90%	(4,201)
Seminole Wastewater	14.89%	(2,242)
TOTAL	100.00%	(\$15,056)

(Marsh)

Staff Analysis: The utility pays a transportation management company for gas and repairs to its vehicles. The charges are recorded to each system based on the vehicles' assigned drivers' allocated time. The expenses related to the UIF systems are allocated to all five counties in the filing based on customers. Staff's review of these charges indicates that some allocated expenses for drivers not assigned to UIF have been charged directly to UIF. The difference between the general ledger and the invoices for the sample that was taken is \$3,598.

There is an 18% average allocation error rate in the audit staff's sample of transportation expenses. The sample included 23.9% of total transportation expenses. (\$19,987/\$83,646) Applying the 18% allocation error rate to the remaining transportation expenses, an error of \$15,056 is possible. Staff believes it is appropriate to make this application.

The utility agrees in part with Audit Finding No. 28, and proposes the Commission reduce the O&M expense by the actual error amount of \$3,598. However, the utility did not comment on the application of the error rate to the remaining transportation expenses that were not part of the audit sample.

The correction of the actual and estimated transportation expense error should be allocated to the five counties as displayed below.

Table 18-1

County	Allocation Percentage	Correction by County
Marion Water	5.70%	(\$858)
Marion Wastewater	0.72%	(109)
Orange Water	3.36%	(506)
Pasco Water	31.07%	(4,678)
Pasco Wastewater	11.84%	(1,782)
Pinellas Water	4.52%	(680)
Seminole Water	27.90%	(4,201)
Seminole Wastewater	14.89%	(2,242)
TOTAL	100.00%	(\$15,056)

Staff recommends that O&M expense should be reduced by the estimated total error of \$15,056, and for the respective water or wastewater county systems as shown in Table 18-1 above.

Issue 19: Should an adjustment be made to vehicle repairs?

Recommendation: Yes. A reduction to test year O&M expenses of \$6,441 should be made as shown in Table 19-1.

Table 19-1
Vehicle Repairs Expense Breakdown by County

County	Allocation Percentage	Reduction by County
Marion Water	5.70%	(\$367)
Marion Wastewater	0.72%	(46)
Orange Water	3.36%	(217)
Pasco Water	31.07%	(2,001)
Pasco Wastewater	11.84%	(763)
Pinellas Water	4.52%	(291)
Seminole Water	27.90%	(1,797)
Seminole Wastewater	14.89%	(959)
TOTAL	100.00%	(\$6,441)

(Marsh)

Staff Analysis: The utility charged two major vehicle repairs that were allocated to all five counties based on number of customers. The utility does not carry collision insurance, only liability. Any fleet of vehicles can expect to have accidents.

UIF responded to Audit Finding No. 35 that vehicle expenses in 2005 were not out of line with years past. It stated that the test year amount is not unusual compared to other years, and is not the highest total expense in the past five years. UIF explained that while 2005 had approximately \$40,000 in vehicle repairs, 2003's expense was nearly \$48,000.

The utility explained that only one repair during the five-year period was due to a collision where a utility employee was at fault. The amount was \$9,245 and occurred in 2005. UIF estimates the cost to provide collision insurance to be \$15,000 per year. Thus, it appears to staff that there has been a savings to the ratepayers because the cost due to collisions has been far less than the cost of insurance. Nevertheless, the fact that the collision occurred in the test year inflates the amount to be included in rates. The utility provided a five-year history of vehicle repair expense.

Table 19-2
Vehicle Repairs Expense

Year	2001	2002	2003	2004	2005	Average	Difference Between 2005 and the Average
Total Expense	\$23,332	\$29,925	\$47,880	\$26,662	\$40,001	\$33,560	(\$6,441)

Staff believes the average of the past five years of expense is a reasonable amount to be included in future rates. Accordingly, staff recommends a reduction to test year O&M expenses of \$6,441. The breakdown by county is shown in Table 19-1.

Table 19-1
Vehicle Repairs Expense Breakdown by County

County	Allocation Percentage	Reduction by County
Marion Water	5.70%	(\$367)
Marion Wastewater	0.72%	(46)
Orange Water	3.36%	(217)
Pasco Water	31.07%	(2,001)
Pasco Wastewater	11.84%	(763)
Pinellas Water	4.52%	(291)
Seminole Water	27.90%	(1,797)
Seminole Wastewater	14.89%	(959)
TOTAL	100.00%	(\$6,441)

Issue 20: Should adjustments be made to the utility's pro forma expense adjustments?

Recommendation: Yes. UIF's O&M expenses should be decreased by \$21,529 to reflect the removal of the utility's CPI adjustments. Amounts by county are shown in Table 20-1.

Table 20-1
Pro Forma O&M Adjustments

County	CPI
Marion Water	(\$1,261)
Marion Wastewater	(478)
Orange Water	(587)
Pasco Water	(6,552)
Pasco Wastewater	(2,121)
Pinellas Water	(1,018)
Seminole Water	(6,780)
Seminole Wastewater	(2,732)
TOTAL	(\$21,529)

(Marsh)

Staff Analysis: In its filing, UIF reflected several pro forma expense adjustments for inflation totaling \$21,529. As discussed below, staff believes the inflation adjustments should be removed.

First, in the utility's test year approval letter dated March 20, 2006, UIF stated that its historic test year ending December 31, 2005, is representative of a normal full year operation. However, on Schedule B-3, the utility made adjustments to increase its sludge removal expense, chemicals, materials & supplies, contractual services – engineering, contractual services – accounting, contractual services – legal, contractual services – testing, contractual services – other, transportation expenses, insurance – other, bad debt expense, and miscellaneous expense. For each county, more than 40% of the total CPI adjustment was for miscellaneous expense alone. Staff does not believe the utility has adequately supported its CPI adjustments to the O&M expenses.

Staff recommends that UIF's O&M expenses should be decreased by \$21,529 to reflect the removal of the utility's CPI adjustments. Amounts by county are shown in Table 20-1.

Table 20-1
Pro Forma O&M Adjustments

County	CPI
Marion Water	(\$1,261)
Marion Wastewater	(478)
Orange Water	(587)
Pasco Water	(6,552)
Pasco Wastewater	(2,121)
Pinellas Water	(1,018)
Seminole Water	(6,780)
Seminole Wastewater	(2,732)
TOTAL	(\$21,529)

Issue 21: Does Utilities, Inc. of Florida have excessive infiltration and inflow for any of its wastewater collection systems, and if so, what adjustments should be made?

Recommendation: Yes. UIF had approximately 19.3% excessive infiltration and inflow (I & I) for its Seminole County wastewater collection system of Ravenna Park during the test year period. Staff recommends that the total purchased wastewater should be reduced by \$20,600 due to excessive I & I. (Redemann, Marsh)

Staff Analysis: In its MFRs, the utility provided calculations for I & I for its five wastewater systems, including Summertree and Wis-Bar in Pasco County, Crownwood in Marion County, and Ravenna Park and Weathersfield in Seminole County. The utility determined that approximately 18.92% or \$20,238.25 of Ravenna Park's treated wastewater was caused by excessive I & I, and no other systems have excess I & I. In the last rate case,⁸ the Commission determined that the Ravenna Park wastewater system had excessive I & I and made a \$45,478 adjustment. The utility has performed some rehabilitation to the collection system and wastewater flows have decreased since the last rate case.

Infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. Inflow results from water entering a wastewater collection system through manholes or lift stations. It is Commission practice that the allowance for infiltration should be 500 gallons per day per inch diameter pipe per mile, and an additional 10% of water sold should be allowed for inflow.⁹ The utility calculated the allowable I & I to be 4,605,907 gallons, and staff agrees with this number.

For the Ravenna Park system, there are about 340 single family homes and one elementary school. The total treated wastewater (25,844,000 gallons) was compared with the total estimated flow returned to the wastewater treatment plant. The utility estimated that 84% of residential water (14,150,991 gallons) and 100% of the general service water (2,199,000 gallons) was returned as wastewater. The Commission typically assumes 80% of residential water is returned as wastewater and 96% of general service water is returned as wastewater. The utility states that the residential lots are small and few customers have installed irrigation systems. The landscaping around the homes is primarily native vegetation and is sparsely landscaped. In the test year, the average daily water consumption was less than 240 gallons per day per connection, which indicates relatively little irrigation usage. Staff agrees with the utility's estimated 84% water returned for residential customers, but believes 96% (2,111,040 gallons) is a more realistic estimate of the water returned as wastewater for the elementary school.

Based on these estimates, the excessive I & I is 4,976,062 gallons per year (19.3%) of the treated wastewater. The City of Sanford charged the utility \$4.14 per thousand gallons of wastewater treated during the test year period. Staff proposes that the total purchased wastewater should be reduced by \$20,600 due to excessive I & I.

Staff reviewed the flows from the Summertree wastewater system in Pasco County and found that while it appeared from the MFRs that the system was sending more wastewater to the

⁸ See Order No. PSC-03-1440-FOF-WS.

⁹ Ibid.; and Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.

Docket No. 060253-WS

Date: April 12, 2007

county than it was billing, the wastewater sold data on Schedule F-10 includes capped gallons, rather than total gallons treated. Additionally, the utility is involved in a rehabilitation program for this wastewater system, finding damaged collection lines and repairing those lines as needed. I & I does not appear to be a problem in this system. All other systems do not have excessive I & I.

Therefore, staff recommends that UIF had approximately 19.3% excessive I & I for its Seminole County wastewater collection system in Ravenna Park during the test year period. The total purchased wastewater should be reduced by \$20,600 due to excessive I & I.

Issue 22: What is the appropriate amount of rate case expense?

Recommendation: The appropriate total rate case expense for the current docket is \$298,364. This expense should be recovered over four years for an annual expense of \$74,591. The allocated portion of the annual expense to water and wastewater is \$53,429 and \$21,162, respectively. As discussed in Issue 24, Orange County rates will remain unchanged. Since no rate increase is appropriate for Orange County, that portion of rate case expense should be disallowed.

Table 22-1
Rate Case Expense Adjustments for Current Case By County

	Requested Amount	Adjustment	Staff Recommended Amount
Marion Water	\$4,621	(\$222)	\$4,399
Marion Wastewater	587	(28)	559
Orange Water	2,728	(2,728)	0
Pasco Water	25,204	(1,210)	23,994
Pasco Wastewater	9,603	(461)	9,142
Pinellas Water	3,666	(176)	3,490
Seminole Water	22,631	(1,087)	21,544
Seminole Wastewater	12,079	(616)	11,463
Total	\$81,119	(\$6,528)	\$74,591

The appropriate amount of amortization to be included for the prior rate proceeding is \$99,400. Rate case expense should be increased by \$62,125 to bring the prior rate case expense to this amount. The amortization adjustments for water and wastewater are \$45,646 and \$16,479, respectively.

Table 22-2
Prior Rate Case Expense Adjustment By County

	Prior Rate Proceeding	Amount included in requested rate case expense	Amount to be added to test year
Marion Water	\$7,668	\$2,123	\$5,545
Marion Wastewater	597	270	327
Orange Water	2,451	1,253	1,198
Pasco Water	38,060	11,581	26,479
Pasco Wastewater	15,152	4,413	10,739
Pinellas Water	4,226	1,685	2,541
Seminole Water	20,282	10,399	9,883
Seminole Wastewater	10,964	5,551	5,413
Total	\$99,400	\$37,275	\$62,125

(Marsh)

Staff Analysis: As discussed in detail below, staff believes that adjustments are necessary to reflect the appropriate amount of test year amortization for the utility's prior case and the appropriate amount of rate case expense for this current case. UIF has requested a total annual amortization of \$118,393. The amount for the current case is \$81,119 per year. UIF also included the remaining expense from the prior case to be amortized over the next four years.

Rate Case Expense for Prior Rate Proceeding

On MFR Schedule B-10, the utility combined \$149,099 for prior unamortized rate case expense with its estimated rate case expense of \$324,474 for this docket. This represents a total combined requested amount of \$473,573, with a requested annual amortization amount of \$118,393 ($\$473,573/4$). Of the total proposed amortization expense, the amount associated with the prior case is \$37,275 ($\$149,099/4$).

Section 367.0816, F.S., requires water and wastewater utilities to automatically reduce their rates when rate case expense has been fully amortized. In accordance with the statute and Order No. PSC-03-1440-FOF-WS, UIF is required to reduce its rates by \$99,400 effective January 1, 2008, when its prior rate case expense would be fully amortized. If the unamortized balance of prior rate case expense were to be added to the current balance and reamortized over the next four years, the utility would be penalized when the four-year rate reduction takes place. Therefore, staff believes it is appropriate to increase the amount of annual rate case expense amortization for the prior docket. This is consistent with Commission practice in other dockets.¹⁰ Accordingly, an additional \$62,125 ($\$99,400 - \$37,275$) in prior rate case expense should be included in test year expenses as shown in Table 22-2.

Table 22-2
Prior Rate Case Expense Adjustment By County

	Prior Rate Proceeding	Amount included in requested rate case expense	Amount to be added to test year
Marion Water	\$7,668	\$2,123	\$5,545
Marion Wastewater	597	270	327
Orange Water	2,451	1,253	1,198
Pasco Water	38,060	11,581	26,479
Pasco Wastewater	15,152	4,413	10,739
Pinellas Water	4,226	1,685	2,541
Seminole Water	20,282	10,399	9,883
Seminole Wastewater	10,964	5,551	5,413
Total	\$99,400	\$37,275	\$62,125

¹⁰ See Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

Rate Case Expense for Current Case

UIF included an estimate of \$324,474 for current rate case expense in its MFRs. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 23, 2007, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$236,776. The components of the estimated rate case expense are as follows:

Table 22-3
Requested Rate Case Expense for Current Case

	MFR Estimated	Actual through 2006	Additional Estimated	Revised Total
Legal and Filing Fees	\$64,500	\$52,691*	\$96,779	\$149,470
Accounting Consultant Fees	157,600	171,369*	15,830	187,199
Engineering Consultant Fees	10,000	20,427	7,797	28,224
WSC In-house Fees	68,500	38,623	25,202	63,825
Office Temp Fees	0	12,242	1,967	14,209
Travel – WSC	3,200	1,640	1,600	3,240
Miscellaneous	12,000	782	11,218	12,000
Notices	8,674	20,929	0	20,929
Total Rate Case Expense	\$324,474	\$318,703	\$160,393	\$479,096
*Includes unbilled amounts and disbursements				

Pursuant to Section 367.081(7), F.S., the Commission “shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable.” Also, it is the utility’s burden to justify its requested costs.¹¹ Further, the Commission has broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.¹² As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on its review, staff believes several adjustments are necessary to the revised rate case expense estimate.

Staff notes that the utility provided two different sets of estimates to complete the case for its consultants. The amounts in Table 22-3 reflect the higher estimates. No justification was

¹¹ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

¹² See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied 529 So. 2d 694 (Fla. 1988).

provided for the higher estimates. Therefore, the differences should be removed as shown in Table 22-4.

Table 22-4
Differences in Estimates

	Per Individual Schedules	Per Spreadsheet	Difference
RS&B	\$97,752	\$149,470	\$51,718
MSAI	\$176,259	\$187,199	\$10,940
MRC	\$23,692	\$28,224	\$4,532
TOTAL	\$297,703	\$364,893	\$67,190

The second adjustment relates to costs incurred to correct deficiencies in the MFR filing. Rose, Sundstrom & Bentley, LLP (RS&B), the law firm representing UIF, reduced its invoice amounts by \$522 which were attributable to MFR deficiencies. However, based on staff's review of invoices, RS&B's actual costs related to MFR deficiencies were \$1,263, which represents an additional \$741. Milian, Swain & Associates, Inc. (MSAI), the utility's accounting consulting firm, listed actual costs of \$1,430 for MFR deficiencies. However, this amount was not removed from the rate case expense. Further, in a breakdown of billings provided by UIF, MSAI was shown as billing for \$8,530 related to MFR preparation in November and December 2006 and January 2007. Since the MFRs were filed October 2, 2006, any subsequent MFR preparation would be for deficiencies or other matters not pertaining to MFR preparation. Responses to the audit and to staff and OPC discovery did not need extensive accounting explanations and could have easily been answered by the company. Rate case expense should be reduced by the total amount of \$8,530 instead of \$1,430. Additionally, Management & Regulatory Consultants, Inc. (MRC) showed \$500 for response to a deficiency letter, but the amount was not removed from the invoices. Accordingly, staff recommends that a total of \$9,771 ($\$741 + \$8,530 + \500) should be removed as duplicative and unreasonable rate case expense.

The third adjustment relates to the utility's estimated legal fees and expenses to complete the rate case. The utility's counsel estimated 100.9 hours, or \$27,748 in fees, plus \$5,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel. RS&B also included \$10,313 in unbilled fees and an estimated \$2,000 in unbilled disbursements. As discussed below, staff reviewed these requested legal fees and expenses and believes these estimates reflect an overstatement. The total additional expense for legal fees is \$38,061 ($\$27,748 + \$10,313$) and for disbursements is \$7,000 ($\$5,000 + \$2,000$).

Staff believes it is appropriate to allow time for reviewing the recommendation, attending the agenda conference, reviewing the Commission's PAA Order, and submitting the appropriate customer notice and tariffs for approval. However, 60 hours was requested for responses to data requests, as well as 3 more hours to discuss same with UIF. Only a few requests were filed by staff and none by OPC in 2007. Staff believes six hours is a reasonable amount of time to respond to the data requests, since much of the work would actually be performed by UIF. This leads to a reduction of 57 hours, or \$15,675.

Further, the breakdown provided for the \$5,000 in disbursements as well as the \$2,000 in estimated disbursements for work already done appears excessive. Of the \$5,000 in

disbursements, \$2,000 was for travel to the agenda and to two customer meetings which took place after the last actual billing. Staff believes that a reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the amount of travel expense the Commission allowed for this law firm in the 2004 Labrador rate case supra. Staff calculated travel expenses of \$389, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109) and a meal allowance (\$65), but recommends \$414 consistent with the 2004 Labrador case. Legal counsel also traveled to customer meetings. The same amount should be allowed for each customer meeting. This brings the total for travel to \$1,242. Rate case expense should be reduced by \$758. (\$2,000 - \$1,242) In addition to travel expense, staff calculated an amount for miscellaneous disbursements. Staff examined the bills provided by RS&B. Excluding October 2006, which was atypical due to the actual filing of the case that month, the disbursements and expenses averaged \$242 per month. Allowing 5 months for 2007, through issuance of the final order, at \$242 per month, disbursements of \$1,210 appears reasonable. Therefore, staff believes disbursements should be decreased by \$3,790 (\$5,000 - \$1,210) for non-travel disbursements. Accordingly, staff recommends that rate case expense be decreased for travel and other disbursements by \$4,548 (\$7,000 - \$758 - \$3,790).

The fourth adjustment relates to the utility's estimated consultant fees for MRC. MRC's billings were for multiple rate cases. UIF allocated \$20,427 of the actual billings to UIF. A note from MRC on the invoices stated that when work was done for all systems, 40% of the amount should be allocated to UIF. Based on this note and the actual billings, staff recalculated the allocation and determined that \$15,123 related to UIF through December 6, 2006. Accordingly, rate case expense should be reduced by \$5,304 (\$20,427 - \$15,123).

Additionally, Mr. Seidman estimated 24 hours or \$3,265 including \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. Staff believes that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.¹³ However, staff is only aware of two subsequent data requests from staff regarding engineering issues with only minimal response. Staff believes that no more than four hours at \$135 per hour is reasonable for these data requests. Therefore, staff recommends that rate case expense be decreased by \$2,160 (16 hours x \$135) for completion of the case.

The fifth adjustment addresses the utility's estimated \$15,830 of consultant fees for MSAI to complete the rate case. The utility estimated 25 hours or \$4,000 for Ms. Swain, 14 hours or \$1,820 for Ms. Yapp, and 77 hours or \$10,010 for Ms. Bravo. The utility asserted that these estimated hours were to assist with data requests and audit facilitation. First, on February 23, 2007, UIF provided staff with an update of MSAI's actual and estimated costs to complete this case. Based on the types of questions in staff's data requests, staff believes the utility, with some assistance of its legal counsel, would be responsible for addressing them, not MSAI. Second, the staff audit report was issued on January 18, 2007, and the utility's response to this audit, in which most audit findings were agreed to, was filed with the Commission on February

¹³ See Order No. PSC-05-0624-PAA-WS, and Order No. PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

12, 2006. As such, there should be no estimated hours related to the audit in this case. Third, according to MFR Schedule B-10, the type of services to be rendered by MSAI were only to assist with the MFRs, data requests and audit facilitation. Based on the above, staff believes the utility has not met its burden to justify any of the \$15,830 estimated fees for MSAI to complete the rate case. Thus, staff recommends that rate case expense be decreased by \$15,830.

The sixth adjustment relates to WSC in-house fees. In its rate case expense update, the utility provided no information for WSC employees except the total hours and amount per employee.

In the utility's last rate proceeding, the Commission approved \$86,800 for WSC employees. The prior docket was a rate case that included a hearing process and thus, required more work to complete. Additionally, it appears that more of the work was done in-house for that case, while in the current docket much of the work was done by consultants. In its rate case expense update, UIF reflected estimated hours for WSC employees of 439.94 hours or \$21,216. The total requested actual hours plus the estimated hours to complete equals 2,154.25 hours. WSC provided a listing that reflected 996 hours for fifteen employees, which totaled \$39,772. Staff believes that the utility has not met its burden of proof that these hours relate to the utility's current rate case.

For this current case, an audit of the utility's books and records from 2001 to 2005 was performed. This audit report contained 37 audit findings. The utility disagreed in part with four regarding the calculation of accumulated depreciation, with the finding dealing with rate case expense, and also made comments on a few others. Based on the above, staff does not believe there are any foreseeable reasons why the utility would require the total requested actual and estimated hours of 1,659 in order to complete the current case.

Furthermore, in its rate case expense update, the utility simply stated that the estimated hours for WSC employees related to assistance with data requests and audit facilitation. Staff has several additional concerns regarding these estimated hours. First, as stated earlier, there should be no estimated hours related to audit facilitation in this case because the audit fieldwork was completed in 2006, and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.¹⁴ Third, based on the types of questions in staff's data requests subsequent to December 31, 2006, staff believes that minimal effort by the utility, with some assistance of its legal counsel, would be sufficient to address them.

For all of the reasons discussed above, staff believes that a reasonable and conservative level of hours for WSC employees is 75% of the actual hours. This represents a reduction of actual hours of 249 hours, or \$9,943, for WSC employees. Staff believes that a reasonable and conservative level of hours for WSC employees for completion of the case is 25% of the

¹⁴ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

projected hours. This represents a reduction of estimated hours of 497.25 hours, or \$18,894, for WSC employees. This allows 40 hours per month for completion of the case for WSC employees.

The seventh adjustment is for Office Temps. Receipts were provided for the various Office Temps who were assisting WSC. UIF claimed 546.147 actual hours for \$10,822, and an additional \$1,967 to complete the case with no breakdown of hours or duties. As the MFRs were being prepared, the various office temp charges were allocated among the ten different cases. However, after the MFRs were filed on October 2, 2006, the company began including the full amount of office temp charges in the UIF rate case expense. Of the 546.147 actual hours, 308.5 hours, or 56.5%, were after the MFRs were filed. The duties were listed as "office assistance." Staff believes that the utility has not met its burden of proof that these hours relate to the utility's current rate case. As such, staff recommends that the 308.5 hours, or \$6,114 (308.5/546.147 x \$10,822), should be disallowed. Further, since the utility has provided no justification for the office temp charges of \$1,967 to complete the case, this amount should also be disallowed. Staff recommends a total adjustment of \$8,081 to Office Temp charges (\$6,114 + \$1,967).

The eighth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. Staff believes that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense the Commission allowed for WSC in the Labrador rate case. However, staff does not believe a WSC employee will attend the agenda conference. In eight out of the ten UI current rate dockets currently before the Commission, the utilities have consistently requested this travel. In seven out of nine dockets decided at previous agenda conferences, the Commission has allowed this travel expense from Chicago. No WSC employee has attended any previous agenda conference for any of the seven dockets. Staff does not believe this current docket would warrant a WSC employee attending the agenda conference, as well.

The utility provided a breakdown of actual expenses that showed \$1,640 was spent on travel through December 2006. However, a review of supporting documentation for travel showed trips made by Kirsten Weeks to Newark and Miami. There is no explanation as to how these trips relate to the UIF rate case. Therefore, staff believes no travel expense should be allowed. Accordingly, staff recommends that rate case expense be decreased by \$3,200.

The ninth adjustment relates to WSC expenses for FedEx Corporation (FedEx), copies and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. Although a number of invoices were provided, it appeared that they were for items totally unrelated to the rate case. Some of the captions included "personal," "Filemaker CB Software," and "Employee Info." Staff is also concerned with the amount of requested costs for FedEx expense. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois. This is pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU, p. 19, issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., the Commission found the following: "The utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are

maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.” Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc., to its law firm located in central Florida. Then, these are submitted to the Commission. Staff does not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore they should bear the related costs. Accordingly, staff recommends that rate case expense be decreased by \$12,000.

The tenth adjustment relates to customer notices and postage thereof. The utility is requesting actual costs to date of \$11,877 for notices and \$9,051 for postage. Invoices were provided in support of the costs. Staff notes that the cost included \$1,239 for Tyvek envelopes. Staff was able to place a document the size of the notice in a plain envelope. Therefore, this expense is unnecessary. UIF has already sent out an initial notice, customer meeting notice and an interim notice. The utility will be sending a final notice. Based on a discussion with the utility, WSC’s presort service postage rate is \$0.341. Using the utility’s approximate 7,100 total customers count and a unit cost of \$0.341 for the above-mentioned notices, staff calculated the total postage for notices to be \$7,263, including the final notice. This is a decrease of \$1,788. (\$9,051 - \$7,263) Using the average cost for the previous two notices of \$5,319 per notice for copies $((\$11,877 - \$1,239)/2)$, staff believes this amount should be added to the copy cost for the final notice. Based on the above, staff recommends that rate case expense should increased by \$2,272 $(-\$1,239 - \$1,788 + \$5,319)$.

Table 22-5
Adjusted Current Rate Case Expense

	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Allowed Total
Legal and Filing Fees	\$64,500	\$149,470	(\$72,682)	\$76,788
Accounting Consultant Fees	157,600	187,199	(35,300)	151,899
Engineering Consultant Fees	10,000	28,224	(12,496)	15,728
WSC In-house Fees	68,500	63,825	(28,817)	35,008
Office Temp Fees	0	14,209	(8,081)	6,128
Travel – WSC	3,200	3,240	(3,240)	0
Miscellaneous	12,000	12,000	(12,000)	0
Notices	8,674	20,929	2,272	23,201
Total Rate Case Expense	\$324,474	\$479,096	(\$170,344)	\$308,752

In addition to the adjustments to the total amount, the allocation of rate case expense to Orange County should be disallowed. As discussed in Issue 29, rates for that county will remain

unchanged. Since no rate increase is appropriate, that portion of rate case expense should be disallowed. Of the \$3,931 in recommended adjustments to the annual amortization of rate case expense for UIF, \$131 was allocated to Orange County. The remaining amount requested for Orange County should also be removed, bringing the total adjustment for Orange County to \$2,728 (\$131 + \$2,597). This adjustment reduces staff's recommended total rate case expense from \$308,752 to \$298,364.

In its MFRs, the utility requested total rate case expense of \$324,474 which amortized over four years would be \$81,119 per year. The recommended total rate case expense should be amortized over four years, pursuant to Section 367.016, F.S. This represents annual amortization of \$74,591 (\$298,364 divided by four). Thus, amortization of rate case expense should be decreased by \$6,528 (\$81,119 less \$74,591), as shown in Table 22-1.

Table 22-1
Rate Case Expense Adjustments for Current Case By County

	Requested Amount	Adjustment	Staff Recommended Amount
Marion Water	\$4,621	(\$222)	\$4,399
Marion Wastewater	587	(28)	559
Orange Water	2,728	(2,728)	0
Pasco Water	25,204	(1,210)	23,994
Pasco Wastewater	9,603	(461)	9,142
Pinellas Water	3,666	(176)	3,490
Seminole Water	22,631	(1,087)	21,544
Seminole Wastewater	12,079	(616)	11,463
Total	\$81,119	(\$6,528)	\$74,591

Issue 23: What is the test year pre-repression water and wastewater operating income or loss before any revenue increase?

Recommendation: Test year pre-repression operating income for each county, before any provision for increased or decreased revenues, is shown in Table 23-1.

Table 23-1
Pre-repression Water and Wastewater Operating Income
before any Revenue Increases/Decreases.

County	Water	Wastewater
Marion	\$31,284	\$11,679
Orange	\$7,640	
Pasco	\$15,966	\$10,786
Pinellas	\$2,980	
Seminole	\$107,645	\$56,112

(Kaproth)

Staff Analysis: After applying staff's recommended adjustments discussed in previous issues, the test year pre-repression operating incomes for Marion, Pasco and Seminole Counties before any revenue increases are shown on attached Schedule Nos. 3-A and 3-B for each county. For Orange and Pinellas Counties, the test year pre-repression operating incomes before any revenue increases are shown on attached Schedule Nos. 3-A for each county.

The net operating income or loss is shown for each county in the table below:

Table 23-1
Pre-repression Water and Wastewater Operating Income
before any Revenue Increases/Decreases.

County	Water	Wastewater
Marion	\$31,284	\$11,679
Orange	\$7,640	
Pasco	\$15,966	\$10,786
Pinellas	\$2,980	
Seminole	\$107,645	\$56,112

REVENUE REQUIREMENT

Issue 24: What is the appropriate pre-repression revenue requirements for the December 31, 2005 test year?

Recommendation: The pre-repression revenue requirements as shown in Table 24-1 should be approved.

Table 24-1
Pre-repression Revenue Requirements

	Test Year Revenues	Requested Final Rates	Requested % Increase	Recommended Increase/Decrease	Revenue Requirement	% Increase/Decrease
Marion						
Water	\$164,769	\$179,185	8.75%	(\$13,312)	\$154,700	(7.92%)
Wastewater	45,037	43,661	(3.06)	(6,926)	37,645	(15.54%)
Orange						
Water	\$97,411	\$121,555	24.79%	\$0	\$0	0%
Pasco						
Water	\$585,359	\$967,316	65.25%	\$202,693	\$794,342	34.26%
Wastewater	378,336	532,828	40.84%	\$72,020	\$448,180	19.15%
Pinellas						
Water	\$76,741	\$135,830	77.00%	\$29,923	\$108,013	38.32%
Seminole						
Water	\$679,867	\$960,123	41.22%	\$83,354	\$769,812	12.14%
Wastewater	589,169	891,161	51.26%	187,565	\$777,530	31.79%

(Kaproth)

Staff Analysis: Marion County's revenue requirements in Schedule No's 3-A and 3-B include current water rate case expense of \$4,399 and current wastewater rate case expense of \$559. As a result, staff recommends that rates be reduced. However, staff has allowed rate case expense for Marion County. In evaluating overearning cases, the Commission allows utilities to recover the rate case expense associated with the overearnings investigation.¹⁵ In this rate proceeding, the customers rates have been reduced to reflect the recommended decreases of \$13,312 and \$6,926 for water and wastewater, respectively. Therefore, the customers have received a benefit from the rate case expense and no change to Marion County's revenue requirements is recommended.

In staff's calculation of Orange County's revenue requirement in Schedule No. 3-A, staff has removed the current rate case expense in the determination of rates because the amount of rate case expense is greater than the calculated increase of \$1,417. Based on staff's calculation, Orange County overearned by \$782. Staff believes that rates should not be reduced because the amount of overearnings is immaterial. Further, as the revenue requirement is based on a test year of 2005, staff believes that increases in rate base and expenses would offset the calculated overearnings. Therefore, staff recommends no adjustment to rates. Lastly, staff is not

¹⁵ Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, in Docket No. 960234-WS, In Re: Investigation of rates of Gulf Utility Company in Lee County for possible overearnings.

recommending an increase in rates; therefore, the total amount of the collected interim increase should be refunded.

Furthermore, consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate pre-repression revenue requirements as shown in Table 24-1.

Table 24-1
Pre-repression Revenue Requirements

	Test Year Revenues	Requested Final Rates	Requested % Increase	Recommended Increase/Decrease	Revenue Requirement	% Increase/Decrease
Marion						
Water	\$164,769	\$179,185	8.75%	(\$13,312)	\$154,700	(7.92%)
Wastewater	45,037	43,661	(3.06)	(6,926)	37,645	(15.54%)
Orange						
Water	\$97,411	\$121,555	24.79%	\$0	\$0	0%
Pasco						
Water	\$585,359	\$967,316	65.25%	\$202,693	\$794,342	34.26%
Wastewater	378,336	532,828	40.84%	\$72,020	\$448,180	19.15%
Pinellas						
Water	\$76,741	\$135,830	77.00%	\$29,923	\$108,013	38.32%
Seminole						
Water	\$679,867	\$960,123	41.22%	\$83,354	\$769,812	12.14%
Wastewater	589,169	891,161	51.26%	187,565	\$777,530	31.79%

RATES AND CHARGES

Issue 25: What are the appropriate rate structures for the water and wastewater systems in Marion, Orange, Pasco, Pinellas, and Seminole Counties?

Recommendation: The appropriate rate structures for the system in Marion County are continuations of the current base facility charge (BFC)/uniform gallonage charge rate structure for the water system and the traditional BFC/gallonage charge rate structure for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 30% for the water system and 50% for the wastewater system.

The appropriate rate structure for the water system in Orange County is a continuation of the current three-tier inclining block rate structure for its residential customers. The usage blocks and usage block rate factors should remain unchanged. The BFC/uniform gallonage charge rate structure should be continued for the general service customers. The BFC cost recovery percentage for the water system should remain at 26%.

The appropriate rate structures for the systems in Pasco County are continuations of the current BFC/uniform gallonage charge rate structure for the water system and the BFC/gallonage charge rate structure for metered customers on the wastewater system. The flat rate structure for certain Wis-Bar wastewater customers should also be retained. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 45% for the water system and 40% for the wastewater system.

In Pinellas County, the appropriate rate structure for the water system is the current BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage should be set at 40%.

In Seminole County, the appropriate rate structure for the water system is the current three-tier inclining block rate structure. The usage blocks and usage block rate factors should remain unchanged. The BFC/gallonage charge rate structure should be continued for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 40% for the water system and 50% for the wastewater system. (Lingo)

Staff Analysis: Staff performed a detailed analysis of the utility's billing data in each county in order to evaluate various BFC cost recovery percentages, as well as usage blocks and usage block rate factors (when appropriate) for the residential rate classes. The goals of the evaluations were to select the rate design parameters that: 1) allow the utility to recover each county's revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

The systems in Orange and Seminole Counties are located in the St. Johns River Water Management District (SJRWMD), which does not have a water shortage order issued at this

time. The systems in Marion, Pasco and Pinellas Counties are located in the Southwest Florida Water Management District (SWFWMD or District). On January 9, 2007, a public hearing was held at the headquarters of the SWFWMD. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.¹⁶

The utility's current rate structures, including rate consolidation for the utility's respective water and wastewater systems, were approved in the utility's last rate case. A discussion of UIF's current rate structures, as well as staff's recommended rate structures, follows on a county-by-county basis.

Marion County

The utility's water rates prior to filing the instant case were a BFC of \$4.14 for a 5/8" x 3/4" meter, and a gallonage charge of \$2.48 for all kgal consumed. Based upon information contained on MFR Schedule E-2, approximately 33% of the water revenues before filing were being recovered through the BFC. The corresponding wastewater rates prior to filing were a BFC of \$21.22 for a 5/8" x 3/4" meter. The residential wastewater gallonage charge was \$2.62 per kgal, capped at 10 kgal of usage. General service wastewater customers were charged \$3.16 for each kgal used. Based upon information contained on MFR Schedule E-2, approximately 46% of the wastewater revenues before filing were being recovered through the BFC.

As discussed in Issue 24, staff recommends a revenue reduction to Marion County's water system of approximately 8%. A BFC cost recovery level of 31% was approved in the utility's last case. Based upon initial accounting allocations, approximately 46% of staff's recommended water revenue requirement would be recovered from the BFC and the remaining 54% from the gallonage charge. Based on staff's analysis, reducing the BFC cost recovery to 30% is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is 19%, the customer base is not considered seasonal. Therefore, reducing the BFC percentage to 30% should not increase revenue sufficiency concerns. Furthermore, while all customers will receive price reductions, those customers using the least amount of water each month will receive the greatest price reductions. Conversely, those customers who use increasingly greater quantities of water will receive lesser and lesser price reductions. This rate structure results in a pattern of percentage price changes consistent with how the Commission typically sets water rates.

As also discussed in Issue 24, staff recommends a revenue reduction to Marion County's wastewater system of approximately 15.5%. A BFC cost recovery level of 47% was approved in the utility's last case. Based upon initial accounting allocations, approximately 18% of staff's recommended wastewater revenue requirement would be recovered from the BFC and the remaining 82% from the gallonage charge. Due to the capital intensive nature of wastewater plants, and consistent with how the Commission typically allocates BFC revenues for wastewater systems, staff recommends that 50% is the appropriate BFC cost recovery percentage for the

¹⁶ Southwest Florida Water Management District, Order No. SWF 07-02, In re: Declaration of Water Shortage, pp. 1-5.

Marion County wastewater system. Staff recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Orange County

The utility's water rates prior to filing the instant case were a BFC of \$6.36 for a 5/8" x 3/4" meter. Residential water charges are based on a three-tier inclining block rate structure, with monthly usage blocks of 0-8 kgal, 8.001-16 kgal, and usage in excess of 16 kgal. The usage block rate factors are 1.0, 1.25, and 1.5, respectively. Residential consumption charges per kgal before filing were \$2.62 for consumption in the first usage block, \$3.28 for consumption in the second block, and \$3.94 for consumption in excess of 16 kgal. General service water customers were charged \$2.81 for all kgal consumed. Based upon information contained on MFR Schedule E-2, approximately 26% of the water revenues before filing were being recovered through the BFC.

As discussed in Issue 24, staff recommends no revenue requirement increase for Orange County's water system. Therefore, staff recommends no change in rate structure or to the current rates before filing the instant case.

Pasco County

The utility's water rates prior to filing the instant case were a BFC of \$8.93 for a 5/8" x 3/4" meter, and a gallonage charge of \$1.77 for all kgal consumed. The corresponding wastewater rates prior to filing were a BFC of \$9.78 for a 5/8" x 3/4" meter, and a residential gallonage charge of \$8.01, capped at 6 kgal of usage. General service customers were charged \$9.61 for all kgal consumed. For the Wis-Bar system, the corresponding residential charges were \$7.77 and \$6.11, respectively. In addition, the Wis-Bar system has wastewater flat rate customers – the residential flat rate was \$20.42, while the multi-residential flat rate was \$13.48. Based upon information contained on MFR Schedule E-2, approximately 56% of the water revenues and 38% of the wastewater revenues before filing were being recovered through the BFC.

In response to a staff inquiry regarding questionable consumption entries in the utility's MFR Schedule E-14, the utility reduced the test year consumption for the Pasco County water system by 2,004 kgal. Based on staff's subsequent analysis, the average water consumption per residential customer is approximately 3.2 kgal per month. Additionally, the percentage of bills captured at 1 kgal or less of consumption is 38%, which indicates a very seasonal customer base. Therefore, staff believes that changing the utility's water rate structure to a more aggressive inclining-block rate structure is unwarranted.

As discussed in Issue 24, staff's recommended increase to the utility's water system is approximately 34%. Based on the declared water shortage in the SWFWMD, staff believes it is appropriate to place the majority of the revenue requirement increase into the gallonage charge. A BFC cost recovery level of 50% was approved in the last case. Setting the BFC cost recovery percentage at 45% will increase the BFC for a 5/8" x 3/4" by 7%, while increasing the gallonage charge by 75%. This results in a more aggressive pattern of increasingly greater percentage price increases at increasing levels of consumption, which is consistent with how the Commission typically sets water rates.

As also discussed in Issue 24, staff recommends a revenue increase to the utility's Pasco County wastewater system of approximately 18%. A BFC cost recovery level of 61% was approved in the utility's last case. Based upon initial accounting allocations, approximately 25% of staff's recommended wastewater revenue requirement would be recovered from the BFC and the remaining 75% from the gallonage charge. The seemingly low percentage of revenues recovered through the BFC is due to this utility purchasing its sewage treatment from Pasco County. This reduces the capital intensive nature of the wastewater plant. Therefore, staff recommends that 40% is the appropriate BFC cost recovery percentage for the Pasco County wastewater system. Staff recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Pinellas County

The utility's water rates prior to filing the instant case were a BFC of \$5.06 for a 5/8" x 3/4" meter, and a gallonage charge of \$2.31 for all kgal consumed. Based upon information contained on MFR Schedule E-2, approximately 45% of the water revenues before filing were being recovered through the BFC.

In response to a staff inquiry regarding questionable consumption entries in the utility's MFR Schedule E-14, the utility reduced the test year consumption for the Pinellas County water system by 300 kgal. Based on staff's subsequent analysis, the average water consumption per residential customer is approximately 2.9 kgal per month. Additionally, the percentage of bills captured at 1 kgal or less of consumption is 38%, which indicates a very seasonal customer base. Therefore, staff believes that changing the utility's water rate structure to a more aggressive inclining-block rate structure is unwarranted.

As discussed in Issue 24, staff's recommended increase to the utility's water system is approximately 38%. Based on the declared water shortage in the SWFWMD, staff believes it is appropriate to place a greater portion of the revenue requirement increase into the gallonage charge. A BFC cost recovery level of 41% was approved in the last case. Setting the BFC cost recovery percentage at 40% will place a greater percentage increase on the gallonage charge. This results in a more aggressive pattern of increasingly greater percentage price increases at increasing levels of consumption, which is consistent with how the Commission typically sets water rates.

Seminole County

The utility's water rates prior to filing the instant case were a BFC of \$5.77 for a 5/8" x 3/4" meter. Residential water charges are based on a three-tier inclining block rate structure, with monthly usage blocks of 0-8 kgal, 8.001-16 kgal, and usage in excess of 16 kgal, with usage block rate factors are 1.0, 1.5, and 2.0, respectively. Residential consumption charges per kgal before filing were \$1.87 for consumption in the first usage block, \$2.81 for consumption in the second block, and \$3.74 for consumption in excess of 16 kgal. General service water customers were charged \$2.19 for all kgal consumed. The corresponding wastewater rates prior to filing were a BFC of \$8.93 for a 5/8" x 3/4" meter, and a residential gallonage charge of \$4.54, capped at 10 kgal of usage. General service customers were charged \$5.44 for all kgal consumed. Based upon information contained on MFR Schedule E-2, approximately 28% of the water

revenues and 27% of the wastewater revenues before filing were being recovered through the BFC.

In response to a staff inquiry regarding questionable consumption entries in the utility's MFR Schedule E-14, the utility reduced the test year consumption for its Seminole County water system by 753 kgal, and reduced consumption to its wastewater system by 773 kgal. Based on staff's subsequent analysis, the average water consumption per residential customer is approximately 6.8 kgal per month. Additionally, the percentage of bills captured at 1 kgal or less of consumption is 10%, which does not indicate a seasonal customer base.

As discussed in Issue 24, staff's recommended increase to the utility's water system is approximately 12%. Based on the magnitude of the increase, staff believes it is appropriate to place the majority of the revenue requirement increase into the gallonage charge. A BFC cost recovery level of 27% was approved in the last case. Setting the BFC cost recovery percentage at 25% will increase the BFC by \$.04, while increasing the gallonage charge by at least \$.26 in each block. This results in a pattern of increasingly greater percentage price increases at increasing levels of consumption, which is consistent with how the Commission typically sets water rates.

As also discussed in Issue 24, staff recommends a revenue increase to the utility's Seminole County wastewater system of approximately 32%. A BFC cost recovery level of 25% was approved in the utility's last case. Based upon initial accounting allocations, approximately 23% of staff's recommended wastewater revenue requirement would be recovered from the BFC and the remaining 77% from the gallonage charge. The seemingly low percentage of revenues recovered through the BFC is due to this utility purchasing its sewage treatment from Altamonte Springs. This reduces the capital intensive nature of the wastewater plant. Therefore, staff recommends that 40% is the appropriate BFC cost recovery percentage for the Seminole County wastewater system. Staff recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Based on the foregoing, the appropriate rate structures for the systems in Marion County are continuations of the current base facility charge (BFC)/uniform gallonage charge rate structure for the water system and the traditional BFC/gallonage charge rate structure for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 30% for the water system and 50% for the wastewater system.

The appropriate rate structure for the water systems in Orange County is a continuation of the current three-tier inclining block rate structure for its residential customers. The usage blocks and usage block rate factors should remain unchanged. The BFC/uniform gallonage charge rate structure should be continued for the general service customers. The BFC cost recovery percentage for the water system should be set at 25%.

The appropriate rate structures for the systems in Pasco County are continuations of the BFC/uniform gallonage charge rate structure for the water system and the BFC/gallonage charge rate structure for metered customers on the wastewater system. The flat rate structure for certain Wis-Bar wastewater customers should also be retained. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost

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recovery percentages should be set at 45% for the water system and 40% for the wastewater system.

In Pinellas County, the appropriate rate structure for the water system is the current BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage should be set at 40%.

In Seminole County, the appropriate rate structure for the water system is the current three-tier inclining block rate structure. The usage blocks and usage block rate factors should remain unchanged. The BFC/gallonage charge rate structure should be continued for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 40% for the water system and 50% for the wastewater system.

Issue 26: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for the water and wastewater systems, what are the corresponding expense adjustments to make, and what are the resulting final revenue requirements for the respective systems?

Recommendation: Yes, repression adjustments and the corresponding expense adjustments are appropriate for this utility. The recommended repression and related expense adjustments, plus staff's resulting final revenue requirements for each system and county, are shown in Table 26-1 below.

Table 26-1

ANALYSIS OF REPRESSION EFFECTS ON CONSUMPTION, REVENUE ADJUSTMENTS, AND FINAL REVENUE REQUIREMENTS								
	Marion		Orange	Pasco		Pinellas	Seminole	
	Water	Wwater	Water	Water	Wwater	Water	Water	Wwater
Kgals repr	0	0	0	(2,421)	(2,276)	(494)	(2,662)	(2,263)
Pre repr revs from rates				\$782,146	\$440,201	\$106,798	\$758,709	\$777,582
Purch pwr				(\$319)	(\$43)	(\$64)	(\$434)	(\$69)
Chems				(\$144)	0	(\$36)	(\$303)	
Purch water						(\$45)	(\$22)	
Sludge removal					(\$147)			(\$278)
Purch sewage treatment					(\$2,491)			(\$3,048)
RAFs				(\$23)	(\$121)	(\$6)	(\$36)	(\$153)
Post repr revs from rates	\$152,401	\$37,663	\$96,657	\$781,661	\$437,399	\$106,647	\$757,914	\$774,034
Misc serv chgs	\$2,309	\$0	\$2,856	\$12,197	\$6,657	\$1,215	\$11,151	\$0
Post repr final rev reqmt	\$154,710	\$37,663	\$99,513	\$793,858	\$444,056	\$107,862	\$769,065	\$774,034

In order to monitor the effect of the revenue changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared for Pasco, Pinellas and Seminole Counties, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers in each of the five counties, as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. The analysis revealed that there is at least a moderate amount of discretionary, or non-essential, consumption in Pasco, Pinellas and Seminole Counties that is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff anticipates that price induced conservation will occur in Pasco, Pinellas and Seminole Counties. The appropriate

adjustments for each county are shown in the table above. Based on staff's recommended revenue requirement decreases for the Marion County water and wastewater systems, and staff's recommendation that the Orange County system receive no revenue increase, staff does not believe repression adjustments are necessary in those counties.

In order to monitor the effect of the rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis for Pasco, Pinellas and Seminole Counties. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 27: What are the appropriate rates for monthly service for the water and wastewater systems?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A, and the appropriate monthly wastewater rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water and wastewater rates produce revenues as shown in Table 27-1.

Table 27-1
Revenue Requirements

County	Revenue Requirement
Marion	
Water	152,401
Wastewater	37,663
Orange	
Water	\$96,657
Pasco	
Water	\$781,661
Wastewater	\$437,399
Pinellas	
Water	\$106,647
Seminole	
Water	\$757,914
Wastewater	\$774,034

The utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Romig)

Staff Analysis: As discussed in Issue 26, staff recommends that the appropriate revenues from monthly service rates, after all repression adjustments and excluding miscellaneous service revenues are: 1) \$152,401 for the Marion County water system and \$37,663 for the corresponding wastewater system; 2) \$96,657 for the Orange County water system; 3) \$781,661 for the Pasco County water system and \$437,399 for its wastewater system; 4) \$106,647 for the Pinellas County water system; and 5) \$757,914 for the Seminole County water system and \$774,034 for its wastewater system.

For the Marion County systems, approximately 30% of the monthly service revenues for the water system and 50% of the corresponding wastewater system revenues are recovered through the base facility charges. Approximately 70% of the monthly service revenues for the water system and 50% of the corresponding wastewater system revenues represents revenue recovery through the consumption charges.

For the Orange County system, approximately 26% of the monthly service revenues are recovered through the base facility charges, and approximately 74% of revenues are recovered through consumption charges.

For the Pasco County systems, approximately 45% of the monthly service revenues for the water system and 40% of the corresponding wastewater system revenues are recovered through the base facility charges. Approximately 55% of the monthly service revenues for the water system and 60% of the corresponding wastewater system revenues represents revenue recovery through the consumption charges.

For the Pinellas County system, approximately 40% of the monthly service revenues are recovered through the base facility charges, and approximately 60% of revenues are recovered through consumption charges.

For the Seminole County systems, approximately 25% of the monthly service revenues for the water system and 40% of the corresponding wastewater system revenues are recovered through the base facility charges. Approximately 75% of the monthly service revenues for the water system and 60% of the corresponding wastewater system revenues represents revenue recovery through the consumption charges. The utility requested a revision to its flat rate for residential wastewater unmetered customers. However, the MFRs contained no billing units or revenues associated with this customer class; therefore, staff recommends no change to the rate at this time.

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

Issue 28: Should the utility be authorized to revise its water and wastewater miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its water and wastewater miscellaneous service charges as shown in Tables 28-1 and 28-2. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

Table 28-1
Water Miscellaneous Service Charges

For All Counties				
	Current Charges		Recommended Charges	
	Bus. Hrs.	After Hrs.	Bus. Hrs.	After Hrs.
Initial Connection Fee:	15.00	15.00	15.00	22.50
Normal Reconnection Fee:	15.00	15.00	15.00	22.50
Violation Reconnection Fee	15.00	15.00	15.00	22.50
Premises Visit Charge (in lieu of disconnection)	10.00	10.00	10.00	15.00

Table 28-2
Wastewater Miscellaneous Service Charges

For All Counties				
	Current Charges		Recommended Charges	
	Bus. Hrs.	After Hrs.	Bus. Hrs.	After Hrs.
Initial Connection Fee:	15.00	15.00	15.00	22.50
Normal Reconnection Fee:	15.00	15.00	15.00	22.50
Violation Reconnection Fee	Actual	Actual	Actual	Actual
Premises Visit Charge (in lieu of disconnection)	10.00	10.00	10.00	15.00

(Kaproth)

Staff Analysis: The utility requested to increase its miscellaneous service charges related to after hours. UIF's approved charges have been the standard charges since April 10, 1992, a period of 14 years.

In response to Staff's fifth data request, the utility explained that an average Florida Operator's salary and benefits cost approximately \$30.00 an hour during business hours and \$45 an hour for after hours. Table 28-3 shows the calculation of the requested after hours increase based on current costs for all categories of Miscellaneous Service Charges, with the exception of the wastewater violation reconnection fee. The wastewater violation reconnection fee is based on actual cost and fluctuates as the operators' wages and benefits fluctuate.

Table 28-3
 Calculation of Increase in Miscellaneous Service Charges

For All Counties' Water and Wastewater Charges							
	(a)	(b)*	(c)=(a)*(b)	(d)=(a)*(b)	(e)=(a)*(b)	(f)=(a)*(g)	(g)**
	Operator Time in Hours	Avg. FL Operator Reg. Rate	Present		Proposed		Avg. FL Operator After Hrs. Rate
			Bus. Hrs.	After Hrs.	Bus. Hrs.	After Hrs.	
Initial Connection Fee:	0.5	30.00	15.00	15.00	15.00	22.50	45.00
Normal Reconnection Fee:	0.5	30.00	15.00	15.00	15.00	22.50	45.00
Violation Reconnect Fee	0.5	30.00	15.00	15.00	15.00	22.50	45.00
Premises visit charge (in lieu of disconnection)	0.33	30.00	10.00	10.00	10.00	15.00	45.00

Staff believes the utility's miscellaneous service charges should be updated to reflect current costs. The Commission recently approved updated miscellaneous service charges of \$21 and after hours charges of \$42 to reflect current costs and modified the premises visit charges (in lieu of disconnection) in Docket No. 060255-SU and Docket No. 060261-WS.¹⁷ Staff believes updated charges are appropriate for UIF as well. The current and recommended charges are shown in Table 28-1 and Table 28-2.

Table 28-1
 Water Miscellaneous Service Charges

For All Counties				
	Current Charges		Recommended Charges	
	Bus. Hrs.	After Hrs.	Bus. Hrs.	After Hrs.
Initial Connection Fee:	15.00	15.00	15.00	22.50
Normal Reconnection Fee:	15.00	15.00	15.00	22.50
Violation Reconnection Fee	15.00	15.00	15.00	22.50
Premises Visit Charge (in lieu of disconnection)	10.00	10.00	10.00	15.00

Table 28-2
 Wastewater Miscellaneous Service Charges

For All Counties				
	Current Charges		Recommended Charges	
	Bus. Hrs.	After Hrs.	Bus. Hrs.	After Hrs.
Initial Connection Fee:	15.00	15.00	15.00	22.50
Normal Reconnection Fee:	15.00	15.00	15.00	22.50
Violation Reconnection Fee	Actual	Actual	Actual	Actual
Premises Visit Charge (in lieu of disconnection)	10.00	10.00	10.00	15.00

¹⁷ See Order No. PSC-07-0082-PAA-SU, issued January 29, 2007, in Docket No. 060255-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.; and Order No. PSC-07-0088-PAA-WS, issued January 31, 2007, in Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

In summary, staff recommends the utility's water and wastewater miscellaneous service charges of \$22.50 and \$15 for after hours be approved. The increase in charges are cost-based, reasonable, and are close to the amount of the fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within ten days after the date the notice was sent.

Issue 29: In determining whether any portion of the water or wastewater interim increases granted should be refunded, how should the refunds be calculated, and what are the amounts of the refunds, if any?

Recommendation: The appropriate refund amounts should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirements for the interim collection period should be compared to the amount of interim revenues granted. Based on these calculation, staff recommends the refund percentages for the water systems shown in Table 29-1.

Table 29-1
Recommended Interim Refund Percentages

County	Interim Test year Revenue Requirement Per Order	Interim Period Revenue Requirement For Collection Period	Refund %
Marion – Water			N/A
Marion – Wastewater			N/A
Orange – Water	\$108,004	\$93,115	100.00%
Pasco – Water	\$796,634	\$767,898	3.46%
Pasco – Wastewater	\$431,317	\$438,607	No Refund
Pinellas - Water	\$114,470	\$103,131	8.94%
Seminole - Water -	\$809,835	\$735,962	7.85%
Seminole - Wastewater	\$783,689	\$765,526	No Refund
(1) Refund % removes miscellaneous service charges			

Upon issuance of the consummating order in this docket, the corporate undertaking should be released after the appropriate amounts of interim revenues are refunded and the refund amounts are verified by staff. (Kaproth)

Staff Analysis: By Order No. PSC-06-1006-FOF-WS, issued December 5, 2006, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was approved for Orange, Pasco, Pinellas and Seminole Counties. An interim increase was not requested for Marion County. Table 29-2 shows the Commission-approved interim revenue requirement.

Table 29-2
 Commission Approved Interim Revenue Requirements

County	Adjusted Test Year Revenues	Revenue \$ Increase	Revenue Requirement	% Increase
Marion – Water				N/A
Marion – Wastewater				N/A
Orange– Water	\$97,500	\$10,504	\$108,004	10.77%
Pasco – Water	\$586,632	\$210,002	\$796,634	35.80%
Pasco-Wastewater	\$379,088	\$52,229	\$431,317	13.78%
Pinellas – Water	\$76,988	\$37,482	\$114,470	48.69%
Seminole – Water	\$681,344	\$128,491	\$809,835	18.86%
Seminole – Wastewater	\$590,501	\$193,188	\$783,689	32.72%

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ending December 31, 2005. UIF’s approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. All pro forma plant adjustments used to calculate final rates were included in rate base because these plant additions will be completed by April 24, 2007. Using the principles discussed above, the revenue requirement for the water systems in Orange County, Pasco County, Pinellas County, and Seminole County granted in Order No. PSC-06-1006-FOF-WS, for the interim test year, is less than the revenue requirement for the interim collection period minus rate case expense. Under no circumstances should the refund percentage be greater than the interim rate increase percentage. Table 29-1 shows the recommended interim refund percentages.

Table 29-1
Recommended Interim Refund Percentages

County	Interim Test year Revenue Requirement Per Order	Interim Period Revenue Requirement For Collection Period	Refund %
Marion – Water			N/A
Marion – Wastewater			N/A
Orange – Water	\$108,004	\$93,115	100.00%
Pasco – Water	\$796,634	\$767,898	3.46%
Pasco – Wastewater	\$431,317	\$438,607	No Refund
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Seminole - Water -	\$809,835	\$735,962	7.85%
Seminole - Wastewater	\$783,689	\$765,526	No Refund
(1) Refund % removes miscellaneous service charges			

As discussed in Issue 24, Orange County's revenue requirement has been changed to the Commission's approved adjusted test year revenues of \$97,500. The total interim increase of \$10,504 should be refunded, if collected, based on the discussion in Issue 24.

Staff recommends the above refund percentages in Table 29-1, Recommended Interim Refund Percentages, be required for the water systems in Orange, Pasco, Pinellas and Seminole Counties. Upon issuance of the consummating order in this docket, the corporate undertaking should be released after the appropriate amounts of interim revenues are refunded and the refund amounts are verified by staff.

Issue 30: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove the revenue impact of rate case expense. This amount was calculated by taking the annual amount of rate case expense by system grossed-up for regulatory assessment fees as shown below. Because rate case expense is disallowed for Orange County, as discussed in Issue 22, the four-year rate reduction is not appropriate for Orange County.

Table 30-1
Rate Case Expense Including Regulatory Assessment Fees

	Staff Recommended Amount	Amount Including RAF
Marion Water	\$4,399	\$4,606
Marion Wastewater	559	585
Orange Water	0	0
Pasco Water	23,994	25,125
Pasco Wastewater	9,142	9,573
Pinellas Water	3,490	3,655
Seminole Water	21,544	22,559
Seminole Wastewater	11,463	12,003
Total	\$74,591	\$78,106

The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and proposed customer notices for each system setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The rates should not be implemented until staff has approved the proposed customer notices, and the notice has been received by the customers. The utility should provide proof of the date notices were given no less than ten days after the date of the notices. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (Marsh)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of total company revenues of \$78,106 as shown in Table 30-1 associated with the amortization of rate case expense, including the gross-up for regulatory assessment fees (\$74,591 + \$3,515). Because rate case expense is disallowed for Orange County, as discussed in Issue 22, the four-year rate reduction is not appropriate for Orange County. The reduction in revenues will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

Table 30-1
Rate Case Expense Including Regulatory Assessment Fees

	Staff Recommended Amount	Amount Including RAF
Marion Water	\$4,399	\$4,606
Marion Wastewater	559	585
Orange Water	0	0
Pasco Water	23,994	25,125
Pasco Wastewater	9,142	9,573
Pinellas Water	3,490	3,655
Seminole Water	21,544	22,559
Seminole Wastewater	11,463	12,003
Total	\$74,591	\$78,106

UIF should be required to file revised tariff sheets for each system to reflect the Commission-approved rates no later than one month prior to the actual date of the required rate reduction. The utility should also be required to file a proposed customer notice for each system setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notices, and the notice has been received by the customers. The utility should provide proof of the date notices were given no less than ten days after the date of the notices.

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

Issue 31: Should Utilities, Inc. of Florida be required to show cause, in writing within 21 days, why it should not be fined for serving outside its certificated territory in apparent violation of Section 367.045(2), F.S.?

Recommendation: Yes. UIF should be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$5,250, or \$750 per system, for apparently serving outside its certificated territory in seven separate systems. The order to show cause should incorporate the conditions stated below in the staff analysis. Moreover, UIF should be ordered to file by September 30, 2007, an amendment application for all its systems in which it is serving outside its certificated territory to correct its apparent violation of Subsection 367.045(2), F.S. (Jaeger)

Staff Analysis: The water distribution and wastewater collection maps provided by the utility in its MFRs indicate that the utility is serving outside its certificated territory for two systems in Orange County and five systems in Seminole County. The two systems in Orange County are Davis Shores (apparently one customer) and Crescent Heights (apparently eight customers). The five systems in Seminole County are Jansen Estates (apparently 58 customers in eight different areas), Oakland Shores (apparently three customers), Park Ridge (apparently one customer), Phillips (apparently 13 customers in two different areas), and Ravenna Park (apparently five customers in two different areas).

Based on these maps provided by the utility, the utility is serving outside its certificated territory in apparent violation of Section 367.045(2), F.S. Pursuant to that subsection: "A utility may not delete or extend its service area outside the area described in its certificate of authorization until it has obtained an amended certificate of authorization from the commission."

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than \$5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful order of the Commission. By failing to comply with the above-noted requirements of Subsection 367.045(2), F.S., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings should be initiated. Staff notes that in the past, where there have been just isolated instances of a utility serving outside its territory, the Commission has declined to initiate show cause proceedings.¹⁸ However, in this docket, staff believes that there is a continued pattern of

¹⁸ See Order No. PSC-04-0149-FOF-SU, issued February 11, 2004, in Docket No. 030957-SU, In re: Application for amendment of Certificate No. 379-S for extension of wastewater service area in Seminole County, by Alafaya Utilities, Inc. (another Utilities, Inc. subsidiary).

disregard for the statutory requirement to amend the utility's certificate prior to serving customers located outside the utility's certificated territory. When staff contacted the utility, the utility indicated that it would probably not be able to file amendments for these "oversights" until September 30, 2007.

Based on the above-noted pattern of disregard, staff believes that the situation warrants more than just a warning. Accordingly, staff recommends that UIF be made to show cause in writing, within 21 days, why it should not be fined \$5,250 (\$750 for each of the seven systems) for its apparent failure to amend its certificate of authorization prior to serving customers outside its certificated territory. Moreover, UIF should be ordered to file by September 30, 2007, an amendment application for all its systems in which it is serving outside its certificated territory to correct its apparent violation of Subsection 367.045(2), F.S.

Based on the above, staff recommends that UIF be made to show cause in writing, within 21 days, why it should not be fined a total of \$5,250 for the apparent violations noted above. Staff recommends that the show cause order incorporate the following conditions:

1. The utility's response to the show cause order should contain specific allegations of fact and law;
2. Should UIF file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;
3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
4. In the event that UIF fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;
5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and
6. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Further, the utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Issue 32: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Rule 25-30.115, F.A.C., and Orders Nos. PSC-03-1440-FOF-WS and PSC-04-1275-AS-WS, to adjust its books to conform with the National Association of Regulatory Commissioners (NARUC) Uniform System of Accounts (USOA)?

Recommendation: Yes. Utilities, Inc. of Florida should be ordered to show cause in writing, within 21 days, why it should not be fined \$3,000 for its apparent failure to adjust its books to conform with the NARUC USOA as required by Rule 25-30.115, F.A.C., and Orders Nos. PSC-03-1440-FOF-WS and PSC-04-1275-AS-WS. The order to show cause should incorporate the conditions stated below in the staff analysis. (Jaeger, Romig)

Staff Analysis: In Order No. PSC-03-1440-FOF-WS, issued December 22, 2003,¹⁹ the Commission discussed whether UIF should be made to show cause for its failure to maintain its books in accordance with the NARUC USOA, as required by Rule 25-30.115, F.A.C. The Commission noted that there was testimony that the utility had violated a prior settlement order (First Settlement Order),²⁰ and that “the utility is in apparent violation of Rule 25-30.115, F.A.C., as well as of numerous Commission orders.” However, the Commission noted that the utility had stated that it was voluntarily taking steps to come into compliance. Based on this assurance, the Commission decided that the interests of the customers would best be served by not initiating another show cause proceeding, and by monitoring the utility’s future compliance and actions in conjunction with Docket No. 020407-WS,²¹ and in future rate filings for UI systems in Florida.

Also, in Order No. PSC-04-0363-PAA-SU (PAA Order),²² the Commission required Alafaya Utilities, Inc., a UI subsidiary, to adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order, and provide proof of such adjustments within 90 days of the issuance date of a final order. In that PAA Order, on page 42, the Commission cited at least four other orders in which UI and its Florida subsidiaries had been cited for improperly maintaining their books and records in violation of either Rule 25-30.115 or 25-30.450, F.A.C.

Now, staff has again determined that UIF has not kept its books and records in compliance with Rule 25-30.115, F.A.C., and has not made timely adjustments to its books and records in accordance with adjustments made in Order No. PSC-03-1440-FOF-WS, the Order issued in the utility’s last rate case. Although Order No. PSC-03-1440-FOF-WS was issued on December 23, 2003, the auditor states in Audit Finding No. 1, in the Audit Report filed in this docket, that the adjustments were not made until March 16 and April 27, 2006. Staff believes that, because these adjustments were made at such a late date, this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to Order No. PSC-03-1440-FOF-WS

¹⁹ Order issued in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

²⁰ See Order No. PSC-00-2388-AS-WU, issued December 13, 2000, in Docket No. 991437-WU, In Re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.

²¹ In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

²² Issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds, that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than \$5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of the above-noted Orders in a timely manner and Rule 25-30.115, F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings are warranted. Staff notes that in the Order Approving Settlement Agreement Filed by Utilities, Inc. (Second Settlement Order),²³ issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Second Settlement Order and Order PSC-03-1440-FOF-WS, issued just one year apart, and all the other previous orders, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, staff notes that at the January 23, 2007 Agenda Conference, in Dockets Nos. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., and 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc., the Commission required two other UI subsidiaries to show cause why they should not be fined \$3,000 for failure to properly adjust their books and records as required by Rule 25-30.115, F.A.C. Staff believes that the continued pattern of disregard for the Commission's rules, statutes, and orders warrants more than just a warning. Accordingly, staff recommends that UIF be made to show cause in writing, within 21 days, why it should not be fined \$3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by Order No. PSC-03-1440-FOF-WS.

Based on the above, staff recommends that UIF be made to show cause in writing, within 21 days, why it should not be fined \$3,000 for the apparent violations noted above. Staff recommends that the show cause order incorporate the following conditions:

1. The utility's response to the show cause order should contain specific allegations of fact and law;
2. Should UIF file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a

²³ See Order No. PSC-04-1275-AS-WS, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code.

further proceeding will be scheduled before a final determination of this matter is made;

3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
4. In the event that UIF fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;
5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and
6. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Further, the utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

OTHER ISSUES

Issue 33: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

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

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that UIF provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 34: Should this docket be closed?

Recommendation: If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the Order, a Consummating Order will be issued. If UIF pays the \$8,250 in fines, the docket should be closed administratively upon staff's verification that there was no timely protest, the proposed fines have been paid, and the appropriate refunds have been made. If there is a timely protest by a substantially affected person or if the utility timely responds in writing to the Order to show cause, the docket should remain open to allow for the processing of either the protest or the response. (Jaeger)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the Order, a Consummating Order will be issued. If UIF pays the \$8,250 in fines, the docket should be closed administratively upon staff's verification that there was no timely protest, and the proposed fines have been paid, and the appropriate refunds have been made. If there is a timely protest by a substantially affected person or if the utility timely responds in writing to the Order to show cause, the docket should remain open to allow for the processing of either the protest or the response.

Utilities Inc. of Florida
 Crownwood Wastewater System – Marion County

Used and Useful Analysis

1	Permitted Capacity (TMADF)		40,000 gpd
2	Demand (TMADF)		22,839 gpd
3	Excessive Infiltration and Inflow		0 gpd
	a Water demand per ERC	151 gpd	
	b TMADF per ERC	101 gpd	
4	Growth = $((2/4a) \times 4b \times 5 \text{ yrs.})$		1,664 gpd
	a Average Test Year Customers	226 ERCs	
	b Customer Growth per year	1,664 gpd	3 ERCs
5	Used and Useful = $(2 - 3 + 4)/1$		61.25%*

* The Crownwood wastewater treatment plant was found to be 68.65% used and useful in the utility's last rate case (Docket No. 020071-WS).

Utilities, Inc. of Florida - Marion County					Schedule No. 1-A	
Schedule of Water Rate Base					Docket No. 060253-WS	
Test Year Ended 12/31/05						
	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1	Plant in Service	\$677,507	\$36,978	\$714,485	(\$12,374)	\$702,111
2	Land and Land Rights	17,082	0	17,082	0	17,082
3	Non-used and Useful Components	0	0	0	0	0
4	Construction Work in Progress	39,336	(39,336)	0	0	0
5	Accumulated Depreciation	(299,941)	(31,750)	(331,691)	11,404	(320,287)
6	CIAC	(151,110)	0	(151,110)	0	(151,110)
7	Amortization of CIAC	61,322	0	61,322	0	61,322
8	Net Debit Deferred Income Taxes	0	0	0	0	0
9	Advances for Construction	0	0	0	0	0
10	Working Capital Allowance	0	126,774	126,774	(98,294)	28,480
11	Other	0	0	0	0	0
12	Rate Base	<u>\$344,196</u>	<u>\$92,666</u>	<u>\$436,862</u>	<u>(\$99,264)</u>	<u>\$337,598</u>

Utilities, Inc. of Florida - Marion County				Schedule No. 1-B	
Schedule of Wastewater Rate Base				Docket No. 060253-WS	
Test Year Ended 12/31/05					
Description	Test Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year
1 Plant in Service	\$165,388	\$3,180	\$168,568	(\$1,991)	\$166,577
2 Land and Land Rights	10,800	0	10,800	0	10,800
3 Non-used and Useful Components	\$0	(26,707)	(26,707)	(3,656)	(30,363)
4 Accumulated Depreciation	(44,567)	(106)	(44,673)	(220)	(44,893)
5 CIAC	(1,938)	0	(1,938)	0	(1,938)
6 Amortization of CIAC	174	0	174	0	174
7 CWIP	0	0	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	0	35,879	35,879	(27,053)	8,826
10 Other	0	0	0	0	0
11 Rate Base	<u>\$129,857</u>	<u>\$12,246</u>	<u>\$142,103</u>	<u>(\$32,921)</u>	<u>\$109,182</u>

Utilities, Inc. of Florida - Marion County		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 060253-WS	
Test Year Ended 12/31/05			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$14,829)	(\$450)	
2 To include the appropriate net WSC rate base (Issue 5)	4,053	514	
3 To reflect the appropriate allocated plant from UIF (Issue 5)	8,692	1,125	
4 To reflect the appropriate amount of pro forma plant (Issue 6)	<u>(10,290)</u>	<u>(3,180)</u>	
Total	<u>(\$12,374)</u>	<u>(\$1,991)</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment (Issue 7)	<u>\$0</u>	<u>(\$3,656)</u>	
<u>Accumulated Depreciation</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	16,749	413	
2 To reflect the appropriate allocated plant from UIF (Issue 5)	(5,719)	(739)	
3 To reflect the appropriate amount of pro forma plant (Issue 6)	374	106	
	<u>0</u>	<u>0</u>	
Total	<u>\$11,404</u>	<u>(\$220)</u>	
<u>Working Capital</u>			
To reflect an appropriate level (Issue 8)	<u>(\$98,294)</u>	<u>(\$27,053)</u>	

Utilities, Inc. of Florida - Marion County Capital Structure-13-Month Average Test Year Ended 12/31/05							Schedule No. 2 Docket No. 060253-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,740,902)	\$284,200	49.09%	6.65%	3.26%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,513,282)	\$9,641	1.67%	5.01%	0.08%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(91,315,131)	\$195,568	33.78%	11.78%	3.98%	
5 Customer Deposits	6,448	0	\$6,448	0	\$6,448	1.11%	6.00%	0.07%	
6 Tax Credits - Zero Cost	7,566	0	\$7,566	0	\$7,566	1.31%	0.00%	0.00%	
7 Deferred Income Taxes	<u>75,542</u>	<u>0</u>	<u>\$75,542</u>	<u>0</u>	<u>\$75,542</u>	<u>13.05%</u>	0.00%	<u>0.00%</u>	
10 Total Capital	<u>\$229,148,280</u>	<u>\$0</u>	<u>\$229,148,280</u>	<u>(\$228,569,315)</u>	<u>\$578,965</u>	<u>100.00%</u>		<u>7.39%</u>	
Per Staff									
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,820,304)	\$204,798	45.84%	6.58%	3.02%	
12 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,396,835)	\$6,780	1.52%	5.14%	0.08%	
13 Preferred Stock	0	0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
14 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$94,458,056)	\$145,647	32.60%	11.46%	3.74%	
15 Customer Deposits	6,448	0	\$6,448	\$0	\$6,448	1.44%	6.00%	0.09%	
16 Tax Credits - Zero Cost	7,566	0	\$7,566	\$0	\$7,566	1.69%	0.00%	0.00%	
17 Deferred Income Taxes	<u>75,542</u>	<u>0</u>	<u>\$75,542</u>	<u>\$0</u>	<u>\$75,542</u>	<u>16.91%</u>	0.00%	<u>0.00%</u>	
20 Total Capital	<u>\$229,148,280</u>	<u>\$2,973,696</u>	<u>\$232,121,976</u>	<u>(\$231,675,196)</u>	<u>\$446,780</u>	<u>100.00%</u>		<u>6.92%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>6.59%</u>	<u>7.24%</u>		

Utilities, Inc. of Florida - Marion County Statement of Water Operations Test Year Ended 12/31/05							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement
1 Operating Revenues:	<u>\$164,769</u>	<u>\$14,416</u>	<u>\$179,185</u>	<u>(\$11,173)</u>	<u>\$168,012</u>	<u>(\$13,312)</u> -7.92%	<u>\$154,700</u>
Operating Expenses							
2 Operation & Maintenance	\$88,937	\$8,153	97,090	(10,220)	86,870		86,870
3 Depreciation	23,638	374	24,012	105	24,117		24,117
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	13,561	1,753	15,314	(1,969)	13,345	(599)	12,746
6 Income Taxes	<u>0</u>	<u>10,481</u>	<u>10,481</u>	<u>1,915</u>	<u>12,396</u>	<u>(4,784)</u>	<u>7,612</u>
7 Total Operating Expense	<u>\$126,136</u>	<u>\$20,761</u>	<u>\$146,897</u>	<u>(\$10,169)</u>	<u>\$136,728</u>	<u>(\$5,383)</u>	<u>\$131,345</u>
8 Operating Income	<u>\$38,633</u>	<u>(\$6,345)</u>	<u>\$32,288</u>	<u>(\$1,004)</u>	<u>\$31,284</u>	<u>(\$7,929)</u>	<u>\$23,355</u>
9 Rate Base	<u>\$344,196</u>		<u>\$436,862</u>		<u>\$337,598</u>		<u>\$337,598</u>
10 Rate of Return	<u>11.22%</u>		<u>7.39%</u>		<u>9.27%</u>		<u>6.92%</u>

Utilities, Inc. of Florida - Marion County Statement of Wastewater Operations Test Year Ended 12/31/05							
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement
1 Operating Revenues:	<u>\$45,037</u>	<u>(\$1,376)</u>	<u>\$43,661</u>	<u>\$911</u>	<u>\$44,572</u>	<u>(\$6,926)</u> -15.54%	<u>\$37,645</u>
Operating Expenses							
2 Operation & Maintenance	26,918	1,662	28,580	(1,659)	26,921		26,921
3 Depreciation	(510)	(712)	(1,222)	(5)	(1,227)		(1,227)
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	2,806	(415)	2,391	(143)	2,248	(312)	1,936
6 Income Taxes	<u>0</u>	<u>3,411</u>	<u>3,411</u>	<u>1,540</u>	<u>4,951</u>	<u>(2,489)</u>	<u>2,462</u>
7 Total Operating Expense	<u>\$29,214</u>	<u>\$3,946</u>	<u>\$33,160</u>	<u>(\$267)</u>	<u>\$32,893</u>	<u>(\$2,801)</u>	<u>\$30,092</u>
8 Operating Income	<u>\$15,823</u>	<u>(\$5,322)</u>	<u>\$10,501</u>	<u>\$1,178</u>	<u>\$11,679</u>	<u>(\$4,126)</u>	<u>\$7,553</u>
9 Rate Base	<u>\$129,857</u>		<u>\$142,103</u>		<u>\$109,182</u>		<u>\$109,182</u>
10 Rate of Return	<u>12.18%</u>		<u>7.39%</u>		<u>10.70%</u>		<u>6.92%</u>

Utilities, Inc. of Florida - Marion County Adjustments to Operating Income Test Year Ended 12/31/05		Schedule 3-C Docket No. 060253-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$14,135)	\$1,466	
2 To reflect the appropriate amount of annualized revenues	2,954	(555)	
3 To impute incremental miscellaneous service charges (Issue 14)	8	0	
Total	<u>(\$11,173)</u>	<u>\$911</u>	
<u>Operation and Maintenance Expense</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	\$1,324	\$0	
2 To adjust for Audit Findings #19, #22, #23, #26 & #27 (Issue 12)	(7,440)	(444)	
3 To reflect the appropriate WSC allocated expenses (Issue 15)	(905)	(114)	
4 To reflect the appropriate UIF allocated expenses (Issue 15)	(732)	(93)	
5 To adjust pro forma salaries, pension and benefits (Issue 16)	(4,668)	(593)	
6 To adjust for Audit Findings #25 Purchased Power Exp. (Issue 17)	(636)	(81)	
7 To adjust for Audit Findings #28 Transportation Exp. (Issue 18)	(858)	(109)	
8 To adjust for Audit Findings #35 Vehicles Repair Exp. (Issue 19)	(367)	(46)	
9 To adjust for pro forma expense (Issue 21)	(1,261)	(478)	
10 To adjust old rate case expense (Issue 22)	5,545	327	
11 To adjust new rate case expense (Issue 22)	(222)	(28)	
Total	<u>(\$10,220)</u>	<u>(\$1,659)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$582)	(\$25)	
2 To include the appropriate net WSC rate base (Issue 5)	598	76	
3 To reflect the appropriate allocated plant from UIF (Issue 5)	463	58	
4 To reflect the appropriate amount of pro forma plant (Issue 6)	(374)	(106)	
5 To reflect depreciation expense related to non-used and useful (Issue 7)		(8)	
Total	<u>\$105</u>	<u>(\$5)</u>	
<u>Amortization-Other Expense</u>		<u>\$0</u>	<u>\$0</u>
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$503)	\$42	
2 To adjust for Audit Finding #32 (Issue 12)	(1,081)	(137)	
3 Appropriate amount of WSC allocated property taxes (Issue 15)	(20)	(2)	
4 To reflect appropriate pro forma payroll taxes (Issue 16)	(365)	(46)	
Total	<u>(\$1,969)</u>	<u>(\$143)</u>	
<u>Income Taxes</u>			
To reflect the appropriate income taxes.	<u>1,915</u>	<u>1,540</u>	

Utilities, Inc. of Florida - Marion County			Schedule No. 4-A		
Water Monthly Service Rates			Docket No. 060253-WS		
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$4.14	\$0.00	\$4.52	\$3.46	\$0.10
1"	\$10.38	\$0.00	\$11.29	\$8.65	\$0.26
1-1/2"	\$20.74	\$0.00	\$22.54	\$17.30	\$0.52
2"	\$33.20	\$0.00	\$36.04	\$27.68	\$0.82
3"	\$66.39	\$0.00	\$72.07	\$55.36	\$1.65
4"	\$103.74	\$0.00	\$112.62	\$86.50	\$2.58
6"	\$207.48	\$0.00	\$225.24	\$173.00	\$5.15
Gallonage Charge, per 1,000 Gallons	\$2.48	\$0.00	\$2.64	\$2.39	\$0.07
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$11.58	\$0.00	\$12.44	\$10.63	
5,000 Gallons	\$16.54	\$0.00	\$17.72	\$15.41	
10,000 Gallons	\$28.94	\$0.00	\$30.92	\$27.36	

Utilities, Inc. of Florida - Marion County Wastewater Monthly Service Rates Test Year Ended 12/31/05			Schedule No. 4-B Docket No. 060253-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recom Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$21.22	\$0.00	\$20.68	\$19.45	\$0.30
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$2.62	\$0.00	\$2.58	\$2.07	\$0.03
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$21.22	\$0.00	\$20.68	\$19.45	\$0.30
1"	\$53.04	\$0.00	\$51.32	\$48.63	\$0.76
1-1/2"	\$106.08	\$0.00	\$102.64	\$97.25	\$1.51
2"	\$169.73	\$0.00	\$164.38	\$155.60	\$2.42
3"	\$339.46	\$0.00	\$328.46	\$311.20	\$4.84
4"	\$530.41	\$0.00	\$513.22	\$486.25	\$7.56
6"	\$1,060.82	\$0.00	\$1,026.45	\$972.50	\$15.12
Gallage Charge per 1,000 Gallons	\$3.16	\$0.00	\$3.12	\$2.48	\$0.04
<u>Multi-Residential Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$58.07	\$0.00	\$56.19	\$19.45	\$0.30
1"	\$58.07	\$0.00	\$56.19	\$48.63	\$0.76
1-1/2"	\$58.07	\$0.00	\$56.19	\$97.25	\$1.51
2"	\$58.07	\$0.00	\$56.19	\$155.60	\$2.42
3"	\$58.07	\$0.00	\$56.19	\$311.20	\$4.84
4"	\$58.07	\$0.00	\$56.19	\$486.25	\$7.56
6"	\$58.07	\$0.00	\$56.19	\$972.50	\$15.12
Gallage Charge per 1,000 Gallons (Maximum 20,000 gallons)	\$4.54	\$0.00	\$4.39	\$2.48	\$0.04
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$29.08	\$0.00	\$28.42	\$25.66	
5,000 Gallons	\$34.32	\$0.00	\$33.58	\$29.80	
10,000 Gallons	\$47.42	\$0.00	\$46.48	\$40.15	

Utilities, Inc. of Florida - Orange County				Schedule No. 1-A	
Schedule of Water Rate Base				Docket No. 060253-WS	
Test Year Ended 12/31/05					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$177,468	\$0	\$177,468	(\$9,527)	\$167,941
2 Land and Land Rights	0	0	0	0	0
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(79,913)	0	(79,913)	(1,345)	(81,258)
5 CIAC	(28,860)	0	(28,860)	(9,893)	(38,753)
6 Amortization of CIAC	26,540	0	26,540	0	26,540
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	0	107,107	107,107	(82,528)	24,579
10 Other	0	0	0	0	0
11 Rate Base	<u>\$95,235</u>	<u>\$107,107</u>	<u>\$202,342</u>	<u>(\$103,293)</u>	<u>\$99,049</u>

Utilities, Inc. of Florida - Orange County		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 060253-WS
Test Year Ended 12/31/05		
Explanation		Water
<u>Plant In Service</u>		
1	To reflect dismantlement of Crescent Heights/Davis Shores water treatment plants (Issue 4)	(19,127)
2	To include the appropriate net WSC rate base (Issue 5)	2,392
3	To reflect the appropriate allocated plant from UIF (Issue 5)	7,208
	Total	<u>(\$9,527)</u>
<u>Accumulated Depreciation</u>		
1	To reflect audit adjustments agreed to by utility and staff (Issue 2)	\$958
2	To reflect dismantlement of Crescent Heights/Davis Shores water treatment plants (Issue 4)	1,594
3	To reflect the appropriate allocated plant from UIF (Issue 5)	<u>(3,897)</u>
	Total	<u>(\$1,345)</u>
<u>CIAC</u>		
	To reflect audit adjustments agreed to by utility and staff (Issue 2)	<u>(9,893)</u>
<u>Working Capital</u>		
	To reflect an appropriate level (Issue 8)	<u>(\$82,528)</u>

Utilities, Inc. of Florida - Orange County
Capital Structure-13-Month Average
Test Year Ended 12/31/05

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,920,835)	\$104,267	51.53%	6.65%	3.43%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,519,386)	\$3,537	1.75%	5.01%	0.09%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(91,438,949)	\$71,750	35.46%	11.78%	4.18%	
5 Customer Deposits	5,814	0	\$5,814	0	\$5,814	2.87%	6.00%	0.17%	
6 Tax-credits - Zero Cost	1,545	0	\$1,545	0	\$1,545	0.76%	0.00%	0.00%	
7 Deferred Income Taxes	<u>15,430</u>	<u>0</u>	<u>\$15,430</u>	<u>0</u>	<u>\$15,430</u>	<u>7.63%</u>	0.00%	<u>0.00%</u>	
10 Total Capital	<u>\$229,081,513</u>	<u>\$0</u>	<u>\$229,081,513</u>	<u>(\$228,879,170)</u>	<u>\$202,343</u>	<u>100.00%</u>		<u>7.86%</u>	
Per Staff									
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,981,382)	\$43,720	44.14%	6.58%	2.90%	
12 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,402,168)	1,447	1.46%	5.14%	0.08%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$94,572,610)	31,093	31.39%	11.46%	3.60%	
15 Customer Deposits	5,814	0	\$5,814	\$0	5,814	5.87%	6.00%	0.35%	
16 Tax-credits - Zero Cost	1,545	0	\$1,545	\$0	1,545	1.56%	0.00%	0.00%	
17 Deferred Income Taxes	<u>15,430</u>	<u>0</u>	<u>\$15,430</u>	<u>\$0</u>	<u>15,430</u>	<u>15.58%</u>	0.00%	<u>0.00%</u>	
20 Total Capital	<u>\$229,081,513</u>	<u>\$2,973,696</u>	<u>\$232,055,209</u>	<u>(\$231,956,160)</u>	<u>\$99,049</u>	<u>100.00%</u>		<u>6.93%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>6.62%</u>	<u>7.24%</u>		

Utilities, Inc. of Florida - Orange County Statement of Water Operations Test Year Ended 12/31/05						Schedule No. 3-A Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement
1 Operating Revenues:	<u>\$97,411</u>	<u>\$24,144</u>	<u>\$121,555</u>	<u>(\$22,042)</u>	<u>\$99,513</u>	<u>(\$782)</u> -0.79%	<u>\$98,730</u>
Operating Expenses							
2 Operation & Maintenance	79,687	4,113	83,800	(11,423)	72,377		72,377
3 Depreciation	6,859	0	6,859	(310)	6,549		6,549
4 Amortization	0	0	0	2,313	2,313		2,313
5 Taxes Other Than Income	8,516	1,356	9,872	(1,857)	8,015	(35)	7,980
6 Income Taxes	0	5,108	5,108	(2,490)	2,618	(281)	2,337
7 Total Operating Expense	<u>\$95,062</u>	<u>\$10,577</u>	<u>\$105,639</u>	<u>(\$13,766)</u>	<u>\$91,873</u>	<u>(316)</u>	<u>\$91,556</u>
8 Operating Income	<u>\$2,349</u>	<u>\$13,567</u>	<u>\$15,916</u>	<u>(\$8,276)</u>	<u>\$7,640</u>	<u>(466)</u>	<u>\$7,174</u>
9 Rate Base	<u>\$95,235</u>		<u>\$202,342</u>		<u>\$99,049</u>		<u>\$99,049</u>
10 Rate of Return	<u>2.47%</u>		<u>7.87%</u>		<u>7.71%</u>		<u>7.24%</u> *

* Staff's calculations show the utility to be overearning, therefore in this schedule, the high point of the Return on Equity of 12.46% has been used.

Utilities, Inc. of Florida - Orange County		Schedule No. 3-B
Adjustments to Operating Income		Docket No. 060253-WS
Test Year Ended 12/31/05		
Explanation	Water	
<u>Operating Revenues</u>		
1	Remove requested final revenue increase	(\$24,055)
2	To reflect the appropriate amount of annualized revenues	1,973
3	To impute incremental miscellaneous service charges (Issue 14)	40
	Total	<u>(\$22,042)</u>
<u>Operation and Maintenance Expense</u>		
1	To adjust for Audit Findings #19 & #26 (Issue 12)	(4,486)
2	To reflect the appropriate WSC allocated expenses (Issue 15)	(\$535)
3	To reflect the appropriate UIF allocated expenses (Issue 15)	(432)
4	To adjust pro forma salaries, pension and benefits (Issue 16)	(2,755)
5	To adjust for Audit Finding #25 Purchased Power Exp. (Issue 17)	(375)
6	To adjust for Audit Finding #28 Transportation Exp. (Issue 18)	(506)
7	To adjust for Audit Findings #35 Vehicles Repair Exp. (Issue 19)	(217)
8	To adjust for pro forma expense (Issue 20)	(587)
9	To adjust old rate case expense (Issue 22)	1,198
10	To adjust new rate case expense (Issue 22)	(2,728)
	Total	<u>(\$11,423)</u>
<u>Depreciation Expense - Net</u>		
1	To reflect dismantlement of Crescent Heights/Davis Shores water treatment plants (Issue 4)	(\$638)
2	To included the appropriate net WSC rate base (Issue 5)	353
3	To reflect the appropriate allocated plant from UIF (Issue 5)	(25)
	Total	<u>(\$310)</u>
<u>Amortization-Other Expense</u>		
	To reflect dismantlement of Crescent Heights/Davis Shores water treatment plants (Issue 4)	<u>\$2,313</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above	(\$992)
2	To adjust for Audit Finding #32 (Issue 12)	(638)
3	Appropriate amount of WSC allocated property taxes (Issue 15)	(11)
4	To reflect appropriate pro forma payroll taxes (Issue 16)	(216)
	Total	<u>(\$1,857)</u>
<u>Income Taxes</u>		
	To reflect the appropriate income taxes.	<u>(\$2,490)</u>

Utilities, Inc. of Florida - Orange County				Schedule No. 4-A	
Water Monthly Service Rates				Docket No. 060253-WS	
Test Year Ended 12/31/05				Final	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.36	\$7.05	\$7.93	\$6.36	n/a
1"	\$15.90	\$17.64	\$19.82	\$15.90	n/a
1-1/2"	\$31.81	\$35.28	\$39.66	\$31.81	n/a
2"	\$50.89	\$56.45	\$63.44	\$50.89	n/a
3"	\$101.78	\$112.89	\$126.89	\$101.78	n/a
4"	\$159.03	\$176.40	\$198.26	\$159.03	n/a
6"	\$318.07	\$352.80	\$396.54	\$318.07	n/a
Gallage Charge, per 1,000 Gallons					
First 8,000 gallons	\$2.62	\$2.91	\$3.27	\$2.62	n/a
Next 8,000 gallons	\$3.28	\$3.64	\$4.09	\$3.28	n/a
Over 16,000 gallons	\$3.94	\$4.37	\$4.91	\$3.94	n/a
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.36	\$7.05	\$7.93	\$6.36	n/a
1"	\$15.90	\$17.64	\$19.82	\$15.90	n/a
1-1/2"	\$31.81	\$35.28	\$39.66	\$31.81	n/a
2"	\$50.89	\$56.45	\$63.44	\$50.89	n/a
3"	\$101.78	\$112.89	\$126.89	\$101.78	n/a
4"	\$159.03	\$176.40	\$198.26	\$159.03	n/a
6"	\$318.07	\$352.80	\$396.54	\$318.07	n/a
Gallage Charge, per 1,000 Gallons					
	\$2.81	\$3.12	\$3.50	\$2.81	n/a
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$14.22	\$15.78	\$17.74	\$14.22	
5,000 Gallons	\$19.46	\$21.60	\$24.28	\$19.46	
10,000 Gallons	\$33.88	\$37.61	\$42.27	\$33.88	

Utilities, Inc. of Florida - Pasco County Schedule of Water Rate Base Test Year Ended 12/31/05				Schedule No. 1-A Docket No. 060253-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$3,195,102	\$141,298	\$3,336,400	(\$584,295)	\$2,752,105	
2 Land and Land Rights	2,718	9,000	11,718	(1,150)	10,568	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(1,164,562)	3,095	(1,161,467)	451,632	(709,835)	
5 CIAC	(595,435)	0	(595,435)	12,627	(582,808)	
6 Amortization of CIAC	339,096	0	339,096	(43,574)	295,522	
7 Construction Work In Progress	261,878	(261,878)	0	0	0	
8 Net Debit Deferred Income Taxes	0	0	0	0	0	
9 Advances for Construction	0	0	0	0	0	
10 Working Capital Allowance	0	648,489	648,489	(507,695)	140,794	
11 Other	0	0	0	0	0	
12 Rate Base	<u>\$2,038,797</u>	<u>\$540,004</u>	<u>\$2,578,801</u>	<u>(\$672,455)</u>	<u>\$1,906,346</u>	

Utilities, Inc. of Florida - Pasco County Schedule of Wastewater Rate Base Test Year Ended 12/31/05					Schedule No. 1-B Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	
1 Plant in Service	\$1,190,321	\$199,580	\$1,389,901	(\$175,381)	\$1,214,520	
2 Land and Land Rights	10,500	(9,000)	1,500	0	1,500	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(318,807)	405	(318,402)	26,359	(292,043)	
5 CIAC	(587,255)	0	(587,255)	17,232	(570,023)	
6 Amortization of CIAC	310,227	0	310,227	(9,449)	300,778	
7 CWIP	9,875	(9,875)	0	0	0	
8 Advances for Construction	0	0	0	0	0	
9 Working Capital Allowance	0	411,684	411,684	(317,678)	94,006	
10 Other	0	0	0	0	0	
11 Rate Base	<u>\$614,861</u>	<u>\$592,794</u>	<u>\$1,207,655</u>	<u>(\$458,917)</u>	<u>\$748,738</u>	

Utilities, Inc. of Florida - Pasco County Adjustments to Rate Base Test Year Ended 12/31/05		Schedule No. 1-C Docket No. 060253-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$493,947)	(\$156,653)	
2 To reflect the sale of Bartelt-WisBar Parcel 6 & Well #5 (Issue 3)	(15,174)	0	
3 To include the appropriate net WSC rate base (Issue 5)	22,105	8,422	
4 To reflect the appropriate allocated plant from UIF (Issue 5)	(45,108)	8,314	
5 To reflect the appropriate amount of pro forma plant (Issue 6)	(52,171)	(35,464)	
	<u>\$0</u>	<u>\$0</u>	
Total plant additions/retirements/adjustments	<u>(\$584,295)</u>	<u>(\$175,381)</u>	
<u>Land</u>			
To reflect the sale of Bartelt-WisBar Parcel 6 & Well #5 (Issue 3)	<u>(\$1,150)</u>	<u>\$0</u>	
<u>Accumulated Depreciation</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	\$411,628	\$32,576	
2 To reflect the sale of Bartelt-WisBar Parcel 6 & Well #5 (Issue 3)	15,174	0	
3 To reflect the appropriate allocated plant from UIF (Issue 5)	28,431	(5,293)	
4 To reflect the appropriate amount of pro forma plant (Issue 6)	<u>(3,601)</u>	<u>(924)</u>	
Total	<u>\$451,632</u>	<u>\$26,359</u>	
<u>CIAC</u>			
To reflect audit adjustments agreed to by utility and staff (Issue 2)	<u>\$12,627</u>	<u>\$17,232</u>	
<u>Accumulated Amortization of CIAC</u>			
To reflect audit adjustments agreed to by utility and staff (Issue 2)	<u>(\$43,574)</u>	<u>(\$9,449)</u>	
<u>Working Capital</u>			
To reflect an appropriate level (Issue 8)	<u>(\$507,695)</u>	<u>(\$317,678)</u>	

Utilities, Inc. of Florida - Pasco County Capital Structure-13-Month Average Test Year Ended 12/31/05							Schedule No. 2 Docket No. 060253-WS	
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,083,859)	\$1,941,243	51.27%	6.65%	3.41%
Short-term Debt	4,522,923	0	\$4,522,923	(4,457,067)	\$65,856	1.74%	5.01%	0.09%
Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
Common Equity	91,510,699	0	\$91,510,699	(90,174,862)	\$1,335,837	35.28%	11.78%	4.16%
Customer Deposits	23,850	0	\$23,850	0	\$23,850	0.63%	6.00%	0.04%
Tax Credits - Zero Cost	38,207	0	\$38,207	0	\$38,207	1.01%	0.00%	0.00%
Deferred Income Taxes	381,463	0	\$381,463	0	\$381,463	10.07%	0.00%	0.00%
Total Capital	<u>\$229,502,244</u>	<u>\$0</u>	<u>\$229,502,244</u>	<u>(\$225,715,788)</u>	<u>\$3,786,456</u>	<u>100.00%</u>		<u>7.69%</u>
Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$131,757,204)	\$1,267,898	47.75%	6.58%	3.14%
Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,361,643)	41,972	1.58%	5.14%	0.08%
Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%
Common Equity	91,510,699	3,093,004	\$94,603,703	(\$93,702,009)	901,694	33.96%	11.46%	3.89%
Customer Deposits	23,850	0	\$23,850	\$0	23,850	0.90%	6.00%	0.05%
Tax Credits - Zero Cost	38,207	0	\$38,207	\$0	38,207	1.44%	0.00%	0.00%
Deferred Income Taxes	381,463	0	\$381,463	\$0	381,463	14.37%	0.00%	0.00%
Total Capital	<u>\$229,502,244</u>	<u>\$2,973,696</u>	<u>\$232,475,940</u>	<u>(\$229,820,856)</u>	<u>\$2,655,084</u>	<u>100.00%</u>		<u>7.17%</u>
						LOW	HIGH	
						RETURN ON EQUITY	<u>10.46%</u>	<u>12.46%</u>
						OVERALL RATE OF RETURN	<u>6.83%</u>	<u>7.51%</u>

Utilities, Inc. of Florida - Pasco County Statement of Water Operations Test Year Ended 12/31/05							Schedule No. 3-A Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement	
1 Operating Revenues:	<u>\$585,359</u>	<u>\$381,957</u>	<u>\$967,316</u>	<u>(\$375,666)</u>	<u>\$591,650</u>	<u>\$202,693</u> 34.26%	<u>\$794,342</u>	
Operating Expenses								
2 Operation & Maintenance	431,404	62,987	494,391	(64,927)	429,464		429,464	
3 Depreciation	114,095	6,235	120,330	(26,488)	93,842		93,842	
4 Amortization	0	0	0	(1,206)	(1,206)		(1,206)	
5 Taxes Other Than Income	67,205	22,161	89,366	(7,720)	81,646	9,121	90,767	
6 Income Taxes	0	64,754	64,754	(92,816)	(28,062)	72,841	44,779	
7 Total Operating Expense	<u>\$612,704</u>	<u>\$156,137</u>	<u>\$768,841</u>	<u>(\$193,157)</u>	<u>\$575,684</u>	<u>\$81,962</u>	<u>\$657,646</u>	
8 Operating Income	<u>(\$27,345)</u>	<u>\$225,820</u>	<u>\$198,475</u>	<u>(\$182,509)</u>	<u>\$15,966</u>	<u>120,730</u>	<u>\$136,696</u>	
9 Rate Base	<u>\$2,038,797</u>		<u>\$2,578,801</u>		<u>\$1,906,346</u>		<u>\$1,906,346</u>	
10 Rate of Return	<u>-1.34%</u>		<u>7.70%</u>		<u>0.84%</u>		<u>7.17%</u>	

Utilities, Inc. of Florida - Pasco County Statement of Wastewater Operations Test Year Ended 12/31/05							Schedule No. 3-B Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement	
1 Operating Revenues:	<u>\$378,336</u>	<u>\$154,492</u>	<u>\$532,828</u>	<u>(\$156,678)</u>	<u>\$376,150</u>	<u>\$72,029</u> 19.15%	<u>\$448,180</u>	
Operating Expenses								
2 Operation & Maintenance	\$305,477	\$17,432	\$322,909	(36,161)	\$286,748		\$286,748	
3 Depreciation	37,758	5,234	42,992	(2,866)	40,126		40,126	
4 Amortization	0	0	0	0	0		0	
5 Taxes Other Than Income	32,594	11,045	43,639	(10,100)	33,539	3,241	36,781	
6 Income Taxes	<u>0</u>	<u>30,328</u>	<u>30,328</u>	<u>(25,377)</u>	<u>4,951</u>	<u>25,885</u>	<u>30,836</u>	
7 Total Operating Expense	<u>375,829</u>	<u>64,039</u>	<u>439,868</u>	<u>(74,504)</u>	<u>365,364</u>	<u>29,126</u>	<u>394,491</u>	
8 Operating Income	<u>\$2,507</u>	<u>\$90,453</u>	<u>\$92,960</u>	<u>(\$82,174)</u>	<u>\$10,786</u>	<u>\$42,903</u>	<u>\$53,689</u>	
9 Rate Base	<u>\$614,861</u>		<u>\$1,207,655</u>		<u>\$748,738</u>		<u>\$748,738</u>	
10 Rate of Return	<u>0.41%</u>		<u>7.70%</u>		<u>1.44%</u>		<u>7.17%</u>	

Utilities, Inc. of Florida - Pasco County Adjustments to Operating Income Test Year Ended 12/31/05		Schedule 3-C Docket No. 060253-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$380,684)	(\$153,740)	
2 To reflect the appropriate amount of annualized revenues	4,913	(2,938)	
3 To impute incremental miscellaneous service charges (Issue 14)	<u>105</u>	<u>0</u>	
Total	<u>(\$375,666)</u>	<u>(\$156,678)</u>	
<u>Operation and Maintenance Expense</u>			
1 To adjust for Audit Findings #19, #20, #21, #23, #26 (Issue 12)	(38,481)	(26,841)	
2 To reflect the appropriate WSC allocated expenses (Issue 15)	(4,941)	(1,882)	
3 To reflect the appropriate UIF allocated expenses (Issue 15)	(4,612)	(1,669)	
4 To adjust pro forma salaries, pension and benefits (Issue 16)	(25,462)	(9,701)	
5 To adjust for Audit Finding #25 Purchased Power Exp. (Issue 17)	(3,469)	(1,680)	
6 To adjust for Audit Finding #28 Transportation Exp. (Issue 18)	(4,678)	(1,782)	
7 To adjust for Audit Findings #35 Vehicles Repair Exp. (Issue 19)	(2,001)	(763)	
8 To adjust for pro forma expense (Issue 20)	(6,552)	(2,121)	
9 To adjust old rate case expense (Issue 22)	26,479	10,739	
10 To adjust new rate case expense (Issue 22)	<u>(1,210)</u>	<u>(461)</u>	
Total	<u>(\$64,927)</u>	<u>(\$36,161)</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$6,015)	(\$1,627)	
2 To reflect the appropriate allocated plant from UIF (Issue 5)	(21,597)	(996)	
3 To included the appropriate net WSC rate base (Issue 5)	3,261	1,242	
4 To reflect the appropriate amount of pro forma plant (Issue 6)	<u>(2,137)</u>	<u>(1,485)</u>	
Total	<u>(\$26,488)</u>	<u>(\$2,866)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	(\$16,905)	(\$7,051)	
2 To adjust for Audit Finding #32 (Issue 12)	11,288	(2,247)	
3 To remove property taxes related to non-U&U Rate Base (Issue 15)	(107)	(41)	
4 To reflect appropriate pro forma payroll taxes (Issue 16)	<u>(1,996)</u>	<u>(761)</u>	
Total	<u>(\$7,720)</u>	<u>(\$10,100)</u>	
<u>Gain on Sale</u>			
To reflect the sale of Bartelt-WisBar Parcel 6 & Well #5 (Issue 3)	<u>(\$1,206)</u>		
<u>Income Taxes</u>			
To reflect the appropriate income taxes.	<u>(\$92,816)</u>	<u>(\$25,377)</u>	

Utilities, Inc. of Florida - Pasco County Water Monthly Service Rates Test Year Ended 12/31/05				Schedule No. 4-A Docket No. 060253-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.93	\$12.18	\$14.70	\$9.55	\$0.30
3/4"	\$13.41	\$18.29	\$22.11	\$14.33	\$0.45
1"	\$22.35	\$30.48	\$36.85	\$23.88	\$0.76
1-1/2"	\$44.68	\$60.92	\$73.66	\$47.75	\$1.51
2"	\$71.49	\$97.48	\$117.86	\$76.40	\$2.42
3"	\$142.99	\$194.98	\$235.73	\$152.80	\$4.83
4"	\$223.41	\$304.64	\$368.31	\$238.75	\$7.55
6"	\$446.83	\$609.29	\$736.64	\$477.50	\$15.10
Gallage Charge, per 1,000 Gallons	\$1.77	\$2.41	\$2.92	\$3.10	\$0.10
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$14.24	\$19.41	\$23.46	\$18.85	
5,000 Gallons	\$17.78	\$24.23	\$29.30	\$25.05	
10,000 Gallons	\$26.63	\$36.28	\$43.90	\$40.55	

Utilities, Inc. of Florida - Pasco County Wastewater Monthly Service Rates Test Year Ended 12/31/05				Schedule No. 4-B Docket No. 060253-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential</u>					
All areas except Wis-Bar					
'Base Facility Charge All Meter Sizes:	\$9.78	\$11.13	\$13.74	\$11.93	\$0.25
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)	\$8.01	\$9.11	\$11.93	\$8.39	\$0.18
Wis-Bar					
'Base Facility Charge All Meter Sizes:	\$7.77	\$8.84	\$10.92	\$11.93	\$0.25
Gallonge Charge - Per 1,000 gallons (6,000 gallon cap)	\$6.11	\$6.95	\$8.59	\$8.39	\$0.18
Flat-rate (unmetered)	\$20.42	\$23.23	\$28.70	\$32.07	\$0.68
<u>General Service</u>					
All areas served by the Company					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.78	\$11.13	\$13.74	\$11.93	\$0.25
3/4"	\$14.67	\$16.69	\$20.62	\$17.90	\$0.38
1"	\$24.45	\$27.82	\$34.36	\$29.83	\$0.64
1-1/2"	\$48.90	\$55.64	\$68.72	\$59.65	\$1.27
2"	\$78.24	\$89.02	\$109.95	\$95.44	\$2.04
3"	\$156.49	\$178.05	\$219.92	\$190.88	\$4.08
4"	\$244.50	\$278.19	\$343.60	\$298.25	\$6.37
6"	\$489.02	\$556.39	\$687.22	\$596.50	\$12.74
Gallonge Charge, per 1,000 Gallons	\$9.61	\$10.93	\$13.50	\$10.07	\$0.22
<u>Multi-Residential Service</u>					
Wis-Bar					
Flat-Rate (unmetered)	13.48	15.34	18.94	\$31.32	\$0.67
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$33.81	\$38.46	\$49.53	\$37.10	
5,000 Gallons	\$49.83	\$56.68	\$73.39	\$53.88	
10,000 Gallons	\$57.84	\$65.79	\$85.32	\$62.27	
(Wastewater Gallonge Cap - 10,000 Gallons)					

Utilities, Inc. of Florida - Pinellas County				Schedule No. 1-A	
Schedule of Water Rate Base				Docket No. 060253-WS	
Test Year Ended 12/31/05					
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Staff Adjustments	Staff Adjusted Test Year
1 Plant in Service	\$410,162	\$14,988	\$425,150	(\$7,289)	\$417,861
2 Land and Land Rights	6,106	0	6,106	0	6,106
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(80,431)	(9,533)	(89,964)	11,004	(78,960)
5 CIAC	(138,847)	0	(138,847)	0	(138,847)
6 Amortization of CIAC	58,324	0	58,324	0	58,324
7 Net Debit Deferred Income Taxes	0	0	0	0	0
8 Advances for Construction	0	0	0	0	0
9 Working Capital Allowance	0	98,602	98,602	(78,817)	19,785
10 Other	0	0	0	0	0
11 Rate Base	<u>\$255,314</u>	<u>\$104,057</u>	<u>\$359,371</u>	<u>(\$75,102)</u>	<u>\$284,269</u>

Utilities, Inc. of Florida - Pinellas County		Schedule No. 1-B
Adjustments to Rate Base		Docket No. 060253-WS
Test Year Ended 12/31/05		
Explanation		Water
<u>Plant In Service</u>		
1	To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$15,147)
2	To include the appropriate net WSC rate base (Issue 5)	3,216
3	To reflect the appropriate allocated plant from UIF (Issue 5)	9,380
4	To reflect the appropriate amount of pro forma plant (Issue 6)	<u>(4,738)</u>
	Total	<u>(\$7,289)</u>
<u>Accumulated Depreciation</u>		
1	To reflect audit adjustments agreed to by utility and staff (Issue 2)	\$16,776
2	To reflect the appropriate allocated plant from UIF (Issue 5)	(5,945)
3	To reflect the appropriate amount of pro forma plant (Issue 6)	<u>173</u>
	Total	<u>\$11,004</u>
<u>Working Capital</u>		
	To reflect an appropriate level (Issue 8)	<u>(\$78,817)</u>

Utilities, Inc. of Florida - Pinellas County Capital Structure-13 Month Average Test Year Ended 12/31/05							Schedule No. 2 Docket No. 060253-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,839,810)	\$185,292	51.13%	6.65%	3.40%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,516,637)	\$6,286	1.73%	5.01%	0.09%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(91,383,193)	\$127,506	35.19%	11.78%	4.14%	
5 Customer Deposits	3,560	0	\$3,560	0	\$3,560	0.98%	6.00%	0.06%	
6 Tax Credits - Zero Cost	3,617	0	\$3,617	0	\$3,617	1.00%	0.00%	0.00%	
7 Deferred Income Taxes	<u>36,110</u>	<u>0</u>	<u>\$36,110</u>	<u>0</u>	<u>\$36,110</u>	<u>9.96%</u>	0.00%	<u>0.00%</u>	
10 Total Capital	<u>\$229,102,011</u>	<u>\$0</u>	<u>\$229,102,011</u>	<u>(\$228,739,640)</u>	<u>\$362,371</u>	<u>100.00%</u>		<u>7.69%</u>	
Per Staff									
11 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$132,886,946)	\$138,156	48.60%	6.58%	3.20%	
12 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,399,042)	4,573	1.61%	5.14%	0.08%	
13 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
14 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$94,505,450)	98,253	34.56%	11.46%	3.96%	
15 Customer Deposits	3,560	0	\$3,560	\$0	3,560	1.25%	6.00%	0.08%	
16 Tax Credits - Zero Cost	3,617	0	\$3,617	\$0	3,617	1.27%	0.00%	0.00%	
17 Deferred Income Taxes	<u>36,110</u>	<u>0</u>	<u>\$36,110</u>	<u>\$0</u>	<u>36,110</u>	<u>12.70%</u>	0.00%	<u>0.00%</u>	
20 Total Capital	<u>\$229,102,011</u>	<u>\$2,973,696</u>	<u>\$232,075,707</u>	<u>(\$231,791,438)</u>	<u>\$284,269</u>	<u>100.00%</u>		<u>7.32%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>6.97%</u>	<u>7.66%</u>		

Utilities, Inc. of Florida - Pinellas County Statement of Water Operations Test Year Ended 12/31/05						Schedule No. 3-A Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase (Decrease)	Revenue Requirement
1 Operating Revenues:	<u>\$76,741</u>	<u>\$59,089</u>	<u>\$135,830</u>	<u>(\$57,740)</u>	<u>\$78,090</u>	<u>\$29,923</u> 38.32%	<u>\$108,013</u>
Operating Expenses							
2 Operation & Maintenance	\$66,430	\$8,908	75,338	(14,987)	60,351		60,351
3 Depreciation	13,135	173	13,308	(1,361)	11,947		11,947
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	6,466	3,711	10,177	(3,407)	6,770	1,347	8,116
6 Income Taxes	<u>0</u>	<u>9,092</u>	<u>9,092</u>	<u>(13,050)</u>	<u>(3,958)</u>	<u>10,753</u>	<u>6,796</u>
7 Total Operating Expense	<u>\$86,031</u>	<u>\$21,884</u>	<u>\$107,915</u>	<u>(\$32,805)</u>	<u>\$75,110</u>	<u>\$12,100</u>	<u>\$87,210</u>
8 Operating Income	<u>(\$9,290)</u>	<u>\$37,205</u>	<u>\$27,915</u>	<u>(\$24,935)</u>	<u>\$2,980</u>	<u>\$17,823</u>	<u>\$20,803</u>
9 Rate Base	<u>\$255,314</u>		<u>\$359,371</u>		<u>\$284,269</u>		<u>\$284,269</u>
10 Rate of Return	<u>-3.64%</u>		<u>7.77%</u>		<u>1.05%</u>		<u>7.32%</u>

Utilities, Inc. of Florida - Pinellas County		Schedule No. 3-B
Adjustments to Operating Income		Docket No. 060253-WS
Test Year Ended 12/31/05		
Explanation		Water
<u>Operating Revenues</u>		
1	Remove requested final revenue increase	(\$58,842)
2	To reflect the appropriate amount of annualized revenues	1,089
3	To impute Incremental miscellaneous service charges (Issue 14)	13
	Total	<u>(\$57,740)</u>
<u>Operation and Maintenance Expense</u>		
1	To adjust for Audit Findings #19, #20, & #26 (Issue 12)	(7,239)
2	To record billing and collection fees (Issue 13)	(2,241)
3	To reflect the appropriate WSC allocated expenses (Issue 15)	(718)
4	To reflect the appropriate UIF allocated expenses (Issue 15)	(957)
5	To adjust pro forma salaries, pension and benefits (Issue 16)	(3,703)
6	To adjust for Audit Findings #25 Purchased Power Exp. (Issue 17)	(505)
7	To adjust for Audit Findings #28 Transportation Exp. (Issue 18)	(680)
8	To adjust for Audit Findings #35 Vehicles Repair Exp. (Issue 19)	(291)
9	To adjust for pro forma expense (Issue 20)	(1,018)
10	To adjust old rate case expense (Issue 22)	2,541
11	To adjust new rate case expense (Issue 22)	(176)
	Total	<u>(\$14,987)</u>
<u>Depreciation Expense - Net</u>		
1	To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$396)
2	To included the appropriate net WSC rate base (Issue 5)	474
3	To reflect the appropriate allocated plant from UIF (Issue 5)	(1,266)
4	To reflect the appropriate amount of pro forma plant (Issue 6)	(173)
	Total	<u>(\$1,361)</u>
<u>Amotization-Other Expense</u>		
		<u>\$0</u>
<u>Taxes Other Than Income</u>		
1	RAFs on revenue adjustments above	(\$2,598)
2	To adjust for Audit Finding #32 (Issue 12)	(504)
3	Appropriate amount of WSC allocated property taxes (Issue 15)	(15)
4	To reflect appropriate pro forma payroll taxes (Issue 16)	(290)
	Total	<u>(\$3,407)</u>
<u>Income Taxes</u>		
	To reflect the appropriate income taxes.	<u>(\$13,050)</u>

Utilities, Inc. of Florida - Seminole County Schedule of Water Rate Base Test Year Ended 12/31/05				Schedule No. 1-A Docket No. 060253-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,362,863	\$239,017	\$3,601,880	(\$183,196)	\$3,418,684
2 Land and Land Rights	16,511	0	16,511	0	16,511
3 Non-used and Useful Components	0	0	0	0	0
4 Construction Work In Progress	358,579	(358,579)	0	0	0
5 Accumulated Depreciation	(1,180,749)	4,243	(1,176,506)	62,742	(1,113,764)
6 CIAC	(801,335)	0	(801,335)	(107,000)	(908,335)
7 Amortization of CIAC	588,929	0	588,929	16,051	604,980
8 Net Debit Deferred Income Taxes	0	0	0	0	0
9 Advances for Construction	0	0	0	0	0
10 Working Capital Allowance	0	626,429	626,429	(497,301)	129,128
11 Other	0	0	0	0	0
12 Rate Base	<u>\$2,344,798</u>	<u>\$511,110</u>	<u>\$2,855,908</u>	<u>(\$708,704)</u>	<u>\$2,147,204</u>

Utilities, Inc. of Florida - Seminole County				Schedule No. 1-B	
Schedule of Wastewater Rate Base				Docket No. 060253-WS	
Test Year Ended 12/31/05					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,935,831	\$60,612	\$2,996,443	(\$427,578)	\$2,568,865
2 Land and Land Rights	178,845	0	178,845	0	178,845
3 Non-used and Useful Components	0	0	0	0	0
4 Construction Work in Progress	35,817	(35,817)	0	0	0
5 Accumulated Depreciation	(719,373)	4,151	(715,222)	328,547	(386,675)
6 CIAC	(657,001)	0	(657,001)	0	(657,001)
7 Amortization of CIAC	447,854	0	447,854	0	447,854
8 CWIP	0	0	0	0	0
9 Advances for Construction	0	0	0	0	0
10 Working Capital Allowance	0	602,775	602,775	(463,608)	139,167
11 Other	0	0	0	0	0
12 Rate Base	<u>\$2,221,973</u>	<u>\$631,721</u>	<u>\$2,853,694</u>	<u>(\$562,639)</u>	<u>\$2,291,055</u>

Utilities, Inc. of Florida - Seminole County		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 060253-WS	
Test Year Ended 12/31/05			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$103,759)	(\$485,393)	-
2 To include the appropriate net WSC rate base (Issue 5)	19,850	11,261	-
3 To reflect the appropriate allocated plant from UIF (Issue 5)	81,497	44,494	-
4 To reflect the appropriate amount of pro forma plant (Issue 6)	(180,784)	2,060	-
Total	<u>(\$183,196)</u>	<u>(\$427,578)</u>	-
<u>Land</u>	<u>\$0</u>	<u>\$0</u>	-
<u>Non-used and Useful</u>	<u>\$0</u>	<u>\$0</u>	-
	-	-	-
<u>Accumulated Depreciation</u>			
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	\$111,367	\$353,606	-
2 To reflect the appropriate allocated plant from UIF (Issue 5)	(46,426)	(24,944)	-
3 To reflect the appropriate amount of pro forma plant (Issue 6)	(2,199)	(115)	-
Total	<u>\$62,742</u>	<u>\$328,547</u>	-
<u>CIAC</u>			
To reflect audit adjustments agreed to by utility and staff (Issue 2)	<u>(\$107,000)</u>	<u>\$0</u>	-
<u>Accumulated Amortization of CIAC</u>			
To reflect audit adjustments agreed to by utility and staff (Issue 2)	<u>\$16,051</u>	<u>\$0</u>	-
	-	-	-
<u>Working Capital</u>			
To reflect an appropriate level (Issue 8)	<u>(\$497,301)</u>	<u>(\$463,608)</u>	-

Utilities, Inc. of Florida - Seminole County Capital Structure-13 Month Average Test Year Ended 12/31/05							Schedule No. 2 Docket No. 060253-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility									
1 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$130,095,624)	\$2,929,478	51.31%	6.65%	3.41%	
2 Short-term Debt	4,522,923	0	\$4,522,923	(4,423,542)	\$99,381	1.74%	5.01%	0.09%	
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%	
4 Common Equity	91,510,699	0	\$91,510,699	(89,494,823)	\$2,015,876	35.31%	11.78%	4.16%	
5 Customer Deposits	45,500	0	\$45,500	0	\$45,500	0.80%	6.00%	0.05%	
6 Tax Credits - zero cost	56,388	0	\$56,388	0	\$56,388	0.99%	0.00%	0.00%	
7 Deferred Income Taxes	<u>562,979</u>	<u>0</u>	<u>\$562,979</u>	<u>0</u>	<u>\$562,979</u>	<u>9.86%</u>	0.00%	<u>0.00%</u>	
8 Total Capital	<u>\$229,723,591</u>	<u>\$0</u>	<u>\$229,723,591</u>	<u>(\$224,013,989)</u>	<u>\$5,709,602</u>	<u>100.00%</u>	-	<u>7.71%</u>	
Per Staff									
9 Long-term Debt	\$133,025,102	\$0	\$133,025,102	(\$130,861,802)	\$2,163,300	48.74%	6.58%	3.21%	
10 Short-term Debt	4,522,923	(119,308)	\$4,403,615	(\$4,332,002)	71,613	1.61%	5.14%	0.08%	
11 Preferred Stock	0	0	\$0	\$0	0	0.00%	0.00%	0.00%	
12 Common Equity	91,510,699	3,093,004	\$94,603,703	(\$93,065,225)	1,538,478	34.66%	11.46%	3.97%	
13 Customer Deposits	45,500	0	\$45,500	\$0	45,500	1.03%	6.00%	0.06%	
14 Tax Credits - zero cost	56,388	0	\$56,388	\$0	56,388	1.27%	0.00%	0.00%	
15 Deferred Income Taxes	<u>562,979</u>	<u>0</u>	<u>\$562,979</u>	<u>\$0</u>	<u>562,979</u>	<u>12.68%</u>	0.00%	<u>0.00%</u>	
16 Total Capital	<u>\$229,723,591</u>	<u>\$2,973,696</u>	<u>\$232,697,287</u>	<u>(\$228,259,028)</u>	<u>\$4,438,259</u>	<u>100.00%</u>	-	<u>7.33%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>10.46%</u>	<u>12.46%</u>		
OVERALL RATE OF RETURN						<u>6.98%</u>	<u>7.67%</u>		

Utilities, Inc. of Florida - Seminole County							Schedule No. 3-A	
Statement of Water Operations							Docket No. 060253-WS	
Test Year Ended 12/31/05								
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$679,867</u>	<u>\$280,256</u>	<u>\$960,123</u>	<u>(\$273,665)</u>	<u>\$686,458</u>	<u>\$83,354</u> 12.14%	<u>\$769,812</u>	
Operating Expenses								
2 Operation & Maintenance	\$437,533	\$42,441	\$479,974	(\$86,090)	\$393,884		\$393,884	
3 Depreciation	112,389	5,643	118,032	(6,809)	111,223		111,223	
4 Amortization	0	0	0	0	0		0	
5 Taxes Other Than Income	50,530	19,708	70,238	(18,058)	52,180	3,751	55,931	
6 Income Taxes	<u>0</u>	<u>71,715</u>	<u>71,715</u>	<u>(\$50,189)</u>	<u>21,526</u>	<u>29,955</u>	<u>51,480</u>	
7 Total Operating Expense	<u>\$600,452</u>	<u>\$139,507</u>	<u>\$739,959</u>	<u>(\$161,146)</u>	<u>\$578,813</u>	<u>\$33,706</u>	<u>\$612,519</u>	
8 Operating Income	<u>\$79,415</u>	<u>\$140,749</u>	<u>\$220,164</u>	<u>(\$112,519)</u>	<u>\$107,645</u>	<u>\$49,649</u>	<u>\$157,294</u>	
9 Rate Base	<u>\$2,344,798</u>		<u>\$2,855,908</u>		<u>\$2,147,204</u>		<u>\$2,147,204</u>	
10 Rate of Return	<u>3.39%</u>		<u>7.71%</u>		<u>5.01%</u>		<u>7.33%</u>	

Utilities, Inc. of Florida - Seminole County							Schedule No. 3-B	
Statement of Wastewater Operations							Docket No. 060253-WS	
Test Year Ended 12/31/05								
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement	
1 Operating Revenues:	<u>\$589,169</u>	<u>\$301,992</u>	<u>\$891,161</u>	<u>(\$301,196)</u>	<u>\$589,965</u>	<u>\$187,565</u> 31.79%	<u>\$777,530</u>	
Operating Expenses								
2 Operation & Maintenance	\$453,627	\$22,156	\$475,783	(\$51,282)	\$424,501		\$424,501	
3 Depreciation	66,750	3,548	70,298	15,394	85,692		85,692	
4 Amortization	0	0	0	0	0		0	
5 Taxes Other Than Income	37,154	16,279	53,433	(17,298)	36,135	8,440	44,576	
6 Income Taxes	0	<u>71,659</u>	<u>71,659</u>	<u>(84,134)</u>	<u>(12,475)</u>	<u>67,405</u>	<u>54,929</u>	
7 Total Operating Expense	<u>557,531</u>	<u>113,642</u>	<u>671,173</u>	<u>(137,320)</u>	<u>533,853</u>	<u>75,845</u>	<u>609,698</u>	
8 Operating Income	<u>\$31,638</u>	<u>\$188,350</u>	<u>\$219,988</u>	<u>(\$163,876)</u>	<u>\$56,112</u>	<u>\$111,720</u>	<u>\$167,832</u>	
9 Rate Base	<u>\$2,221,973</u>		<u>\$2,853,694</u>		<u>\$2,291,055</u>		<u>\$2,291,055</u>	
10 Rate of Return	<u>1.42%</u>		<u>7.71%</u>		<u>2.45%</u>		<u>7.33%</u>	

Utilities, Inc. of Florida - Seminole County
Adjustments to Operating Income
Test Year Ended 12/31/05

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
1 Remove requested final revenue increase	(\$278,779)	(\$300,660)
2 To reflect the appropriate amount of annualized revenues	4,974	(536)
3 To impute incremental miscellaneous service charges (Issue 14)	140	0
Total	<u>(\$273,665)</u>	<u>(\$301,196)</u>
<u>Operation and Maintenance Expense</u>		
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$6,266)	\$0
2 To adjust for Audit Findings #21-24 & #26 (Issue 12)	(41,810)	(14,571)
3 To reflect the appropriate WSC allocated expenses (Issue 15)	(4,441)	(524)
4 To reflect the appropriate UIF allocated expenses (Issue 15)	(3,613)	(1,948)
5 To adjust pro forma salaries, pension and benefits. (Issue 16)	(22,863)	(12,201)
6 To adjust for Audit Findings #25 Purchased Power Exp. (Issue 17)	(3,115)	(302)
7 To adjust for Audit Findings #28 Transportation Exp. (Issue 18)	(4,201)	(2,242)
8 To adjust for Audit Findings #35 Vehicles Repair Exp. (Issue 19)	(1,797)	(959)
9 To adjust for pro forma expense (Issue 20)	(6,780)	(2,732)
10 To adjust purchased wastewater for excess I & I (Issue 21)	0	(20,600)
11 To adjust old rate case expense (Issue 22)	9,883	5,413
12 To adjust new rate case expense (Issue 22)	<u>(1,087)</u>	<u>(616)</u>
Total	<u>(\$86,090)</u>	<u>(\$51,282)</u>
<u>Depreciation Expense - Net</u>		
1 To reflect audit adjustments agreed to by utility and staff (Issue 2)	(\$7,838)	(\$5,622)
2 To included the appropriate net WSC rate base (Issue 5)	2,928	1,661
3 To reflect the appropriate allocated plant from UIF (Issue 5)	2,387	19,240
4 To reflect the appropriate amount of pro forma plant (Issue 6)	<u>(4,286)</u>	<u>115</u>
Total	<u>(\$6,809)</u>	<u>\$15,394</u>
<u>Amortization-Other Expense</u>	<u>\$0</u>	<u>\$0</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above	(\$12,315)	(\$13,554)
3 To adjust for Audit Finding #32 (Issue 12)	(3,855)	(2,826)
2 Appropriate amount of WSC allocated property taxes (Issue 15)	(96)	38
4 To reflect appropriate pro forma payroll taxes (Issue 16)	<u>(1,792)</u>	<u>(956)</u>
Total	<u>(\$18,058)</u>	<u>(\$17,298)</u>
<u>Income Taxes</u>		
To reflect the appropriate income taxes	<u>(\$50,189)</u>	<u>(\$84,134)</u>

Utilities, Inc. of Florida - Seminole County					Schedule No. 4-A
Water Monthly Service Rates					Docket No. 060253-WS
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.77	\$6.84	8.16	\$5.81	0.17
1"	\$15.06	\$17.85	21.25	\$14.53	0.43
1-1/2"	\$28.82	\$34.17	40.64	\$29.05	0.85
2"	\$46.12	\$54.68	65.01	\$46.48	1.36
3"	\$92.24	\$109.35	130.00	\$92.96	2.72
4"	\$144.13	\$170.87	203.11	\$145.25	4.26
6"	\$288.25	\$341.73	406.19	\$290.50	8.51
<u>Gallonge Charge, per 1,000 Gallons</u>					
First 8,000 Gallons	\$1.87	\$2.22	2.64	\$2.13	0.06
Next 8,000 Gallons	\$2.81	\$3.33	3.97	\$3.73	0.11
Over 16,000 gallons	3.74	\$4.43	5.30	\$4.80	0.14
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$5.77	\$6.84	8.16	\$5.81	0.17
1"	\$15.06	\$17.85	21.25	\$14.53	0.43
1-1/2"	\$28.82	\$34.17	40.64	\$29.05	0.85
2"	\$46.12	\$54.68	65.01	\$46.48	1.36
3"	\$92.24	\$109.35	130.00	\$92.96	2.72
4"	\$144.13	\$170.87	203.11	\$145.25	4.26
6"	\$288.25	\$341.73	406.19	\$290.50	8.51
Gallonge Charge, per 1,000 Gallons	\$2.19	\$2.60	\$3.09	\$2.59	0.08
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$11.38	\$13.50	\$16.08	\$12.20	
5,000 Gallons	\$15.12	\$17.94	\$21.36	\$16.46	
10,000 Gallons	\$26.35	\$31.26	\$33.25	\$30.31	

Utilities, Inc. of Florida - Seminole County Wastewater Monthly Service Rates Test Year Ended 12/31/05					Schedule No. 4-B Docket No. 060253-WS
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	\$8.93	\$11.85	\$13.48	\$17.60	\$0.53
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$4.54	\$6.03	\$6.86	\$4.88	\$0.15
Flat Rate (unmetered)	\$35.00	\$46.45	\$52.82	\$35.00	n/a
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.93	\$11.85	\$13.48	\$17.60	\$0.53
1"	\$22.32	\$29.62	\$33.68	\$44.00	\$1.33
1-1/2"	\$44.63	\$59.23	\$67.35	\$88.00	\$2.66
2"	\$71.42	\$94.79	\$107.78	\$140.80	\$4.25
3"	\$142.82	\$189.54	\$215.53	\$281.60	\$8.51
4"	\$223.17	\$296.18	\$336.79	\$440.00	\$13.29
6"	\$446.33	\$592.35	\$673.56	\$880.00	\$26.58
Gallage Charge, per 1,000 Gallons	\$5.44	\$7.22	\$8.21	\$5.86	\$0.18
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$22.55	\$29.94	\$34.06	\$32.24	
5,000 Gallons	\$31.63	\$42.00	\$47.78	\$42.00	
10,000 Gallons (Wastewater Gallage Cap - 10,000 Gallons)	\$54.33	\$72.15	\$82.08	\$66.40	