

State of Florida



Public Service Commission

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DATE: June 18, 2009

TO: Office of Commission Clerk (Cole)

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

Handwritten initials and signatures:
YUN
PMB
MB
JSL

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

AGENDA: 06/30/09 – Regular Agenda – Proposed Agency Action Except Issues Nos. 21 and 22 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Argenziano

CRITICAL DATES: 5-Month Effective Date Waived Through 06/30/09

SPECIAL INSTRUCTIONS: None

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

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Case Background

Southlake Utilities, Inc. (Southlake or utility) is a Class B utility providing water and wastewater service to approximately 2,321 water and 2,161 wastewater customers in Lake County. Water and wastewater rates were last established for this utility in 1990¹ in its original certificate filing.

On October 15, 2008, Southlake filed an Application for Rate Increase at issue in the instant docket. The utility had a few deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected, and December 15, 2008, was established as the official filing date. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim rates is the historical twelve-month period ended December 31, 2007. The test year established for final rates is the 13-month average period ending December 31, 2008.

Southlake requested interim rates for both its water and wastewater systems. By Order No. PSC-09-0116-FOF-WS, issued February 25, 2009, the Commission approved interim rates designed to generate annual water revenues of \$1,038,940, an increase of \$47,301 or 4.77 percent, and wastewater revenues of \$1,034,391, an increase of \$238,093 or 29.90 percent.

Southlake requested final rates designed to generate annual water revenues of \$1,184,327 and wastewater revenues of \$1,293,211. This represents a revenue increase on an annual basis of \$183,853 (18 percent) for water and \$487,912 (61 percent) for wastewater.

By letter dated May 19, 2009, the utility waived the 5-month statutory deadline for the case through June 30, 2009. This recommendation addresses the revenue requirement and rates that should be approved on a prospective basis. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Southlake is not in compliance with its Consumptive Use Permit issued by the St. Johns River Water Management District (SJRWMD or District). The issues of noncompliance include: 1) failure to keep the SJRWMD apprised of the status of construction programs and increased operating costs, and how these activities contribute to favorable conditions for initiating a rate case with the Commission to develop a water-conserving rate structure; 2) failure to implement wastewater treatment plant upgrades and distribution system upgrades associated with reuse by January 31, 2008; 3) failure to submit periodic reports of weekly water level data taken from Upper Floridan Aquifer (UFA) Well C; 4) adversely impacting wetlands, lakes or spring flows; and 5) failure to identify viable, potential water supply partners by January 2008. Southlake and the SJRWMD have met on several occasions to discuss Southlake's noncompliance and possible remedies, but no agreements have been reached. Southlake's Consumptive Use Permit (CUP) expired on December 31, 2008. However, the utility filed its application for permit renewal before January 1, 2009. Therefore, the expired permit remains in effect until a decision is reached on Southlake's new permit request, which includes a request for an increase in water allocation.

¹ See Orders No.s 24564 and 23947, issued May 21, 1991, in Docket No. 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

Southlake is located in the Central Florida Coordination Area, encompassing portions of the St. Johns River, Southwest and South Florida Water Management Districts. These water management districts jointly concluded in 2006 that the availability of sustainable quantities of groundwater in central Florida is insufficient to meet future public water supply demands. In addition, these water management districts concluded that alternative water supply sources must be developed to meet increased demands in central Florida beyond 2013.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Southlake satisfactory?

Recommendation: Yes. The overall quality of service provided by Southlake is satisfactory. (Redemann)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of water operations, including the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The utility's compliance with the Florida Department of Environmental Protection (DEP) is considered, as well as customer comments or complaints.

Quality of Utility's Product and Operational Condition of Plants

Southlake's water and wastewater plants are regulated by the DEP Central District office in Orlando. The utility is current in all of the required chemical analyses and the utility has met all required standards for both water and wastewater. DEP conducted inspections of the water and wastewater facilities in November 2006 and October 2008. The quality of drinking water delivered to the customers and the wastewater effluent quality are both considered to be satisfactory by the DEP.

The utility's Consumptive Use Permit issued by the St. Johns River Water Management District (St. Johns) expired on January 1, 2009. St. Johns is concerned about the impact of water draw down due to the utility's drinking water wells located in the Upper Floridan Aquifer. St. Johns wants the utility to shift production to the Lower Floridan aquifer. The utility has drilled one deep well into the Lower Floridan aquifer and expensive and extensive drinking water treatment is needed to use the water in the Lower Floridan aquifer. Negotiations are under way.

A field investigation of the utility's service area was conducted by staff on February 26, 2009, and no apparent problems with the operation of either the water or wastewater treatment facilities were found. The water plant was operating normally and appeared to be well maintained. There was no odor present at the aerators or in the finished water. The wastewater plant was also operating normally and appeared to be well maintained. Therefore, staff recommends that the quality of product and operational condition of the water and wastewater plants is satisfactory.

Customer Satisfaction

A customer meeting was held on March 30, 2009, in Clermont. Utility representatives, a representative from the Office of Public Counsel, and one customer attended. The customer was concerned about the usage on her bill, which is about 5,000 gallons per month, and whether the fire hydrants in the service area are routinely tested.

A representative of the utility met with the customer at her home on April 1 and determined that both bathroom toilets were leaking. The customer purchased toilet repair kits

and no further leakage has been detected. In addition, with respect to the fire hydrants, the utility responded that all system fire hydrants and main line valves are currently tested quarterly by Southlake personnel for operational ability and, beginning in April 2009, will be tested bi-annually.

Staff also met with three customers prior to the customer meeting who were concerned about hydrogen sulfide (rotten egg smell) in the water, particularly in rental homes. Staff explained that DEP recommends that, if the house is vacant for a period of time, the water should be flushed out of the water lines to remove the odor. The utility agreed to investigate to see if automatic flushers or piping of dead ends is needed. In addition, the utility contacted each customer to offer training on the proper method for flushing the water lines in the home.

According to the DEP, the finished water test results at the point of entry into the distribution system indicate there is no odor in the finished water. The amount of sulfate is 19 mg/l and is well below the maximum contaminant level for sulfate of 250 mg/l. DEP also indicated that monthly distribution tests show the water system is maintaining a chlorine residual. Further, DEP received no complaints regarding the Southlake water system in 2008 or 2009.

There are no outstanding complaints on the Commission's Complaint Tracking System and the utility indicated that they did not receive any customer complaints during the test year. Therefore, staff recommends that the utility's attempts to address customer concerns are satisfactory.

Quality of Service Summary

The quality of the product and the condition of the utility's water and wastewater plants are in compliance with regulatory standards. In addition, the utility addresses customer concerns on a timely basis and there are no outstanding complaints at this time. Therefore, staff recommends that the utility's overall quality of service be considered satisfactory.

Conclusion

Staff recommends that Southlake's quality of product, operating condition of its plants and facilities, and its attempt to address customer concerns are satisfactory. Therefore, staff recommends that the overall quality of service provided by Southlake Utilities, Inc., be found to be satisfactory.

Issue 2: What are the used and useful percentages of Southlake's water treatment plant, ground storage tanks, and water distribution lines?

Recommendation: The Southlake water treatment plant, ground storage tanks, and water distribution system are 100 percent used and useful. (Redemann)

Staff Analysis: The utility has not had a previous rate case before the Commission. In its application, the utility asserts that the Southlake water treatment plant, ground storage facilities, and water distribution system are 100 percent used and useful.

The utility has three wells, which are rated at 701, 1,040, and 2,600 gallons per minute (gpm). The 1,040 gpm well is not interconnected with the other two wells; the water from this well is not chlorinated and is used strictly for landscape irrigation. The St. Johns River Water Management District limits the amount of water that this well can produce. Pursuant to Rule 25-30.431(4), F.A.C., staff recommends that because this well is not interconnected with the other wells in the system, it should be considered 100 percent used and useful.

The 701 and 2,600 gpm wells pump water to aerators located on top of the ground storage tanks, and liquid chlorine is then pumped into the ground storage tanks. The two ground storage tanks have a usable capacity of 2,500,000 gallons. The single maximum day in the test year of 2,759,000 gallons occurred on October 14, 2007. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The utility's records indicate there is no excessive unaccounted for water. The utility's fire flow requirement is 1,500 gpm for 4 hours or 360,000 gallons.

The utility included a growth allowance of 780,260 gallons based on a growth rate of 27.63 percent. Pursuant to Rule 25-30.431(2)(a), F.A.C., growth is limited to 5 percent a year or 25 percent. Staff recommends that a growth allowance of 689,750 gallons should be added to the used and useful calculation based on a growth rate of 25 percent.

The utility calculated the firm reliable capacity of the water system to be 1,673,333 gallons per day (gpd) based on the capacity of the irrigation well and the smaller of the two wells that are interconnected. However, staff recommends that the firm reliable capacity is 672,960 gpd based on the capacity of the smaller of the two wells operating at 16 hour a day, pursuant to Rule 25-30.4325(6)(b), F.A.C.

Staff recommends that, pursuant to Rule 25-30.4325, F.A.C., the water treatment plant is 100 percent used and useful based on a peak day of 2,759,000 gallons, a fire flow allowance of 360,000 gallons, growth of 689,750 gallons, and firm reliable capacity of 672,960 gpd. In addition, because the usable storage capacity is less than the peak day demand, the storage tanks should be considered 100 percent used and useful, pursuant to Rule 25-30.4325(8), F.A.C. According to the utility, all single family lots are completely built out with no remaining lots available for construction. Future growth will require newly installed main extensions. Therefore, staff recommends that the treatment plant, ground storage tanks, and water distribution system be considered 100 percent used and useful.

Issue 3: What are the used and useful percentages of the utility's wastewater treatment plant and wastewater collection system?

Recommendation: The Southlake wastewater treatment plant is 76 percent used and useful. The used and useful adjustment should be made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. The wastewater collection system should be considered 100 percent used and useful. (Redemann)

Staff Analysis: In its application, the utility asserts that the Southlake wastewater treatment plant and collection system are 100 percent used and useful because (1) the system is virtually built out, (2) the treatment plant design criteria builds in a level of excess capacity, (3) the construction was in compliance with a DEP requirement, pursuant to Section 367.081(2)a2C, F.S., and (4) there is an insignificant cost difference between a 1.15 mgd wastewater treatment plant (the permitted capacity) and a .904 million gallons per day (mgd) wastewater treatment plant (the current demand plus a growth allowance). In support of its position, the utility provided information showing the cost of several other wastewater treatment plants which cost significantly more per gallon of treatment than the Southlake facility, as well as a statement that the cost to construct smaller incremental units would have been considerably more than the actual construction cost.

The utility's 1994 Annual Report shows that the utility built its first wastewater treatment plant that year with a capacity of .3 mgd annual average daily flow (AADF). In 2002, the utility expanded the wastewater treatment plant to treat .6 mgd (AADF). According to the utility, the service area was growing rapidly in 2002 and 2003 and the projected flow for 2008 was .93 mgd. The existing plant was struggling to consistently meet the DEP treatment requirements and faced potential violations and enforcement action because the plant did not have the DEP redundancy requirement of two units each capable of meeting average annual flow. While the utility could have considered building smaller increments of .3 mgd, the cost for these smaller units would have been considerably more than the cost of the actual construction. Furthermore, smaller plants have operational problems, and the smaller plants would not fit on the 10 acre site without reducing the disposal area. In 2005, an additional .9 mgd expansion to the wastewater treatment plant was built. According to the current DEP permit, that expires on April 15, 2012, the Southlake wastewater treatment plant has a 1.5 mgd AADF design capacity using extended aeration, activated sludge; however, the permitted capacity is limited to 1.15 mgd AADF, the capacity of the rapid infiltrations basins (RIBS).

Pursuant to Rule 25-30.432, F.A.C., the wastewater treatment plant is 76 percent used and useful based on the AADF of 697,482 gpd, a growth allowance of 174,020 gpd, and the permitted capacity of the system of 1,150,000 gpd. Staff agrees that Southlake was able to build the wastewater treatment systems at a lower cost than comparable plants and the cost of the existing facilities are less than the cost might have been if smaller incremental units had been built as needed. However, staff believes that allowing the plant to be considered 100 percent used and useful, instead of 76 percent used and useful, based on the utility's economies of scale argument, would be excessive. The service area is not built out and the remaining capacity will be needed as development in the existing service area continues. It should be noted that, alternatively, used and useful could have been calculated using the 1.5 mgd capacity of the treatment plant by including the additional cost that would be needed to expand the effluent

disposal capacity, which would have resulted in a lower used and useful percentage than is currently being recommended.

Therefore, staff recommends that, pursuant to Rule 25-30.432, F.A.C, the wastewater treatment plant should be considered 76 percent used and useful. The used and useful adjustment should be made to Account No. 354.4, Structures and Improvements, and Account No. 380.4, Treatment and Disposal Equipment. The wastewater collection system should be considered 100 percent used and useful. According to the utility, all single family lots in the development are built out with no remaining lots available for construction and future development will require newly installed main extensions.

RATE BASE

Issue 4: Should the audit adjustments to rate base to which the utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, plant in service should be increased \$55,660 for water and decreased \$307,196 for wastewater. Accumulated depreciation should be decreased \$22,892 for water and decreased \$4,279 for wastewater. (Mann)

Staff Analysis: In its response to the staff's audit report,² Southlake agreed to the audit findings and audit adjustments listed below. Staff recommends the following adjustments to rate base.

Audit Findings	Water	Wastewater
AF No. 1 – Decrease PIS for Unsupported Plant	(\$142,789)	(\$176,812)
AF No. 3 – Transfer PIS from Water to Wastewater	(\$50,048)	\$50,048
AF No. 3 – Transfer PIS from Wastewater to Water	\$222,868	(\$222,868)
AF No. 3 – Adjust PIS item to Expense	(\$8,847)	\$0
AF No. 3 – To Eliminate Duplicate Amount	\$0	(\$15,000)
AF No. 6 – Reclassify Expensed Costs to Capital Costs	<u>\$34,476</u>	<u>\$57,436</u>
Plant in Service Adjustments	<u>\$55,660</u>	<u>(\$307,196)</u>
AF No. 3 – Adjust A/D for CWIP / PIS Reclassification	(\$5,727)	(\$30,794)
AF No. 6 – Increase A/D for Reclassified Capital Costs	(\$431)	(\$899)
AF No. 1 – Adjust A/D for Undocumented Plant	<u>\$29,050</u>	<u>\$35,972</u>
Accumulated Depreciation Adjustments	<u>\$22,892</u>	<u>\$4,279</u>

Staff performed an analysis of Construction Work in Progress (CWIP) and Contributions in Aid of Construction (CIAC). The company could not provide supporting documentation for \$142,789 in water plant and \$176,812 in wastewater plant. Staff made adjustments to remove these amounts and the related accumulated depreciation.

Because the majority of plant additions posted in the general ledger Plant in Service accounts are transferred from Construction Work In Progress (CWIP), staff also performed an analysis of CWIP. Staff made adjustments to reclassify two items, one from water to wastewater, and one from wastewater to water, and made related adjustments for accumulated depreciation. Staff also made adjustments to remove an item which should have been expensed and remove a duplicate payment to a vendor.

² Audit Control No. 09-021-2-1, Issued April 2009.

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Staff also determined that the utility expensed costs that should have been recorded as capital expenditures and charged to water and wastewater treatment systems. Staff made adjustments to capitalize these costs and increase accumulated depreciation accordingly.

Issue 5: Should any additional adjustments be made to the Utility's test year plant in service balance?

Recommendation: Yes. Staff recommends that plant in service be decreased by an additional \$350,853 for water and \$1,164,175 for wastewater. (Mann)

Staff Analysis: Southlake Utilities, Inc and Southlake Development, Ltd entered into a capital lease on December 23, 1998. The lease pertained to 10 acres of land to be used for the wastewater treatment plant; 2.528 acres for the water treatment plant; and .0023 acres for "Well A". The cost of land recorded on the utility's books at December 31, 1998, was \$1,003,224. (\$201,083 - Water; \$802,141 - wastewater). By Order No. PSC-00-0917-SC-WS,³ the Commission ordered adjustments to reduce the cost of Land to \$95,900 (Water) and \$300,000 (Wastewater). The Commission's adjustment was based upon staff's calculation of land value in 1990 when it was first devoted for public utility use. The utility has made subsequent adjustments to the cost of land, but has not reduced costs to the level ordered by the Commission.

In 2004, the utility sold land with a book value of \$22,822 (The utility's general ledger shows a land value of \$20,000 along with additional land cost of \$2,822). In 2005, the utility had an addition to wastewater land in the amount of \$50,585. As shown below, Land should be decreased by \$60,208 for water and \$207,861 for wastewater to reflect land value as determined by Commission Order No. PSC-00-0917-SC-WS.

	Water	Wastewater
Per Order – 12/31/98	\$95,500	\$300,000
Land sale - 2004	<u>(\$22,822)</u>	<u>0</u>
Land Value after sale	<u>\$73,078</u>	<u>\$300,000</u>
Additions - 2005	0	\$50,585
Per utility books	(\$133,286)	(\$558,446)
Staff Adjustment	<u>(\$60,208)</u>	<u>(\$207,861)</u>

Staff auditors performed an analysis of construction work in progress (CWIP). The analysis consisted of: compiling all activity in each CWIP account for water subsequent to December 31, 1997 and wastewater subsequent to December 31, 1995; selecting line items that exceeded a certain threshold; requesting documentation which supports the selected line items; and determining that the documentation received is adequate and supports the sample items. Staff auditors found insufficient or no documentation for \$173,557 in water CWIP and \$102,466 for wastewater CWIP.

Southlake's MFRs included unamortized project costs of \$117,088 (\$50,000 for consumptive use permit and \$67,088 for rate case expense) for water and \$67,088 (rate case expense) for wastewater. Since these unamortized balances are non-annual project costs, staff made adjustments to remove them from rate base.

³ Order PSC-00-0917-SC-WS to show cause Southlake and provide security for service availability charges held subject to refund in event of protest and PAA discontinuing water plant capacity charges and AFPI charges, reducing wastewater plant capacity charges and requiring refunds.

In accordance with the engineering determination that 24 percent of the wastewater treatment plant should be considered nonused and useful (see Issue No. 3), wastewater plant in service should be decreased by \$1,052,860, and accumulated depreciation should be decreased by \$266,100. Based on the above, staff recommends the following adjustments:

Staff Adjustments	Water	Wastewater
AF No. 2 – Decrease Land	(\$60,208)	(\$207,861)
AF No. 3 – Adjust PIS for Lack of Documentation	(\$173,557)	(\$102,466)
Remove Unamortized Project Costs included in MFR's	(\$117,088)	(\$67,088)
Adjust PIS for Net Nonused and Useful	\$0	(\$1,052,860)
Adjust A/D on Nonused and Useful PIS	\$0	\$266,100
Additional PIS Adjustments	<u>(\$350,853)</u>	<u>(\$1,164,175)</u>

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital should be \$55,897 for water and \$89,321 for wastewater. (Mann)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operating and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended adjustments to Southlake's O&M expenses. In addition, staff reduced the level of working capital to account for rate case expense. As a result, staff recommends that working capital of \$55,897 and \$89,321 be approved for water and wastewater, respectively. This reflects a decrease of \$13,864 to the utility's requested working capital allowance of \$69,761 for water and a decrease of \$22,363 to Southlake's requested allowance of \$111,684 for wastewater. Details of the formula method for working capital are as follows:

<u>Working Capital</u>	<u>Water</u>	<u>Wastewater</u>
O&M	\$477,172	\$744,564
Rate Case Expense	<u>(\$29,993)</u>	<u>(\$29,993)</u>
Net O&M less Rate Case Expense	\$447,179	\$714,571
Working Capital Factor	<u>/8</u>	<u>/8</u>
Working Capital Allowance	\$55,897	\$89,321
Working Capital Allowance Per Filing	<u>\$69,761</u>	<u>\$111,684</u>
Adjustment	<u>(\$13,864)</u>	<u>(\$22,363)</u>

The appropriate amount of working capital for Southlake Utility should be \$55,897 for water and \$89,321 for wastewater.

Issue 7: Should any adjustments be made to the Contributions in Aid of Construction balances ending December 31, 2008?

Recommendation: Yes. Contributions in Aid of Construction (CIAC) should be increased by \$8,958 for water and \$7,525 for wastewater and the associated accumulated amortization of CIAC should be decreased by \$271 for water and \$168 for wastewater. (Mann)

Staff Analysis: Staff recommends that CIAC be increased for water in the amount of \$8,958, and for wastewater in the amount of \$7,525. Staff further recommends that the associated accumulated amortization of CIAC be reduced by \$271 for water and decreased by \$168 for wastewater.

Audit staff performed an analysis of CIAC for the years 1999 through 2008. They determined that the average CIAC for water should be \$8,958 greater than the average CIAC per the filing. For wastewater, they determined that the average CIAC should be \$7,525 greater than the average CIAC per the filing. Related to this adjustment, audit staff determined that the average amortization of CIAC-water should be \$271 greater than the average amount in the test year. For wastewater, the average amortization of CIAC should be \$168 greater than the average amount in the test year.

Issue 8: What is the appropriate rate base for the December 31, 2008, test year?

Recommendation: Based on staff's recommended adjustments, addressed in previous issues, the appropriate simple average rate base for the test year ending December 31, 2008, is \$3,787,926 for water and \$970,486 for wastewater. (Mann)

Staff Analysis: Based on staff's recommended adjustments addressed in previous issues, the appropriate simple average rate base for the December 31, 2008, test year, is \$3,787,926 for water and \$970,486 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedules Nos. 1-A and 1-B, respectively. The adjustments to rate base are shown on Schedule No. 1-C.

Issue 9: What is the appropriate return on equity?

Recommendation: The appropriate return on equity (ROE) should be 9.48 percent, based on the Commission's approved 2008 leverage formula and equity ratio of 100 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Mann)

Staff Analysis: The ROE requested in the utility's filing is 9.56 percent for the test year ending December 31, 2008. It appears the utility incorrectly included deposits when calculating the equity ratio. Based on the Commission's 2008 leverage formula⁴ and an equity ratio of 100 percent, staff calculated an ROE of 9.48 percent. It has been Commission practice to use the most recent leverage formula in effect at the time of the Commission's vote to approve final rates. Staff notes that in Docket No. 080249-WS, at the June 2, 2009, Agenda Conference, the Commission utilized the 2009 leverage formula.⁵ The 2009 leverage formula was used due to a substantial basis point difference between the 2008 and 2009 leverage formula calculations for Labrador Utilities, Inc. This was a departure from normal Commission practice of using the most current leverage formula in effect at the time of the Commission vote to determine the appropriate return on equity. The difference between the 2008 and 2009 leverage formula calculation of return on equity for Southlake is only 19 basis points. Because of the minimal difference, staff believes the Commission should not depart from the long-standing practice of using the most current leverage formula. Staff also recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. The return on equity is shown on Schedule No. 2.

⁴ See Order No. PSC-08-0846-FOF-WS, issued December 31, 2008, in Docket No. 080006-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 In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Issue 10: What is the appropriate overall weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008?

Recommendation: The appropriate overall weighted average cost of capital for the test year ending December 31, 2008, is 9.33 percent. (Mann)

Staff Analysis: As required by Rule 25-30.033(1)(w), F.A.C., a schedule of the utility's capital structure was included in the application. The test year amounts for cost of capital were taken directly from Southlake's MFR filing Schedule D-1. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2008, staff recommends that the weighted average cost of capital should be 9.33 percent. Schedule No. 2 details staff's recommendation. As shown on Schedule No. 2, the utility's capital structure consists of 100 percent common equity. These rates are the result of using the Commission's 2008 leverage graph formula.⁶

⁶ See Docket No. 080006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

NET OPERATING INCOME

Issue 11: Should any adjustments be made to operation and maintenance expenses?

Recommendation: Staff performed an analysis of O&M expenses for water and wastewater to determine if the amounts recorded in the general ledger were accurately stated and to determine if a difference exists between O&M expenses reported in the general ledger and O&M expenses reported in the filing. Based on staff's analysis, the following adjustments should be made.

O&M Balances The company filing includes O&M expenses based upon projections for the calendar year 2008. Total O&M expenses per the utility filing are \$624,964 for water and \$927,017 for wastewater. Test year general ledger balances for O&M water and wastewater expenses are \$589,016 and \$929,931 respectively, a difference of \$35,948 for water and \$2,914 for wastewater. An adjustment of (\$35,948) for water and \$2,914 for wastewater should be made to the filing for the difference between amounts in the filing and the test year's general ledger amounts.

Rate Case Expense Staff's calculated rate case expense should be recovered over four years for an annual expense of \$59,986, with \$29,993 allocated to water and \$29,993 allocated to wastewater. As recommended in audit finding No. 6, staff removed utility rate case expense of \$68,307 for water and \$67,307 for wastewater included in the test year. See Issue No. 12.

Purchased Power The company's general ledger showed purchased power expense of \$66,977 for water and \$115,841 for wastewater for the test year. Per the audit, purchased power expense for the test year of 2008 was \$68,692 for water and \$117,814 for wastewater. Staff made adjustments of \$1,715 for water and \$1,973 for wastewater purchased power expense. This was done to include purchased power expense incurred during the test period, but billed after the test period.

Land Lease According to the audit report, for the test year, the utility had a capital lease agreement with Southlake Development, Ltd. A capital lease requires a company to record the plant asset on its books and records, with payments made to the lessor used to reduce the cost of land lease obligation. Instead, the utility recorded the payments to expense accounts 641 and 741 (Rental of Building - Real Property) in the amounts of \$11,778 and \$45,299, respectively. As this property is now owned by the utility, staff recommends that these costs be removed from O&M expenses.

Contractual Services - Other The company included contractual services-other costs of \$8,250 in water and \$8,250 in wastewater for the test year which were out-of-period non-recurring expenses. The costs were incurred in connection with an examination by the Internal Revenue Service for the 2005 tax year. Staff removed these costs as out-of-period expenses.

Communication Expense Staff reviewed postage costs included in the utility's communications expense account. Auditors found support for \$1,324 of water and \$1,324 of wastewater postage expense. The utility recorded \$1,750 of water and \$1,750 of wastewater postage expense. Staff made adjustments of (\$426) to water and (\$426) to wastewater communication expense to reflect the unsupported postage cost.

Reclassification of Capital Costs

The auditors determined that the utility expensed certain costs that should have been recorded as capital expenditures. These costs were for the following items:

	<u>Water</u>	<u>Wastewater</u>
Mapping	\$34,476	\$34,477
Sanitary Lateral Connection	0	\$5,700
Lift Station Construction	<u>0</u>	<u>\$17,259</u>
Total	<u>\$34,476</u>	<u>\$57,436</u>

Unsupported Expense

The utility bears the responsibility of maintaining documentation which supports its general ledger amounts. During the audit analysis of O&M expense, the utility could not provide supporting documentation for certain expenses items recorded in the general ledger. Unsupported water expense totaled \$20,315 and wastewater expense totaled \$38,615. Staff recommends that these amounts be removed from O&M for the test year.

Conclusion

In conclusion, based on the above adjustments, along with rate case expense (See Issue No. 12), staff recommends that O&M expenses be reduced by \$147,792 for water and \$182,453 for wastewater. The following table reflects staff's O&M expense adjustments for the test year ending December 31, 2008.

<u>Description of O&M Expense</u>	<u>Staff Adjustments to 2008 O&M</u>	
	<u>Water</u>	<u>Wastewater</u>
To adjust filing to 12/31/2008 General Ledger (AF No. 6)	(\$35,948)	\$2,914
To reflect staff calculated Rate Case expense	29,993	29,993
To adjust purchased power to test year amount	1,715	1,973
To remove land lease expense (AF No. 6)	(11,778)	(45,297)
To remove out of test year contractual services	(8,250)	(8,250)
To reflect actual test year postage cost	(426)	(426)
To reflect audit finding regarding reclassification of capital costs (AF No. 6)	(34,476)	(57,436)
To reflect audit finding regarding Undocumented Costs (AF No. 6)	(20,315)	(38,615)
To remove test year rate case expense (AF No. 6)	<u>(68,307)</u>	<u>(67,307)</u>
Total	<u>(\$147,792)</u>	<u>(\$182,453)</u>

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

Recommendation: The appropriate amount of rate case expense should be \$239,945. This expense should be recovered over four years for an annual expense of \$59,986, with \$29,993 allocated to water and \$29,993 allocated to wastewater. A deferred cost balance for rate case expense should be created for both water and wastewater in the amount of \$89,979. (Mann)

Staff Analysis: 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 March 31, 2009, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$267,937.

The components of the estimated rate case expense are as follows:

<u>Rate Case Expense</u>	
Filing Fee	\$8,000
Legal - Ade Invoices	65,456
Accounting - Guastella Invoices	184,481
In-House - Cagan & Kitchen	<u>10,000</u>
Total	<u>\$267,937</u>
Total	\$267,937
Less Legal -Ade work on deficiencies	(3,800)
Less Accounting - Guastella work on deficiencies	(7,692)
Less Accounting - Guastella charge reduced to \$195/hour	(6,500)
Less Cagan & Kitchen - duplication of costs	<u>(10,000)</u>
Net	\$239,945
Amortization Years	<u>4</u>
Annual Expense	<u>\$59,986</u>
Rate Case Annual Cost - Water	\$29,993
Rate Case Annual Cost - Wastewater	\$29,993
Rate Case Expense Deferred Amount - Water	\$89,979
Rate Case Expense Deferred Amount - Wastewater	<u>\$89,979</u>
Total	<u>\$239,945</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. It is the utility's burden to justify that its requested costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den. 529 So. 2d 694 (Fla. 1988).

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.

The first adjustment is to the costs incurred to correct deficiencies in the MFR filing. Based on staff's review of the utility consultants' invoices, \$3,800 in legal expense and \$7,692 in accounting expense were related to the correction of MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.⁷ Accordingly, staff recommends that \$11,492 (\$3,800 + \$7,692) be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to the varying charges assessed by John Guastella, the utility's consultant for engineering, accounting, and MFR preparation. The invoices detail several different hourly rates for Mr. Guastella, ranging from \$195 per hour to \$285 per hour. In a conference call to the utility's consultant, it was confirmed that the hourly rate for these services was to be \$195 per hour. Staff made an adjustment to remove \$6,500 of rate case expense based on a calculation of the difference in hourly rates and actual hours billed to the utility.

Lastly, staff recommends that the estimated cost of \$10,000 for in-house rate case expense be eliminated. Without supporting documentation that certain utility staff, who are already paid a salary, worked any overtime, staff believes that this cost component is duplicative and should not be allowed.

In summary, the appropriate rate case expense should be \$239,945. This expense should be recovered over four years for an annual expense of \$59,986, with \$29,993 for water and \$29,993 for wastewater. A deferred cost balance for rate case expense should be created for both water and wastewater in the amount of \$89,979.

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

Issue 13: Should any adjustments be made to the 2008 test year taxes other than income for water and wastewater?

Recommendation: Yes. Taxes other than income for the 2008 test year should be increased by \$4,611 for water and decreased by \$10,348 for wastewater. (Mann)

Staff Analysis: Audit Finding No. 7 shows that taxes other than income should be increased by \$12,884 for water and \$17,114 for wastewater. Audit staff determined that the payroll tax was overstated by \$134 and \$104, respectively, for water and wastewater. The utility filing understated the taxes other than income general ledger balance by \$17,979 and \$22,137 for water and wastewater. In addition, the filing overstated regulatory assessment fees recorded in the general ledger by \$4,961 for water and \$4,919 for wastewater. Details of these adjustments are as follows:

Taxes Other Than Income			
Description	Water	Wastewater	Total
Payroll Taxes – AF No. 7	(\$134)	(\$104)	(\$238)
Property Tax – AF No. 7	\$17,979	\$22,137	\$40,116
RAF – AF No. 7	(\$4,961)	(\$4,919)	(\$9,880)
Total Adjustment	<u>\$12,884</u>	<u>\$17,114</u>	<u>\$29,998</u>

Due to the nonused and useful adjustment for the wastewater plant (See Issue No. 4), staff believes it is appropriate to decrease property tax expense for the wastewater system by \$5,506. Details of this adjustment are as follows:

Non-Used and Useful Adjustment to Property Taxes		
Description	Water	Wastewater
Non-used and Useful PIS Adjustment	\$0	(\$1,052,860)
Property Tax Rate 0.523%	0.523%	0.523%
Property Tax Adjustment	\$0	(\$5,506)

The utility included regulatory assessment fees of \$8,273 for water and \$21,956 for the adjusted test year, based on the utility calculated revenue increase. Staff reduced regulatory assessment fees by \$8,273 for water and \$21,956 for wastewater for calculation of staff recommended test year revenue. Combining these adjustments, along with the adjustment for regulatory assessment fees for the adjustment to revenue, taxes other than income for the 2008 test year should be increased by \$4,611 for water and decreased by \$10,348 for wastewater as shown below.

Staff Adjustments To Taxes Other Than Income	Water	Wastewater
Taxes Other than Income	\$12,884	\$17,114
Non-Used and Useful Adjustment to Property Taxes	\$0	(\$5,506)
Utility calculated RAFs	(\$8,273)	(\$21,956)
	<u>\$4,611</u>	<u>(\$10,348)</u>

Issue 14: Should any adjustments be made to net depreciation expense for 2008 for water and wastewater?

Recommendation: Yes. Net depreciation expense for water should be decreased by \$4,315 and net depreciation expense for wastewater should be decreased by \$46,206. (Mann)

Staff Analysis: Audit finding No. 1 found that \$142,789 of water and \$176,812 of wastewater plant in service did not have supporting documentation and should be removed from rate base. Related depreciation for these amounts are \$4,469 for water and \$5,534 for wastewater which should be removed from test year depreciation expense.

Audit finding No. 6 reclassified \$34,476 of water and \$57,436 of wastewater costs which were expensed by the utility to capital expenditures. The related depreciation expense is \$431 for water and \$899 for wastewater. Test year depreciation should be increased by \$431 for water and \$899 for wastewater.

Audit finding No. 3 reclassified plant in service between water and wastewater accounts. Net depreciation related to the reclassifications are \$277 for water and \$8,616 for wastewater. Test year depreciation should be decreased by \$277 for water and \$8,616 for wastewater.

In accordance with the engineering determination that 24 percent of the wastewater treatment plant should be considered nonused and useful, wastewater depreciation expense should be decreased by \$32,955.

Based on the above adjustments, depreciation expense net of CIAC amortization expense should be decreased by \$4,315 for water, and depreciation expense net of CIAC amortization expense for wastewater should be decreased by \$46,206.

Issue 15: What is the test year water and wastewater operating income before any revenue increases?

Recommendation: The test year operating income should be \$230,269 for water and (\$133,834) for wastewater. (Mann)

Staff Analysis: The utility adjusted test year revenues are \$1,184,327 for water and \$1,293,211 for wastewater. Staff made adjustments of (\$183,853) for water and (\$487,912) for wastewater to remove the utility's requested final revenue increase. Staff also made adjustments of (\$110,257) for water and (\$109,236) for wastewater to reflect overstated test year revenues in the utility's filing (see audit finding No. 5). Based on the above adjustments and other adjustments reflected in Schedule 3C, the staff adjusted test year operating income should be \$230,269 for water and (\$133,834) for wastewater.

Issue 16: What is the appropriate pre-repression revenue requirement for the December 31, 2008 test year?

Recommendation: The following pre-repression revenue requirement should be approved. (Mann)

	Test Year		Revenue	
	<u>Revenues</u>	<u>Increase</u>	<u>Requirement</u>	<u>Increase</u>
Water	\$890,217	\$128,878	\$1,019,095	14.48%
Wastewater	\$695,973	\$234,936	\$930,909	33.76%

Staff Analysis: This issue is a summary computation that is subject to the resolution of other issues related to rate base, and cost of capital, and is primarily a “fall-out” number. The computation of the revenue requirement is shown on Schedules No. 3-A and 3-B. This results in a revenue requirement of \$1,019,095 which represents an increase of \$128,878 or 14.48 percent for water and \$930,909 which represents an increase of \$234,936 or 33.76 percent for wastewater. These recommended pre-repression revenue requirements will allow the utility the opportunity to recover its expenses and earn a 9.33 percent return on its investment in water and wastewater rate base.

Issue 17: What are the appropriate rate structures for the utility's respective water and wastewater systems?

Recommendation: The appropriate rate structures for the utility's water system are a three-tiered inclining-block rate structure applicable to residential customers. The appropriate usage blocks are for monthly consumption of: 1) 0-10,000 gallons (10 kgals); 2) 10,001-20 kgals; and 3) consumption in excess of 20 kgals. The base facility charge (BFC)/uniform gallonage charge should be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system should be set at 40 percent. The appropriate rate structure for the utility's wastewater customers is the BFC/gallonage charge rate structure. Residential wastewater consumption should be capped for billing purposes at 10 kgal per month. The general service wastewater gallonage charge should be 1.2 times the corresponding residential gallonage charge. The BFC cost recovery allocation for the wastewater system should be set at 50 percent. (Lingo)

Staff Analysis: The current rate structure for the utility's water system is the BFC/uniform gallonage charge rate structure, with a monthly BFC for a 5/8" x 3/4" meter of \$8.98. Customers are also charged \$0.84 for each 1,000 gallons (kgal) used. This rate structure is considered usage-sensitive, because customers are charged for all gallons consumed. The residential customer base is nonseasonal, with an average consumption per customer of 12.4 kgal per month. The current rate structure for the utility's wastewater system is the BFC/gallonage charge rate structure, with a monthly BFC for a 5/8" x 3/4" meter of \$9.76. Residential customers are charged \$0.86 for each 1,000 gallons (kgal) used, with a cap on billed monthly consumption of 10 kgal. General service customers are charged \$1.02 per kgal used, with no cap on billed consumption.

Staff takes several things into consideration when designing rates, including the current rate structure, characteristics of the utility's customer base, various conditions of the utility's Consumptive Use Permit, and current and anticipated climatic conditions in the utility's service area. Staff's recommended rate structure for the water system, plus two alternative rate structures, is shown on Table 17-1 on the following page. As indicated by the values shown on Table 17-1, when compared to the current rate structure, Alternative 1 results in price decreases at certain levels of consumption. Alternative 2 results in a \$0.70 price increase at 0 kgal, but the price increase diminishes to only \$0.10 at 10 kgals of consumption. Therefore, staff believes that its recommended rate structure would be more effective than the alternatives presented in encouraging water conservation. A complete discussion of staff's rate structure methodology is contained in Attachment A.

Based on the foregoing, the information contained on Table 17-1 and the discussion contained in Attachment A, staff recommends that the appropriate rate structure for the utility's water system is a three-tiered inclining-block rate structure, applicable to residential customers, with usage blocks for monthly consumption of: 1) 0-10 kgals; 2) 10,001-20 kgals; and 3) consumption in excess of 20 kgals. The BFC/uniform gallonage charge should be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system should be set at 40 percent. The appropriate rate structure for the utility's wastewater customers is the BFC/gallonage charge rate structure. Residential wastewater consumption should be capped for billing purposes at 10 kgal per month. The general service wastewater gallonage

charge should be 1.2 times the corresponding residential gallonage charge. The BFC cost recovery allocation should be set at 50 percent.

TABLE 17-1

SOUTHLAKE UTILITIES, INC.			
STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES			
FOR THE WATER SYSTEM'S RESIDENTIAL CUSTOMERS			
PRE-REPRESSION ANALYSIS			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC/uniform kgal		Three-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10.001-20 Kgals; 20+ Kgals BFC = 40 percent	
BFC	\$8.98	BFC	\$9.68
All kgal	\$0.84	0-10 Kgals	\$0.98
		10.001-20 Kgals	\$1.23
		In Excess of 20 Kgals	\$1.47
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$8.98	0	\$9.68
5	\$13.18	5	\$14.58
10	\$17.38	10	\$19.48
15	\$21.58	15	\$25.63
20	\$25.78	20	\$31.78
25	\$29.98	25	\$39.13
Alternative 1		Alternative 2	
Three-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10.001-20 Kgals; 20+ Kgals BFC = 30 percent		Two-Tiered Inclining-Blocks – Monthly Consumption of 0-10 Kgals; 10+ Kgals BFC = 40 percent	
BFC	\$7.26	BFC	\$9.68
0-10 Kgals	\$1.14	0-10 Kgals	\$0.78
10-20 Kgals	\$1.43	In Excess of 10 Kgals	\$1.56
In Excess of 20 Kgals	\$1.71		
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgal)		Cons (kgal)	
0	\$7.26	0	\$9.68
5	\$12.96	5	\$13.58
10	\$18.66	10	\$17.48
15	\$25.81	15	\$25.28
20	\$32.96	20	\$33.08
25	\$41.51	25	\$40.88

Issue 18: Are repression adjustments to the utility's water and wastewater systems appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility?

Recommendation: Yes, repression adjustments are appropriate. Residential water consumption should be reduced by 1.7 percent, resulting in a consumption reduction of approximately 4,366.9 kgals. Total residential water consumption for ratesetting is 250,473.1 kgals. Total water consumption for ratesetting is 535,321.1 kgals, which represents a 0.8 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$556 in purchased power expense, \$229 in chemicals expense and \$37 in RAFs. The post-repression revenue requirement for the water system is \$1,018,275.

Residential wastewater consumption should be reduced by 1.4 percent, resulting in a consumption reduction of approximately 1,826.7 kgals. Total residential wastewater consumption for ratesetting is 133,074.3 kgals. Total wastewater consumption for ratesetting is 355,343.3 kgals, which represents a 0.5 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are \$603 in purchased power expense, \$164 in chemicals expense, \$1,098 in sludge removal expense and \$88 in RAFs. The post-repression revenue requirement for the wastewater system is \$930,055.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. **The reports should be filed with staff, on a semi-annual 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: Using our database of utilities that have previously had repression adjustments made, staff calculated repression adjustments for this utility based upon the recommended increases in revenue requirements for the test year, while using a price elasticity of demand of -0.2 applied to consumption in the second and third usage blocks, as requested by the Utility in its filing. Although the Commission typically approves a price elasticity of demand of -0.4, staff used the Utility's requested value of -0.2. Aside from the use of a price elasticity of -0.2 rather than -0.4, the methodology for calculating repression adjustments is same methodology that the Commission has approved in prior cases.⁸

Based on staff's analysis, repression adjustments to the utility's water and wastewater systems are appropriate. Residential water consumption should be reduced by 1.7 percent, resulting in a consumption reduction of approximately 4,366.9 kgals. Total residential water consumption for ratesetting is 250,473.1 kgals. Total water consumption for ratesetting is 535,321.1 kgals, which represents a 0.8 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are \$556 in purchased power expense, \$229 in

⁸ See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

chemicals expense and \$37 in RAFs. The post-repression revenue requirement for the water system is \$1,018,275.

Residential wastewater consumption should be reduced by 1.4 percent, resulting in a consumption reduction of approximately 1,826.7 kgals. Total residential wastewater consumption for ratesetting is 133,074.3 kgals. Total wastewater consumption for ratesetting is 355,343.3 kgals, which represents a 0.5 percent reduction in overall consumption. The resulting wastewater system reductions to revenue requirements are \$603 in purchased power expense, \$164 in chemicals expense, \$1,098 in sludge removal expense and \$88 in RAFs. The post-repression revenue requirement for the wastewater system is \$930,055.

In order to monitor the effects of both the changes in revenues and rate structure, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed for each system. In addition, the reports should be prepared, for both the water and wastewater systems, by customer class and meter size. **The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. The filing requirements for these repression reports have traditionally been on a quarterly basis. In the recent Labrador Utilities' case in Docket No. 080249-WS, the Commission approved requiring the reports on a semi-annual, rather than a quarterly, basis.⁹ For the purposes of consistency and equal treatment among utilities, staff recommends that, on a going-forward basis, the reporting period be on a semi-annual basis. However, staff does not believe reporting periods should be longer than a semi-annual basis. As staff designs more aggressive conservation-oriented rate structures, we believe it is important to obtain information regarding consumption changes on a frequent basis. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to prepare and file a revised monthly report for that month within 30 days of any revision.**

⁹ Docket No. 080249-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Issue 19: What are the appropriate rates for this utility?

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the corresponding appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$1,018,275, while the recommended wastewater rates are design to produce revenues of \$930,055. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Mann)

Staff Analysis: Excluding miscellaneous service revenues, the recommended water rates shown on Schedule No. 4-A are designed to produce revenues of \$1,018,275. Approximately 40 percent (or \$407,310) of the water monthly service revenues is recovered through the base facility charges, while approximately 60 percent (or \$610,965) represents revenue recovery through the consumption charges. Excluding miscellaneous service revenues, the recommended wastewater rates shown on Schedule No. 4-B are designed to produce revenues of \$930,055. Approximately 50 percent (or \$465,027) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 50 percent (or \$465,027) represents revenue recovery through the consumption charges. The utility's private fire protection rates are based on 1/12 of the recommended base facility charge for the utility's meter sizes, consistent with Rule 25-30.465, F.A.C.

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

Issue 20: In determining whether any portion of the water and wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, a water refund is required in the amount of \$16,613. For wastewater, a refund of \$44,492 is required. (Mann)

Staff Analysis: By Order No. PSC-09-0116-FOF-WS, issued February 25, 2009, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$1,038,940 for water and \$1,034,391 for wastewater, which represents an increase of \$47,301 or 4.77 percent for water, and \$238,093 or 29.90 percent for wastewater:

<u>Interim versus Final Rate Increase - Refund Calculation</u>	<u>Water</u>	<u>Wastewater</u>
Total 2007 Test Year Revenues	\$991,639	\$796,297
Less: Miscellaneous Revenues	<u>18,128</u>	<u>0</u>
Test Year Revenues from Service Rates	\$973,511	\$796,297
Revenue Increase	<u>\$47,301</u>	<u>\$238,093</u>
% Service Rate Increase	<u>4.77%</u>	<u>29.90%</u>
2007 Test Year Revenue and Interim Revenue Increase	<u>\$1,038,940</u>	<u>\$1,034,390</u>
2008 Test Year Revenue Increase %	<u>14.48%</u>	<u>33.76%</u>
2008 Test Year Revenue	<u>\$1,019,095</u>	<u>\$930,909</u>
2008 Test Year Revenue	\$1,019,095	\$930,909
2008 Rate Case Expense	<u>(\$29,993)</u>	<u>(\$29,993)</u>
2008 Test Year Revenue less Rate Case Expense	\$989,102	\$900,915
2007 Test Year Revenue and Interim Revenue Increase	<u>\$1,038,940</u>	<u>\$1,034,390</u>
Excess of Interim Collected	\$49,838	\$133,475
	4.80%	12.90%
Excess of Interim Collected	\$49,838	\$133,475
Months	<u>12</u>	<u>12</u>
Per Month / Collection Period Difference	\$4,153	\$11,123
Number of Months Interim Rates Collected (April - July 2009)	<u>4</u>	<u>4</u>
Refund Amount (\$0 if 2008 Revenue w/o Rate Case Expense > 2007 Revenue)	<u>\$16,613</u>	<u>\$44,492</u>

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 establishing interim rates was December 31, 2007, and the final rates are based on the 12-month period ending December 31, 2008. Southlake'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 the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because the item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, a water interim rate refund of 4.80%, or \$16,613, and a wastewater interim rate refund of 12.90%, or \$44,492, is required. The refunds shall be with interest in accordance with Rule 25-30.360(4), F.A.C. The utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The utility shall also treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.

Issue 21: What is the appropriate amount by which rates should be reduced, four years after the established effective date, to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$29,993 of water and \$29,993 of wastewater rate case expense, grossed-up for RAFs, which is being amortized over a four-year period. The grossed-up amount, factoring in a RAF of 4.5 percent, equals \$31,406 for both water and wastewater. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Southlake should provide proof of the date notice was given, no less than 10 days after the date of the notice. (Mann)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is \$29,993 for water and \$29,993 for wastewater. The grossed-up amount, factoring in a RAF of 4.5 percent, equals \$31,406 for both water and wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Southlake should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Issue 22: Should the utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) associated with Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission decision, Southlake 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. (Mann)

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

Issue 23: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released. (Brown)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the corporate undertaking should be released.

DETERMINATION OF APPROPRIATE RATE STRUCTURES

**HISTORY OF
CURRENT
RATES**

- (1) The utility's BFC/gallonage charge rates were first established in the Utility's original certificate case in Docket No. 900738-WS.¹⁰ The approved monthly rates for the water system included a BFC for a 5/8" x 3/4" meter of \$7.71, with an approved corresponding charge of \$8.12 for the wastewater system. The approved gallonage charges were \$0.72 per kgal and \$0.71 per kgal, respectively. The residential wastewater gallonage charge was capped at 10 kgal of monthly usage.
- (2) The Utility has received price index rate adjustments as a method of increasing its rates. The instant case represents the utility's first full rate relief proceeding.

**PRACTICES
WITH THE
WATER
MANAGEMENT
DISTRICTS**

- (3) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40 percent of the revenues to be generated from monthly service.¹¹ The Commission follows the WMD guideline whenever possible.¹²
- (4) The utility is located in the St. Johns River Water Management District (SJRWMD) in a Water Resource Caution Area. In addition, the Utility is located within the Central Florida Coordination Area. This represents an area of the state in which the St. Johns River Water Management District, the Southwest Florida Water Management District and the South Florida Water Management District (hereinafter referred to as the Districts) jointly concluded in 2006 that the availability of sustainable quantities of groundwater in central Florida is insufficient to meet future public water supply demands. In addition, the Districts concluded that alternative water supply sources must be developed to meet increased demands in central Florida beyond 2013. The Districts identified the Central Florida Coordination area as the area for which a coordinated and consistent approach to addressing the identified water supply issues would be developed and implemented.¹³
- (5) As discussed in the Case Background, the Utility is not in compliance with its CUP issued by the SJRWMD. Specifically, items of noncompliance include failure of the Utility to include well relocation and reuse items as part of the instant proceeding.

**WATER
CONSERVATION
INITIATIVE**

- (6) In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the base facility charge portion of the bill usually should not represent more than 40 percent of the utility's total revenues.¹⁴

¹⁰ See Orders Nos. 23947 and 24564, issued May 21, 1991 in Docket No. 900738-WS, In re: Application for water and sewer certificates in Lake County by Southlake Utilities, Inc.

¹¹ See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; and Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.

¹² See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; and Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; and Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; and Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

¹³ Central Florida Coordination Area Planning Work Group, Final Report, January 2008.

¹⁴ Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

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| WATER CONSERVATION INITIATIVE (cont.) | (7) Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the <u>Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply</u> (JSOC) and its associated Work Plan. ¹⁵ |
| FLORIDA STATUTES re: WATER CONSERVATION | (8) Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources." |
| CLIMATIC CONDITIONS | (9) Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the National Drought Mitigation Center's U.S. Drought Monitor, the utility is not currently located in an abnormally dry area of Florida. ¹⁶ |
| | (10) Based on information from the National Weather Service's Climate Prediction Center, the utility's service area will experience greater than average temperatures and precipitation through October 2009. Greater than average temperatures will persist through January 2010. ¹⁷ |
| WATER SYSTEM USAGE PATTERNS: | (11) The utility has a nonseasonal residential customer base, but a more seasonal multi-family / general service customer base. The average monthly consumption per residential customer is approximately 12.4 kgal. A review of the utility service area indicates that most of the customers' lawns are well kept. Many homes are well landscaped and well irrigated. |
| WATER SYSTEM BFC COST RECOVERY: | (12) Staff performed detailed analyses of Southlake's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; and 2) equitably distribute cost recovery among the utility's customers. Based on a detailed billing analysis of the residential class, only 40 percent of the residential bills and 32 percent of the corresponding consumption has been accounted for at monthly consumption of 5 kgals or less, while 54 percent of the bills and kgals have been accounted for at 10 kgals or less. This is indicative of greater than average consumption. |
| | (13) As discussed in Issue 16, staff's preliminary recommended revenue requirement increase is 14.48 percent. In order to comply with the WMD and WCI guidelines regarding the percentage of BFC cost recovery, staff evaluated BFC cost recovery percentages at 40 percent and 30 percent. The results are presented in Table 17-1. |
| | (14) The results of the analysis in Table 17-1 indicate Alternative 1 results in price decreases at certain levels of consumption. Alternative 2, which represents a two-tiered inclining-block rate structure, also results in price decreases at certain levels of consumption. |

¹⁵ Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

¹⁶ National Drought Mitigation Center, U.S. Drought Monitor, June 9, 2009.

¹⁷ National Weather Service Climate Prediction Center, Seasonal Outlooks, May 21, 2009.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

STAFF'S RECOMMENDATION FOR THE WATER SYSTEM:	The appropriate rate structures for the utility's water system are a three-tiered inclining-block rate structure applicable to residential customers. The appropriate usage blocks are for monthly consumption of: 1) 0-10,000 gallons (10 kgals); 2) 10,001-20 kgals, and 3) consumption in excess of 20 kgals. The base facility charge (BFC)/uniform gallonage charge should be applied to the utility's general service water customers. The BFC cost recovery allocation for the water system should be set at 40 percent.
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- WASTEWATER SYSTEM:**
- (15) Based on the initial accounting allocation, approximately 27 percent of the utility's costs were recovered in the BFC. Staff believes no less than 50 percent of the revenue requirement recovery should be in the BFC. This is to recognize the capital intensive nature of wastewater treatment facilities.
 - (16) For billing purposes, residential usage charges should be capped at 10 kgals of monthly usage. The general service gallonage charge should be set at 1.2 times greater than the residential gallonage charge rate. These recommendations are consistent with Commission practice.

STAFF'S RECOMMENDATION FOR THE WASTEWATER SYSTEM:	The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The BFC cost recovery allocation should be set at 50 percent. For billing purposes, residential usage charges should be capped at 10 kgals of monthly usage. The general service gallonage charge rate should be 1.2 times greater than the corresponding residential rate with no cap on billed monthly usage.
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Southlake Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/08 13 Month Average Balance			Schedule No. 1-A Docket No. 080597-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$7,078,292	(\$33,425)	\$7,044,867	(\$117,897)	\$6,926,970
2 Land and Land Rights	133,286	0	133,286	(60,208)	73,078
3 Non-used and Useful Components	0	0	0	\$0	0
4 Accumulated Depreciation	(1,071,790)	100,814	(970,976)	22,892	(948,084)
5 CIAC	(3,952,991)	6,756	(3,946,235)	(8,958)	(3,955,193)
6 Amortization of CIAC	953,376	(62,770)	890,606	(271)	890,335
7 Construction Work in Progress	778,064	0	778,064	0	778,064
8 Advances for Construction	(123,121)	0	(123,121)	0	(123,121)
9 Working Capital Allowance	69,761	0	69,761	(13,864)	55,897
10 Other	<u>117,088</u>	<u>0</u>	<u>117,088</u>	<u>(27,109)</u>	<u>89,979</u>
11 Rate Base	<u>\$3,981,965</u>	<u>\$11,375</u>	<u>\$3,993,340</u>	<u>(\$205,414)</u>	<u>\$3,787,926</u>

Southlake Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/08 13 Month Average Balance			Schedule No. 1-B Docket No. 080597-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$7,342,299	(\$27,498)	\$7,314,801	(\$409,662)	\$6,905,139
2 Land and Land Rights	558,446	0	558,446	(207,861)	350,585
3 Non-used and Useful (NUU) Plant	0	0	0	(1,052,860)	(1,052,860)
4 NUU Accumulated Depreciation	0	0	0	266,100	266,100
5 Accumulated Depreciation	(1,721,598)	131,790	(1,589,808)	4,279	(1,585,529)
6 CIAC	(5,364,589)	11,640	(5,352,949)	(7,525)	(5,360,474)
7 Amortization of CIAC	1,677,834	(113,549)	1,564,285	(168)	1,564,117
8 Advances for Construction	(295,893)	0	(295,893)	0	(295,893)
9 Construction Work in Progress	0	0	0	0	0
10 Working Capital Allowance	111,684	0	111,684	(22,363)	89,321
11 Other	67,088	0	67,088	22,891	89,979
12 Rate Base	<u>\$2,375,271</u>	<u>\$2,383</u>	<u>\$2,377,654</u>	<u>(\$1,407,168)</u>	<u>\$970,486</u>

Southlake Utilities, Inc. Commission Adjustments to Rate Base Test Year Ended 12/31/08 13-Month Average		Schedule No. 1-C Docket No. 080597-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To adjust out undocumented plant in service (AF No. 1)	(\$142,789)	(\$176,812)	
2 To reclassify capital costs (AF No. 6)	34,476	57,436	
3 To adjust PIS for lack of documentation (AF No. 3)	(173,557)	(102,466)	
4 To transfer PIS from water to wastewater (AF No. 3)	(50,048)	50,048	
5 To transfer PIS from wastewater to water (AF No. 3)	222,868	(222,868)	
6 To adjust from PIS to expense (AF No. 3)	(8,847)	0	
7 To eliminate duplicate amount (AF No. 3)	0	(15,000)	
Total	<u>(\$117,897)</u>	<u>(\$409,662)</u>	
<u>Land</u>			
1 To adjust land values (AF No. 2)	<u>(\$60,208)</u>	<u>(\$207,861)</u>	
<u>Non-used and Useful</u>			
1 To reflect non-used and useful adjustment	<u>\$0</u>	<u>(\$1,052,860)</u>	
<u>Accumulated Depreciation</u>			
1 To remove related A/D for undocumented PIS (AF No. 1)	\$29,050	\$35,972	
2 To adjust related A/D for reclassification from capital costs (AF No. 6)	(431)	(899)	
3 To adjust A/D for reclassification of CWIP/PIS (AF No. 3)	(5,727)	(30,794)	
4 To reflect A/D non-used and useful adjustment	0	<u>266,100</u>	
Total	<u>\$22,892</u>	<u>\$270,379</u>	
<u>CIAC</u>			
1 To adjust CIAC to documented levels (AF No. 4)	<u>(\$8,958)</u>	<u>(\$7,525)</u>	
<u>Accumulated Amortization of CIAC</u>			
1 To adjust CIAC amortization to documented levels (AF No. 4)	<u>(\$271)</u>	<u>(\$168)</u>	
<u>Working Capital</u>			
1 To reflect the appropriate working capital allowance less rate case expense	<u>(\$13,864)</u>	<u>(\$22,363)</u>	
<u>Other</u>			
1 To remove unamortized project costs	(\$117,088)	(\$67,088)	
3 To reflect deferred rate case expense	89,979	89,979	
Total	<u>(\$27,109)</u>	<u>(\$22,891)</u>	

Southlake Utilities, Inc.
Capital Structure - Average Balance
Test Year Ended 12/31/08

Schedule No. 2
Docket No. 080597-WS

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost	
Per Utility (Year End)									
1 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
4 Common Equity	6,159,377	0	6,159,377	0	6,159,377	96.68%	9.56%	9.24%	
5 Customer Deposits	211,614	0	211,614	0	211,614	3.32%	6.00%	0.20%	
6 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
7 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
8 Total Capital	<u>\$6,370,991</u>	<u>\$0</u>	<u>\$6,370,991</u>	<u>\$0</u>	<u>\$6,370,991</u>	<u>100.00%</u>		<u>9.44%</u>	
Per Commission (Simple Average)									
9 Long-term Debt	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%	
10 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%	
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%	
12 Common Equity	5,979,238	(142,673)	5,836,566	(1,289,533)	4,547,032	95.56%	9.48%	9.06%	
13 Customer Deposits	211,614	(235)	211,380	0	211,380	4.44%	6.00%	0.27%	
14 Tax Credits-Zero Cost	0	0	0	0	0	0.00%	0.00%	0.00%	
15 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%	
16 Total Capital	<u>\$6,190,852</u>	<u>(\$142,907)</u>	<u>\$6,047,945</u>	<u>(\$1,289,533)</u>	<u>\$4,758,412</u>	<u>100.00%</u>		<u>9.33%</u>	
						LOW	HIGH		
RETURN ON EQUITY						<u>8.48%</u>	<u>10.48%</u>		
OVERALL RATE OF RETURN						<u>8.37%</u>	<u>10.28%</u>		

Southlake Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/08		Schedule No. 3-A Docket No. 080597-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$1,000,474</u>	<u>\$183,853</u>	<u>\$1,184,327</u>	<u>(\$294,110)</u>	<u>\$890,217</u>	<u>\$128,878</u> 14.48%	<u>\$1,019,095</u>
Operating Expenses							
2 Operation & Maintenance	\$624,964	\$0	\$624,964	(\$147,792)	\$477,172		\$477,172
3 Depreciation	76,086	0	76,086	(\$4,315)	71,771		71,771
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	98,121	8,273	106,394	\$4,611	111,005	\$5,800	116,804
6 Income Taxes	0	0	0	0	0	0	0
7 Total Operating Expense	799,171	8,273	807,444	(147,496)	659,948	\$5,800	665,747
8 Operating Income	<u>\$201,303</u>	<u>\$175,580</u>	<u>\$376,883</u>	<u>(\$146,614)</u>	<u>\$230,269</u>	<u>\$123,079</u>	<u>\$353,348</u>
9 Rate Base	<u>\$3,981,965</u>		<u>\$3,993,340</u>		<u>\$3,787,926</u>		<u>\$3,787,926</u>
10 Rate of Return	5.06%		9.44%		6.08%		9.33%

Southlake Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/08		Schedule No. 3-B Docket No. 080597-WS					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$805,299</u>	<u>\$487,912</u>	<u>\$1,293,211</u>	<u>(\$597,238)</u>	<u>\$695,973</u>	<u>\$234,936</u> 33.76%	<u>\$930,909</u>
Operating Expenses							
2 Operation & Maintenance	\$834,446	\$92,571	\$927,017	(\$182,453)	\$744,564		\$744,564
3 Depreciation	36,482	0	36,482	(46,206)	(9,724)		(9,724)
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	80,427	24,888	105,315	(10,348)	94,967	10,572	105,539
6 Income Taxes	0	0	0	0	0	0	0
7 Total Operating Expense	<u>951,355</u>	<u>117,459</u>	<u>1,068,814</u>	<u>(239,007)</u>	<u>829,807</u>	<u>10,572</u>	<u>840,379</u>
8 Operating Income	<u>(\$146,056)</u>	<u>\$370,453</u>	<u>\$224,397</u>	<u>(\$358,231)</u>	<u>(\$133,834)</u>	<u>\$224,363</u>	<u>\$90,530</u>
9 Rate Base	<u>\$2,375,271</u>		<u>\$2,377,654</u>		<u>\$970,486</u>		<u>\$970,486</u>
10 Rate of Return	<u>-6.15%</u>		<u>9.44%</u>		<u>-13.79%</u>		<u>9.33%</u>

Southlake Utilities, Inc. Commission Adjustments to Operating Income Test Year Ended 12/31/08		Schedule 3-C Docket No. 080597-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$183,853)	(\$487,912)	
2 To reflect audit finding No. 5	<u>(110,257)</u>	<u>(109,326)</u>	
Total	<u>(\$294,110)</u>	<u>(\$597,238)</u>	
<u>Operation and Maintenance Expense</u>			
1 To adjust pro forma filing to 12/31/2008 general ledger (AF No. 6)	(\$35,948)	\$2,914	
2 To reflect staff calculated test year Rate Case expense	29,993	29,993	
3 To adjust purchased power	1,715	1,973	
4 To remove land lease expense (AF No. 6)	(11,778)	(45,299)	
5 To adjust contractual services - other	(8,250)	(8,250)	
6 To adjust communication expense	(426)	(426)	
7 To reflect audit finding regarding reclassification of Capital Costs (AF No. 6)	(34,476)	(57,436)	
8 To reflect audit finding regarding Undocumented Costs (AF No. 6)	(20,315)	(38,615)	
9 To remove utility test year Rate Case expense (AF No. 6)	<u>(68,307)</u>	<u>(67,307)</u>	
Total	<u>(\$147,792)</u>	<u>(\$182,453)</u>	
<u>Net - Depreciation Expense</u>			
1 To reflect audit finding No. 1	(\$4,469)	(\$5,534)	
2 To reflect audit finding No.6 - reclassify capital costs	431	899	
3 To adjust depreciation expense on reclassified plant in service (AF No. 3)	(277)	(8,616)	
4 To adj. for non-used and useful depr. expense	<u>0</u>	<u>(32,955)</u>	
Total	<u>(\$4,315)</u>	<u>(\$46,206)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on Revenue Adjustments Above	(\$8,273)	(\$21,956)	
2 To Reflect Audit Finding No.7 - Adjust TOTI	12,884	17,114	
3 To adjust property tax for non-used and useful PIS	<u>0</u>	<u>(5,506)</u>	
Total	<u>\$4,611</u>	<u>(\$10,348)</u>	

Southlake Utilities, Inc. Water Monthly Service Rates Test Year Ended 12/31/08		Schedule No. 4-A Docket No. 080597-WS			
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Staff Recomm. Final	4 - Year Rate Reduction
<u>Residential</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.98	\$9.42	\$12.41	\$9.67	\$0.30
3/4"	--	--	--	\$14.51	\$0.45
1"	\$22.45	\$23.54	\$31.01	\$24.18	\$0.75
1-1/2"	\$44.90	\$47.08	\$62.03	\$48.35	\$1.49
2"	\$71.85	\$75.34	\$99.26	\$77.36	\$2.38
3"	\$143.70	\$150.68	\$198.51	\$154.72	\$4.77
4"	\$224.51	\$235.42	\$310.15	\$241.75	\$7.45
6"	\$449.03	\$470.85	\$620.30	\$483.50	\$14.90
Gallonage Charge, per Month					
0-10 kgals	\$0.84	\$0.88	\$1.17	\$0.99	\$0.03
10-20 kgals	\$0.84	\$0.88	\$1.17	\$1.24	\$0.04
In excess of 20 kgals	\$0.84	\$0.88	\$1.17	\$1.49	\$0.05
<u>Multi-Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$8.98	\$9.42	\$12.41	\$9.67	\$0.30
3/4"	--	--	--	\$14.51	\$0.45
1"	\$22.45	\$23.54	\$31.01	\$24.18	\$0.75
1-1/2"	\$44.90	\$47.08	\$62.03	\$48.35	\$1.49
2"	\$71.85	\$75.34	\$99.26	\$77.36	\$2.38
3"	\$143.70	\$150.68	\$198.51	\$154.72	\$4.77
4"	\$224.51	\$235.42	\$310.15	\$241.75	\$7.45
6"	\$449.03	\$470.85	\$620.30	\$483.50	\$14.90
Gallonage Charge, All kgals	\$0.84	\$0.88	\$1.17	\$1.14	\$0.04
<u>Fire Protection</u>					
1-1/2"	\$14.98	\$14.98	\$14.98	\$4.03	\$0.12
2"	\$23.75	\$23.75	\$29.26	\$6.45	\$0.20
3"	\$74.83	\$74.83	\$74.83	\$12.89	\$0.40
4"	\$149.67	\$149.67	\$149.67	\$20.15	\$0.62
6"	\$149.67	\$149.67	\$149.67	\$40.29	\$1.24
8"	\$149.67	\$149.67	\$149.67	\$72.53	\$2.24
10"	\$149.67	\$149.67	\$149.67	\$88.64	\$2.73
<u>Typical Residential Bills 5/8"</u>					
3,000 Gallons	\$11.50	\$12.06	\$15.92	\$12.64	
5,000 Gallons	\$13.18	\$13.82	\$18.26	\$14.62	
10,000 Gallons	\$17.38	\$18.22	\$24.11	\$19.57	

Southlake Utilities, Inc.		Schedule No. 4-B			
Wastewater Monthly Service Rates		Docket No. 080597-WS			
Test Year Ended 12/31/08					
	Rates Prior to Filing	Comm. Approved Interim	Utility Requested Final	Staff Recomm. Final	4 - Year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$9.76	\$12.68	\$14.93	\$12.51	\$0.42
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$0.86	\$1.12	\$1.30	\$1.16	\$0.04
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.76	\$12.68	\$14.93	\$12.51	\$0.42
3/4"	-	--	--	\$18.77	\$0.63
1"	\$24.41	\$31.71	\$37.33	\$31.28	\$1.06
1-1/2"	\$48.80	\$63.39	\$74.65	\$62.55	\$2.11
2"	\$78.08	\$101.43	\$119.44	\$100.08	\$3.38
3"	\$156.18	\$202.88	\$238.88	\$200.16	\$6.75
4"	\$224.02	\$291.00	\$343.39	\$312.75	\$10.55
6"	\$448.02	\$581.98	\$746.50	\$625.50	\$21.10
Gallage Charge, per 1,000 Gallons	\$1.02	\$1.32	\$1.56	\$1.39	\$0.05
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$12.34	\$16.04	\$18.83	\$15.99	
5,000 Gallons	\$14.06	\$18.28	\$21.43	\$18.31	
10,000 Gallons	\$18.36	\$23.88	\$27.93	\$24.11	
(Wastewater Gallage Cap - 10,000 Gallons)					