

State of Florida



Public Service Commission
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DATE: September 1, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Hudson, Bruce, Daniel, Fletcher, Maurey, Simpson, Stallcup) *JS* *DB* *RCB* *BF* *ALM* *CRB*
Office of the General Counsel (Bennett) *RCB*

RE: Docket No. 090447-WS – Application for staff-assisted rate case in Seminole County by CWS Communities d/b/a Palm Valley Utilities.

AGENDA: 09/14/10 – Regular Agenda – Proposed Agency Action Except for Issues 11, 12, and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: 03/11/11 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090447.RCM.DOC

DOCUMENT NUMBER-DATE
07316 SEP-1 0
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Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background	3
1	Quality of Service (Simpson).....	5
2	Used and Useful (Simpson)	7
3	Rate Base (Hudson).....	10
4	Rate of Return (Hudson)	12
5	Test Year Revenues (Bruce, Hudson).....	13
6	Operating Expenses (Hudson).....	14
7	Revenue Requirement (Hudson).....	18
8	Rate Structure (Bruce).....	19
9	Repression (Bruce).....	22
10	Rates (Bruce, Hudson)	23
11	Four-Year Rate Reduction (Hudson)	24
12	Temporary Rates (Hudson).....	25
13	Proof of Adjustments (Hudson)	27
14	Close Docket (Bennett)	28
	Schedule No. 1-A	29
	Schedule No. 1-B	30
	Schedule No. 1-C	31
	Schedule No. 2	32
	Schedule No. 3-A	33
	Schedule No. 3-B	34
	Schedule No. 3-C	35
	Schedule No. 3-D	37
	Schedule No. 3-E	38
	Schedule No. 4-A	39
	Schedule No. 4-B	40

Case Background

CWS Communities LP d/b/a Palm Valley Utilities (Palm Valley or Utility) is a Class C utility providing water and wastewater service in Seminole County serving approximately 786 residential and 7 general service customers. The Utility is in the St. Johns River Water Management District (SJRWMD or District), all of which is considered a water use caution area. The Utility was granted Certificate Nos. 277-W and 223-S.¹ The certificates have been amended several times.² Also, the certificates have been transferred twice.³ Palm Valley's 2009 Annual Report reflects total gross revenues of \$169,928 for water and \$230,545 for wastewater with net income of \$3,480 for water and a net loss of \$85,017 for wastewater.

On April 19, 2010, three customers of the Utility filed individual petitions to intervene. The interventions were granted by the Commission on June 21, 2010 by orders issued in the instant docket.⁴

Staff filed a recommendation for final rates on June 17, 2010, for the June 29, 2010, Agenda Conference. At the request of the Palm Valley Homeowner Association (HOA), the item was deferred to a subsequent agenda. The HOA request for deferral was granted to allow it additional time to review staff's recommendation, to have its primary spokesperson available for the Agenda Conference, and to allow staff time to consider any additional issues that may arise from the informal meeting that was scheduled for June 28, 2010.

The June 28, 2010 informal meeting was rescheduled to June 30, 2010. Staff, representatives from the HOA, the Office of Public Counsel (OPC), and the Utility along with its consultant and legal counsel, met to discuss the issues in this case. Based on that meeting, it was agreed that some additional adjustments would be made to staff's initial recommended revenue requirements for the water and wastewater systems. These adjustments result in a decrease to staff's previously recommended revenue requirements for water and wastewater.

¹ See Order No. 7518, issued November 22, 1976, in Docket No. 750660-WS, In re: Application of ECO-SAN, Inc., for certificates to operate a water and sewer utility in Seminole County, Florida. Section 367.171, Florida Statutes.

² See Order Nos. PSC-00-2243-PAA-WS, issued November 27, 2000, in Docket No. 001138-WS, In re: Application for amendment of Certificates Nos. 277-W and 223-S to add territory in Seminole County by CWS Communities LP d/b/a Palm Valley and PSC-05-0425-FOF-WS, issued April 20, 2005, in Docket No. 041418, In re: Application for deletions and amendments to portions of service territory in Seminole County by CWS Communities LP d/b/a Palm Valley Utilities, holder of Certificates 277-W and 223-S.

³ See Order Nos. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS, In re: Application for transfer of Certificates Nos. 277-W and 223-S in Seminole County from Alafaya Palm Valley Associates, Ltd. to CWS Communities LP d/b/a Palm Valley; PSC-02-1029-FOF-WS, issued July 29, 2002, in Docket No. 020122, In re: Request for approval of transfer of majority organizational control of CWS Communities LP d/b/a Palm Valley, holder of Certificate Nos. 277-W and 223-S in Seminole County, from CWS Communities Trust to CP Limited Partnership, known in Florida as Chateau Communities Limited Partnership; and PSC-05-0186-PAA-WS, issued February 17, 2005, in Docket No. 030998-WS, In re: Joint application for approval of transfer of majority organizational control of Chateau Communities, Inc., grandparent of Del Tura Phase I, LLC d/b/a Del Tura Utilities, holder of Certificate No. 298-S in Lee County; CWS Communities LP d/b/a Palm Valley Utilities, holder of Certificate Nos. 277-W and 223-S in Seminole County; and CWS Communities LP, holder of Certificate No. 518-W in Lake County, to Hometown America, L.L.C.

⁴ See Orders Nos. PSC-10-0404-PCO-WS, PSC-10-0405-PCO-WS, and PSC-10-0406-PCO-WS.

Staff's initial recommended revenue requirement for water was \$177,200. Staff's revised revenue requirement of \$173,970 is \$3,230 (or 1.82 percent) less than staff's initial water revenue requirement. The majority of the reduction is the result of decreases in the cost of testing of \$1,533 and property taxes of \$665. Staff's initial recommended revenue requirement for wastewater was \$573,054. Staff's revised revenue requirement of \$475,475 is \$97,579 (or 17.03 percent) less than staff's initial wastewater revenue requirement. The majority of the reduction is the result of decreases in sludge removal expense of \$16,306 and property taxes of \$65,990.

On July 1, 2010, OPC sent out discovery questions pertaining to those issues. The Utility filed its response to the discovery with the Commission Clerk's Office (Clerk) on July 23, 2010. Staff met with the parties again on July 29, 2010. At this meeting, it was determined that the Utility still needed to provide additional information. Palm Valley filed the additional information on August 13, 2010.

This recommendation addresses Palm Valley's request for a staff-assisted rate case. The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

Discussion of Issues

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

Recommendation: Yes, the quality of service provided by Palm Valley is satisfactory. (Simpson)

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 and wastewater operations. These components include the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The Utility's compliance with the Florida Department of Environmental Protection (DEP) and the SJRWMD are also considered.

Quality of the Utility's Product and Operating Condition of the Utility's Plant and Facilities

The DEP conducted a sanitary survey of the water treatment plant on February 12, 2009, and a wastewater compliance inspection on November 17, 2009. Deficiencies were noted in both surveys which were subsequently corrected by the Utility. According to the DEP, the water and wastewater systems have met all monitoring requirements.

Palm Valley's service area is in a priority water resource caution area of the SJRWMD. The Utility's withdrawal of 32.59 million gallons in the test year falls under the maximum annual withdrawal of 53.67 million gallons allowed in its consumptive use permit.

A staff field investigation of Palm Valley's service area was conducted on December 15, 2009. The water and wastewater treatment facilities appeared to be operating normally; however, a review of the Utility's monthly operating reports and discharge monitoring reports indicated inconsistencies in the flow data reported for both the amount of raw water pumped and the amount of wastewater treated. With the assistance of the Florida Rural Water Association, the Utility's raw water meter was recalibrated. The Utility also discovered that an error was made in reporting the amount of raw water pumped to the SJRWMD because a zero was inadvertently omitted from the meter readings. In addition, the Utility determined that treated wastewater that was being recycled into the wastewater treatment plant for backwashing filters was included in the amount reported as wastewater treated. The Utility filed corrected reports with the SJRWMD and DEP regarding the amount of raw water pumped. In addition, meters were installed to quantify the amount of recycled treated effluent used for backwashing filters in the wastewater treatment system. The Utility requested that the cost of the meters be included in this rate case. Based on the corrected flow data, it appears that the water distribution system has excessive unaccounted for water and the wastewater collection system has excessive infiltration and inflow (I&I). The Utility has implemented repair programs to address the problems in the distribution and collection systems.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on April 22, 2010, in Oviedo, Florida. Representatives of the Utility were present. Over 300 customers attended and 12 spoke, including representatives of the HOA. The HOA members expressed concern about the rate increase and whether the Utility was properly reporting information regarding Utility operations. The HOA members' presentation is included in the docket file. Most of the customer complaints dealt with the level of the rate increase and the undue hardship they are going to endure because they are elderly people living on a fixed income. Staff explained the rate making process to the customers and followed up on several specific inquiries about water and wastewater bills, customer water usage, and common area irrigation. As described above, the Utility identified and corrected the errors in the amounts reported as raw water pumped and wastewater treated.

Complaints from customers filed with the Utility and the Commission during the last three years dealt with replacement of meter covers, repair of water leaks, repair and replacement of shut-off valves, and meter testing. All of the customer complaints reported have been resolved and closed.

Summary

Palm Valley is current in all of the required chemical and bacteriological analyses, the water and wastewater treatment plants are operating properly, and the Utility appears to address customer complaints in a timely manner. Therefore, staff recommends that the overall quality of service provided by Palm Valley should be considered satisfactory.

Issue 2: What are the used and useful percentages for the water treatment plant, the distribution system, the storage tanks, the wastewater treatment plant, the collection system, and the reuse facilities?

Recommendation: The water treatment plant (WTP) should be considered 78 percent used and useful (U&U). The wastewater treatment plant (WWTP) should be considered 81 percent U&U. The distribution system, the two storage tanks, the collection system, and the reuse facilities should be considered 100 percent U&U. In addition, staff recommends that chemicals and electricity expense for the water system be adjusted by 3 percent to recognize excessive unaccounted for water (UFW), and chemicals and electricity expense for the wastewater system be adjusted by 19 percent to recognize excessive I&I. (Simpson)

Staff Analysis: The Utility's records for the test year ended September 30, 2009 were utilized in analyzing the used and usefulness of the water and wastewater facilities.

Water Treatment Plant and Storage

Rule 25-30.4325, F.A.C., provides that in calculating the U&U percentage for a water treatment system, the peak demand in gallons per day (gpd) is divided by the firm reliable capacity of the system based on 16 hours of pumping. Consideration is also given to fire flow, UFW, growth, changes in flow due to conservation, and other factors.

Palm Valley's water treatment system has two wells each rated at 820 gallons per minute (gpm). The firm reliable capacity is 787,200 gpd. Raw water is aerated and injected with liquid chlorine and discharged into a ground storage tank before it enters the water distribution system. The Utility's peak day of 165,000 gallons occurred on February 17, 2009. It does not appear that there was a fire, line break, or other unusual occurrence on that day. The Utility's fire flow requirement is 1,250 gpm for 2 hours or 150,000 gallons. Projected growth in the service area is 18 equivalent residential connections (ERCs) a year for five years or 18,632 gpd. The WTP is 42 percent U&U based on a peak day of 165,000 gpd, a growth allowance of 18,632 gpd, excessive UFW of 2,816 gpd, fire flow of 150,000 gpd, and firm reliable capacity of 787,200 gpd. In the Utility's last rate case, the WTP was found to be 78 percent U&U based on a five maximum day average of 327,000 gpd, a growth allowance of 48,141 gpd, and fire flow of 150,000 gpd. The SJRWMD permitted water withdrawal allowance of 675,000 gpd was used as a limiting factor for the capacity of the system. However, the current permit, which was renewed in 2007, contains a maximum annual withdrawal limit but not a peak day limit. A review of test year data from the last rate case indicates that 48.92 million gallons of finished water was produced, compared with 32.59 million gallons of finished water in the current test year. It appears that there has been a significant effort to conserve water. The Utility's service area is close to build out, although there is vacant land adjacent to the service area that could potentially be developed in the future. Staff recommends that the WTP be considered 78 percent U&U, consistent with the last rate case, to recognize that there appears to have been significant conservation efforts. In addition, a 3 percent adjustment should be made to chemicals and electricity to reflect the Utility's excessive UFW.

The Utility's two ground storage tanks have a usable capacity of 145,800 gallons. Based on a peak day demand of 165,000 gallons, a fire flow demand of 150,000 gallons, a growth

allowance of 18,632 gallons, and usable capacity of 145,800 gallons, staff recommends that the two storage tanks be considered 100 percent used and useful.

Wastewater Treatment Plant

Palm Valley's wastewater treatment system consists of a 150,000 gpd extended aeration treatment plant with flow equalization, influent screening, aeration, secondary clarification, filtration, and chlorination. Rule 25-30.432, F.A.C., provides that the wastewater plant U&U should be calculated based on customer demand and the permitted capacity of the plant. The rule also provides that customer demand should be determined using the same basis as the permitted capacity. Consideration is given to growth, I&I, and whether flows have decreased due to conservation.

The DEP permitted capacity of the WWTP is 150,000 gpd based on annual average daily flow (AADF). The customer demand for the test year based on the AADF is 101,535 gpd. The Utility's projected growth is 10,193 gpd over the next five years. Excessive I&I is 18,912 gpd or 19 percent. In the previous recommendation which was deferred by the Commission, an I&I estimate of 9 percent was used. However, after obtaining a more accurate flow figure for the amount of treated effluent used for backwashing of the filters, a more reliable estimate was made. Therefore, the WWTP is 62 percent U&U based on the current customer demand, a growth allowance, and 19 percent excessive I&I. However, in the last rate case, the WWTP was found to be 81 percent U&U based on customer demand of 107,116 gpd, a growth allowance of 14,256 gpd, and capacity of 150,000 gpd. Staff recommends that, consistent with the last rate case, the WWTP should be considered 81 percent U&U to recognize the reduction in flows at the wastewater plant since the last rate case. In addition, a 19 percent adjustment should be made to chemicals and electricity expense to reflect the Utility's excessive I&I.

Water Distribution and Wastewater Collection Systems

The U&U calculations for the water distribution and wastewater collection systems are based on the number of customers connected to the systems divided by the capacity of the lines. Consideration is also given to growth. In this case, the service area is close to build out, although there is vacant land adjacent to the service area that could potentially be developed in the future. Staff recommends that the Utility's current distribution and collection systems are needed to serve existing customers and, therefore, should be considered 100 percent U&U.

Reuse Facilities

Palm Valley's reclaimed water system consists of a filtration system followed by high level disinfection, a 40,000 gallon reuse storage tank/pump station, a 150,000 gallon clay-lined reject pond, 800,000 gallons of wet-weather storage/percolation pond, and a 314,000 gallon lined reclaimed water storage pond. The reclaimed water is distributed into a network consisting of a decorative clubhouse pond, exfiltration trenches, common area and residential irrigation, and a dripper system. Pursuant to Section 367.0817, F.S., all prudent costs of a reuse project shall be recovered in rates; and therefore, are 100 percent U&U.

OPC had requested that the Utility provide reasons for installing a reuse system. In the Utility's response, Palm Valley noted that beginning from 1999 it was necessary to increase the effluent disposal capacity of 126,000 gpd to 150,000 gpd because of home or unit expansion. The only option for effluent disposal at that time was a dripper system. Additional disposal capacity was required to meet regulatory compliance standards because of future expansion. Considering the hydrological conditions of the service area, the only feasible method to meet regulatory requirements was to use an exfiltration trench and a pond which would discharge the wastewater and meet DEP requirements. The facility was permitted by DEP to use the exfiltration trench, the wet-weather/percolation pond, and irrigation systems for effluent disposal. In the last rate case, the Commission found that the reclaimed water system was 100 percent U&U. Therefore, staff recommends that all of the Utility's reuse facilities should be considered 100 percent U&U.

Summary

In summary, the WTP should be considered 78 percent U&U. The WWTP should be considered 81 percent U&U. The distribution system, the two storage tanks, the collection system, and the reuse facilities should be considered 100 percent U&U. In addition, staff recommends that chemicals and electricity expense for the water system be adjusted by 3 percent to recognize excessive UFW, and chemicals and electricity expense for the wastewater system be adjusted by 19 percent to recognize excessive I&I.

Issue 3: What is the appropriate average test year rate base for Palm Valley?

Recommendation: The appropriate average test year rate base for the Utility is \$622,184 for water and \$1,466,407 for wastewater. (Hudson)

Staff Analysis: Palm Valley's rate base was last established in 2002.⁵ Staff has selected a test year ended September 30, 2009, for this rate case. Rate base components have been updated through September 30, 2009, using information obtained from staff's audit. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$1,264,170 and \$2,810,092 of UPIS for water and wastewater, respectively. Staff has decreased UPIS by \$12,835 for water and increased UPIS by \$243,358 for wastewater to reflect plant additions and retirements since rate base was last established. Also, staff has increased wastewater UPIS by \$2,546 to reclassify plant additions recorded as material and supplies. Staff decreased UPIS by \$22,185 and \$31,755 for water and wastewater, respectively, to reflect averaging adjustments. As discussed in Issue 1, Palm Valley installed meters to quantify the amount of recycled treated effluent used for backwashing filters in the wastewater treatment system. The installation of the meters occurred after the test year. Therefore, staff made a pro forma adjustment of \$8,995 to increase UPIS for the meters. Staff's net adjustment to UPIS is a decrease of \$35,020 for water and an increase of \$223,144 for wastewater. Staff's recommended UPIS balances are \$1,229,150 and \$3,033,236 for water and wastewater, respectively.

Non-used and Useful Plant: The U&U percentages for each system were discussed in Issue 2. Applying the non-U&U percentages to the appropriate plant accounts results in non-U&U plant of \$66,331 for the water system and \$223,422 for the wastewater system. The non-U&U accumulated depreciation is \$37,800 for the water plant and \$144,454 for the wastewater plant. This results in net non-U&U reductions of \$28,531 (\$66,331-\$37,800) for the water plant and \$78,968 (\$223,422-\$144,454) for the wastewater plant.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC of \$335,999 and \$543,472 for water and wastewater, respectively. Based on CIAC approved in the last rate case, staff has determined the appropriate CIAC to be \$352,139 for water and \$562,161 for wastewater. As such, staff has increased this account by \$16,140 and \$18,689 for water and wastewater, respectively. Also, staff has decreased CIAC by \$1,195 and \$974 for water and wastewater, respectively, to reflect averaging adjustments. Staff's recommended CIAC balances are \$350,944 and \$561,187 for water and wastewater, respectively.

Accumulated Depreciation: Palm Valley recorded accumulated depreciation balances of \$682,897 for water and \$1,087,070 for wastewater. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$306,782 for water and increased it by \$340,592 for wastewater to reflect depreciation calculated per staff. Staff has decreased these balances by \$21,574 and \$67,457 for water and wastewater, respectively, to reflect averaging adjustments. In addition,

⁵ See Order No. PSC-02-1111-PAA-WS, issued August 13, 2002, in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley.

staff increased wastewater accumulated depreciation \$1,799 to reflect pro forma accumulated depreciation. These adjustments result in average accumulated depreciation of \$354,541 for water and \$1,362,004 for wastewater.

Accumulated Amortization of CIAC: The Utility recorded \$99,426 and \$284,063 for amortization of CIAC for water and wastewater, respectively. Amortization of CIAC has been recalculated by staff using composite depreciation rates. In order to reflect amortization of CIAC as calculated by staff, this account has been increased by \$21,413 for water and \$39,524 for wastewater. Staff has decreased this account by \$6,324 and \$12,430 for water and wastewater, respectively, to reflect averaging adjustments. Staff's adjustments to this account results in net accumulated amortization of CIAC of \$114,515 for water and \$311,157 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff calculated a working capital allowance of \$10,102 for water (based on water O&M of \$80,815) and \$27,764 for wastewater (based on wastewater O&M of \$222,116). Working capital has been increased by \$10,102 and \$27,764 to reflect one-eighth of staff's recommended O&M expenses for water and wastewater, respectively.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year average rate base is \$622,184 for water and \$1,466,407 for wastewater. The water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. Staff's adjustments are shown on Schedule No. 1-C.

Issue 4: What is the appropriate return on equity and overall rate of return for this utility?

Recommendation: The appropriate return on equity (ROE) is 10.76 percent with a range of 9.76 – 11.76 percent. The appropriate overall rate of return is 7.65 percent. (Hudson)

Staff Analysis: According to staff's audit, Palm Valley recorded common equity of \$1,270,790,310 and long-term debt in the amount of \$1,819,297,660 in its capital structure. All investor sources of capital are from the Utility's parent company. Using the Commission-approved leverage formula currently in effect⁶ and an equity ratio of 41.12 percent, the appropriate ROE is 10.76 percent. Palm Valley's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 10.76 percent with a range of 9.76 - 11.76 percent, and an overall rate of return of 7.65 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁶ See Order No. PSC-10-0401-PAA-WS, issued June 18, 2010, in Docket No. 100006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What is the appropriate amount of test year revenue?

Recommendation: The appropriate test year revenue for this Utility is \$165,229 for water and \$234,130 for wastewater. (Bruce, Hudson)

Staff Analysis: Palm Valley recorded \$170,079 for water test year revenues. The customers' bills include a line item for a Seminole County water tax (water tax). Pursuant to Audit Finding No. 4, the Utility included in its revenues the amount of \$6,431 collected for the water tax. This amount should not be considered in revenues for rate setting purposes. Therefore, staff has decreased test year revenues by \$6,431. Also, staff has increased water test year revenues by \$1,581 to reflect revenues calculated using test year billing determinants.

Palm Valley recorded \$230,259 for wastewater test year revenues. The Utility capped the usage of general services customers at 6,000 gallons. The gallonage cap is only applicable to residential customers. Staff has recalculated wastewater revenues including all general service gallons and determined the appropriate test year revenues to be \$234,130. Staff has increased wastewater revenues by \$3,871.

Based on the above, staff recommends test year revenues of \$165,229 and \$234,130 for water and wastewater, respectively.

Issue 6: What are the appropriate operating expenses?

Recommendation: The appropriate amount of operating expense for the Utility is \$126,373 for water and \$363,565 for wastewater. (Hudson)

Staff Analysis: Palm Valley recorded operating expenses of \$151,621 for water and \$359,974 for wastewater during the test year ended September 30, 2009. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the Utility's operating expenses, as summarized below:

Salaries and Wages - Employees – (601/701) – Palm Valley recorded salaries and wages expense of \$19,118 each for water and wastewater. The Utility provided a list of duties for the maintenance employee. The duties included meter reading. The Utility has a contract meter reader. Staff categorized the duties and responsibilities of the maintenance employee into eight categories. Since the meter reading duty is duplicative, staff believes the maintenance employee salary should be reduced by one-eighth. This results in a decrease of \$1,441 to both water and wastewater salary expense. Staff recommends salaries and wages – employees expense of \$17,677 for both water and wastewater.

Sludge Removal – (711) – Palm Valley recorded sludge removal expense of \$41,236 for wastewater. The Utility's rate per gallon for sludge removal has decreased since the test year. Staff has recalculated sludge removal expense using the decreased rate of \$.09 per gallon. This calculation results in sludge removal expense of \$24,930. Therefore, staff has decreased sludge removal expense by \$16,306. Staff recommends sludge removal expense of \$24,930.

Purchased Power – (615/715) – Palm Valley recorded purchased power expense of \$20,363 for water and \$20,363 for wastewater. The Utility allocated both water and wastewater 50 percent of the purchased power expense. The purchased power expense consists of purchased power bills related to the wastewater lift stations. These bills should not be allocated to the water system. Therefore, staff has decreased the amount for water by \$2,122 and increased the amount for wastewater by \$7,016 to reflect the appropriate allocation of purchased power expense. As discussed in Issue 2, the staff engineer is recommending an excessive UFW adjustment of 3 percent and an excessive I&I adjustment of 19 percent. Accordingly, staff has decreased purchased power for water by \$547 and decreased for wastewater by \$5,202. Staff recommends purchased power expense of \$17,694 for water and \$22,177 for wastewater.

Fuel for Power Production – (616/716) – Palm Valley recorded fuel expense of \$1,048 for both water and wastewater. In order to calculate the appropriate amount of fuel for power production, staff used the Utility's four-year average. Based on this calculation, fuel for power production should be \$1,455 for both water and wastewater. Staff increased this account by \$407 for both water and wastewater. Staff recommends fuel for power production expense of \$1,455 for both water and wastewater.

Chemicals – (618/718) – Palm Valley recorded chemical expense of \$5,544 for water and \$28,339 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased chemicals expense by \$150 for water and \$591 for wastewater to remove out-of-period expenses. In addition, staff

decreased this expense by \$162 for water and by \$5,272 for wastewater to adjust for excessive UFW and excessive I&I, as discussed in Issue 2. Staff recommends chemical expense of \$5,232 for water and \$22,476 for wastewater.

Materials and Supplies – (620/720) – The Utility recorded material and supplies expense of \$1,004 for water and \$1,004 for wastewater. Pursuant to Audit Finding No. 6, Palm Valley’s invoiced materials and supplies expenses were \$1,839 for water and \$9,063 for wastewater. However, staff has determined that \$2,546 of material and supplies expense should be reclassified to wastewater UPIS. As such, staff has increased this account by \$835 and \$5,514 (\$9,063-\$1,004-\$2,545) for water and wastewater, respectively. Staff recommends material and supplies expense of \$1,839 for water and \$6,517 for wastewater.

Contractual Services – Billing – (630/730) – Palm Valley recorded \$3,917 each for water and wastewater. Pursuant to Audit Finding No. 6, the Utility included an out-of-period invoice. As such, staff has reduced water and wastewater each by \$864. Staff recommends contractual services – billing of \$3,053 for water and \$3,053 for wastewater.

Contractual Services – Professional – (631/731) – Palm Valley recorded \$270 for water and \$302 for wastewater. These amounts were for non-recurring engineering services. As such, staff has decreased this account by \$162 for water and \$242 for wastewater to amortize the non-recurring engineering services. However, pursuant to Audit Finding No. 6, staff has increased the balances in these accounts by \$797 each for water and wastewater to record an invoice for professional services. Staff recommends contractual services – professional of \$905 for water and \$857 for wastewater.

Contractual Services – Testing – (635/735) – The Utility recorded \$5,773 for water and \$2,560 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased testing expense for water by \$980 to remove an out-of-period expense. Staff has decreased water testing expense by \$1,533 to amortize a test that occurs every three years. Also, staff has decreased wastewater testing expense by \$843 to amortize a test that occurs every five years. Staff recommends contractual services – testing of \$3,260 for water and \$1,717 for wastewater.

Contractual Services – Other – (636/736) – Palm Valley recorded \$19,143 for water and \$110,973 for wastewater. Pursuant to Audit Finding No. 6, staff has decreased this account by \$75 for water to remove an out-of-period expense. Staff has increased this account by \$2,200 to reflect the appropriate operator fee for wastewater. Staff recommends contractual services – other of \$19,068 for water and \$113,173 for wastewater.

Regulatory Commission Expense – (665/765) – The Utility recorded no regulatory commission expense for water or wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Palm Valley is required by Rule 25-22.0407, F.A.C., to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, staff has estimated \$555 for printing expense. The Utility paid a \$2,000 rate case filing fee. Staff recommends that total rate case expense is \$2,555 (\$2,000+\$555), which amortized over four years is \$639, allocating \$320 each for water and wastewater.

Miscellaneous Expense – (675/775) – Palm Valley recorded miscellaneous expense of \$22,322 for water and \$23,339 for wastewater in this account. Pursuant to Audit Finding No. 6, staff made the following adjustments: decrease of \$1,607 for water and \$246 for wastewater to remove out-of-period expenses; decrease of \$14,252 for water to remove regulatory assessment fees (RAFs) and water tax; decrease of \$10,869 for wastewater RAFs; and decrease of \$8,309 to remove expenses already included in another account. Staff's net adjustment to this account is a decrease of \$15,859 for water and \$19,424 for wastewater. Staff recommends miscellaneous expense for the test year of \$6,463 for water and \$3,915 for wastewater.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be decreased by \$21,537 for water and \$33,932 for wastewater. Staff's recommended O&M expenses of \$80,815 for water and \$222,116 for wastewater are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – Palm Valley recorded total depreciation expense of \$57,894 for water and \$90,890 for wastewater. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Based on this calculation, depreciation expense should be \$44,942 and \$134,247 for water and wastewater, respectively. Staff has decreased depreciation expense for water by \$12,952 (\$57,894-\$44,942) and increased wastewater by \$43,377 (\$134,267-\$90,890). Staff has further decreased this expense by \$3,573 for water and by \$11,384 for wastewater to reflect non-U&U depreciation. Staff has calculated amortization of CIAC of \$12,907 for water and \$24,775 for wastewater based on composite rates. The Utility recorded amortization of CIAC of \$10,465 for water and \$16,963 for wastewater. Staff has increased CIAC amortization by \$2,442 (\$12,907-\$10,465) for water and by \$7,812 (\$24,775-\$16,963) for wastewater. Staff's recommended net depreciation expense is \$28,462 (\$57,894-\$10,465-\$12,952-\$3,573-\$2,442) for water and \$98,108 (\$90,890-\$16,963+\$43,377-\$11,384-\$7,812) for wastewater.

Taxes Other Than Income (TOTI) – Palm Valley recorded TOTI of \$1,841 for water and \$29,999 for wastewater. The amounts for TOTI included payroll taxes of \$1,539 for both water and wastewater. Staff has calculated payroll taxes on salaries and determined it to be \$1,339 for both water and wastewater. As a result, staff has decreased TOTI by \$187 for both water and wastewater to reflect the appropriate payroll taxes.

As discussed in Issue 5, staff is recommending test year revenues of \$165,229 and \$234,130 for water and wastewater, respectively. Based on staff's recommended test year revenue, the Utility's RAFs should be \$7,435 for water and \$10,536 for wastewater and staff has increased this account accordingly.

This account also includes tangible ad valorem taxes (ad valorem) of \$302 for water and \$28,460 for wastewater. The actual ad valorem tax is \$29,985. Staff has allocated the ad valorem taxes based on staff's recommended UPIS balance for each system. This results in an allocation of 28.84 percent and 71.16 percent to water and wastewater, respectively. The water ad valorem tax should be \$8,647 (\$29,985x28.84 percent). Staff has increased this account by \$8,345 (\$8,647-\$302) to reflect the appropriate water ad valorem tax. The wastewater ad valorem tax should be \$21,338 (\$29,985x71.16 percent). Staff had decreased this account by

\$7,122 (\$28,460-\$21,338) to reflect the appropriate wastewater ad valorem tax. As discussed in Issue 2, the WTP should be 78 percent U&U and the WWTP should be 81 percent U&U. As a result, staff has decreased this account by \$731 for water and \$758 for wastewater to remove the non-U&U portion of ad valorem taxes.

CWS Communities LP owns the land that contains the water and wastewater facilities as well as Palm Valley Mobile Home Park. The property tax for this land is \$330,122. Staff did not include any allowance for property taxes for the Utility because it is included in the customers' rent and is considered non-utility.

As discussed in Issue 7, revenues have been increased by \$8,741 for water and \$241,615 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment. As a result, TOTI should be increased by \$393 for water and \$10,873 for wastewater to reflect RAFs of 4.5 percent on the change in revenues. Staff's net adjustment to TOTI is an increase of \$15,255 (\$14,862+\$393) for water and \$13,342 (\$2,469+\$10,873) for wastewater. Staff recommends TOTI for the test year of \$17,095 for water and \$43,341 for wastewater.

Income Tax – Palm Valley recorded no income tax expense for either water or wastewater. The Utility is a limited partnership. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$126,373 for water and \$363,565 for wastewater. Operating expenses for water and wastewater are shown on Schedule Nos. 3-A and 3-B, respectively. The related adjustments are shown on Schedule Nos. 3-C, 3-D, and 3-E.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$173,970 for water and \$475,745 for wastewater. (Hudson)

Staff Analysis: The Utility should be allowed an annual increase of \$8,741 (5.29 percent) for water and \$241,615 (103.20 percent) for wastewater. This will allow Palm Valley the opportunity to recover its expenses and earn a 7.65 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$622,184	\$1,466,408
Rate of Return	x <u>.0765</u>	x <u>.0765</u>
Return on Rate Base	\$47,597	\$112,180
Adjusted O & M expense	80,815	222,116
Depreciation expense (Net)	28,462	98,108
Amortization	0	0
Taxes Other Than Income	17,096	43,341
Income Taxes	<u>0</u>	<u>0</u>
Revenue Requirement	\$173,970	\$475,745
Less Test Year Revenues	<u>165,229</u>	<u>234,130</u>
Annual Increase	<u>\$8,741</u>	<u>\$241,615</u>
Percent Increase/(Decrease)	<u>5.29%</u>	<u>103.20%</u>

As discussed in Issue No. 8, staff is recommending a continuation of the Utility's current reuse rate. The reuse rate produces revenues of \$13,902. Therefore, a more representative wastewater revenue requirement increase would be as follows:

Revenue Requirement before Reuse	\$475,745
Adjustment for Reuse Revenues	<u>(13,902)</u>
Revenue Requirement for Ratesetting	\$461,843
Less Test Year Revenues	<u>234,130</u>
Annual Increase After Revenue Allocation	<u>\$227,713</u>
Percent Increase/(Decrease)	<u>97.26%</u>

Issue 8: What are the appropriate rate structures for the Utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC cost recovery should remain at 56 percent. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent. The residential wastewater cap should remain set at 6,000 gallons (6 kgals). Also, staff recommends that the current reuse rate structure and rates remain unchanged. (Bruce)

Staff Analysis: The Utility currently has a BFC uniform/gallonage charge rate structure for the water system's residential and non-residential class. The monthly BFC is \$9.98 and the usage charge is \$2.40 per kgals.

Water Rates: Staff performed a detailed analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the Utility to recover its 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 goals and practices.

Palm Valley is located in the SJRWMD. Over the past few years, the District has requested whenever possible that an inclining block rate structure be implemented. Staff evaluated the Utility's customer billing data to determine if an inclining block rate structure was appropriate. Based on staff's analysis, the customer's monthly overall consumption is 2.952 kgals and the customer base is mildly seasonal. Staff does not believe that an inclining block rate structure is appropriate at this time due to the low levels of consumption. Therefore, staff recommends a continuation of the BFC/uniform gallonage charge rate structure. This rate structure is considered a conservation-oriented rate structure because customers' bills increase as their consumption increases.

Furthermore, as discussed in Issue 7, the percentage increase in revenue requirement is small. Therefore, staff recommends that the 5.29 percent revenue requirement increase be applied as an across-the-board increase to the water system's BFC and gallonage charges. This results in the BFC cost recovery percentage remaining at 56 percent, and BFC and gallonage charge of \$10.51 and \$2.62, respectively.

Based on the foregoing, staff recommends that the appropriate rate structure for the water system's residential and non-residential class is a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 56 percent.

Reuse Rates: The Utility's current rate structure consists of a consumption-based charge, at \$1.21 per kgal with no BFC. In the Utility's last rate case, Order No. PSC-02-1111-PAA-WS, the Commission approved this rate structure without a BFC to encourage adoption of reuse as a substitute for potable water for irrigation purposes.

Approximately one third of the Utility's residential water customers are served by the reuse system. Staff is concerned that if a BFC/uniform gallonage charge rate structure is implemented for the reuse system, some of these customers may elect to discontinue their reuse accounts to avoid paying the BFC charge. According to the reuse customer's billing data, the average reuse customer uses 3.5 kgals per month for irrigation. In order not to discourage the adoption of reuse, staff believes that it is important to set reuse rates so that the cost of using 3.5 kgals of reuse is less than the incremental cost of using 3.5 kgals more of potable water. Therefore, staff recommends that the current reuse rate structure and reuse rates remain unchanged. Furthermore, staff recommends applying the reuse revenue to reduce the wastewater revenue requirement.

Wastewater Rates: The Utility's current rate structure consists of a BFC/gallonage rate structure for the wastewater system's residential and non-residential class. The monthly BFC is \$11.96. The monthly gallonage charge for residential service is \$4.24, capped at 6 kgal of usage, while the general service gallonage charge rate is 1.2 times greater than the residential charge, at \$5.08 per kgal, with no usage cap.

Staff's initial allocation for the wastewater BFC cost recovery for the residential class is 52.18 percent. The Commission typically sets the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. However, staff recommends reducing staff's initial allocation for the wastewater BFC cost recovery to 50 percent. Staff's recommended BFC allocation results in a slightly lower BFC. As discussed in Issue 7, the percentage increase in revenue requirement increase for the wastewater system is relatively high. Therefore, the recommended rates are going to be significantly higher than the current rates. However, staff believes that the BFC allocation of 50 percent produces rates that are reasonable under the circumstances. Therefore, staff believes setting the BFC cost recovery at 50 percent is appropriate.

Furthermore, a review of the billing data indicates that setting the residential monthly wastewater cap at 6 kgals is appropriate. Therefore, staff recommends that the Utility's current residential monthly wastewater cap of 6 kgals remain unchanged. Also, staff recommends that the general service gallonage charge be set at 1.2 times greater than the residential charge.

Staff's recommended rate design for the wastewater system is shown on Table 8-1 on the following page. Staff also presented two alternative rate structures to illustrate other recovery methodologies. The current rate and Alternatives 1 and 2 result in price increases at all levels of consumption.

TABLE 8-1

CWS COMMUNITIES LP D/B/A PALM VALLEY STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Current Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC = 49%		BFC/uniform kgals charge BFC = 50%	
BFC	\$11.96	BFC	\$24.13
All kgals	\$4.24	All kgals	\$9.25
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$11.96	0	\$24.13
1	\$16.20	1	\$33.38
2	\$20.44	2	\$42.63
3	\$24.68	3	\$51.88
5	\$33.16	5	\$70.38
6	\$37.40	6	\$79.63
Alternative 1		Alternative 2	
BFC/uniform kgals charge BFC = 60%		BFC/uniform kgals charge BFC = 70%	
BFC	\$29.32	BFC	\$33.83
All kgals	\$7.28	All kgals	\$5.57
Typical Monthly Bills		Typical Monthly Bills	
Cons (kgals)		Cons (kgals)	
0	\$29.32	0	\$33.83
1	\$36.60	1	\$39.40
2	\$43.88	2	\$44.97
3	\$51.16	3	\$50.54
5	\$65.72	5	\$61.64
6	\$73.00	6	\$67.25

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

Issue 9: Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this Utility? What are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements for the respective water and wastewater systems?

Recommendation: No, a repression adjustment is not appropriate for this Utility. However, in order to monitor the effects resulting from the changes in revenues, the Utility should prepare monthly reports for the water system, detailing the number of bills rendered, the consumption billed and revenues billed. In addition, the reports should be prepared by customer class and meter size. The reports should be filed with staff, on a 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. (Bruce)

Staff Analysis: Based on staff's analysis, a repression adjustment is not warranted in this case due to the small revenue requirement coupled with the fact that there is no significant amount of discretionary usage. The overall average consumption is 2.952 kgals and the customer base is mildly seasonal. However, staff recommends that monthly reports be prepared to monitor the effects from changes in revenue to the water system. These reports should be filed with the Commission, 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.

Issue 10: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of \$173,970 for water and \$461,843 for wastewater, excluding miscellaneous service charges. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Hudson)

Staff Analysis: Excluding miscellaneous service revenues, the recommended rates should be designed to produce revenue of \$173,970 for the water system and \$461,843 for the wastewater system.

Staff recommends a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure for the water system's residential and non-residential class. The water system's BFC cost recovery should be set at 56 percent. The appropriate rate structure for the wastewater system's residential and non-residential class is a monthly BFC/uniform gallonage. The non-residential gallonage charge should be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system should be set at 50 percent. The residential wastewater cap should remain set at 6 kgal. Also, staff recommends that the current reuse rate structure and rates remain unchanged.

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

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

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

Issue 11: 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 rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Palm Valley 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 one month prior to the actual date of the required rate reduction. 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 the reduction in the rates due to the amortized rate case expense. (Hudson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return on working capital, and the gross-up for RAFs which is \$323 annually for both water and wastewater. Using Palm Valley's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

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

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

Issue 12: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Palm Valley?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, Palm Valley should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Palm Valley should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Palm Valley, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

Palm Valley should be authorized to collect the temporary rates upon the staff's approval of the appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$167,294. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Palm Valley chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and
- 2) The letter of credit will be in effect until a final Commission order is rendered.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by Palm Valley, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Palm Valley should maintain a record of the amount of the bond and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 13: 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 National Association of Regulatory Utility Commissioners Uniform System of Accounts (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, Palm Valley 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. (Hudson)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, staff recommends that Palm Valley 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 14: Should this docket be closed?

Recommendation: No. The docket should remain open until a final order has been issued, staff has approved the revised tariffs sheets and customer notices, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Bennett)

Staff Analysis: The docket should remain open until a final order has been issued, staff has approved the revised tariffs sheets and customer notices, the Utility has sent the notices to its customers, staff has received proof that the customers have received notice within 10 days after the date of the notice, and the Utility has provided staff with proof that the adjustments for all the applicable NARUC USOA primary accounts have been made. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/2009		DOCKET NO. 090447-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,264,170	(\$35,020)	\$1,229,150
2. LAND & LAND RIGHTS	2,433	0	2,433
3. NON-USED AND USEFUL COMPONENTS	0	(28,531)	(28,531)
4. CIAC	(335,999)	(14,945)	(350,944)
5. ACCUMULATED DEPRECIATION	(682,897)	328,356	(354,541)
6. AMORTIZATION OF CIAC	99,426	15,089	114,515
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,102</u>	<u>10,102</u>
8. WATER RATE BASE	<u>\$347,133</u>	<u>\$275,051</u>	<u>\$622,184</u>

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 1-B	
TEST YEAR ENDED 09/30/2009		DOCKET NO. 090447-WS	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$2,810,092	\$223,144	\$3,033,236
2. LAND & LAND RIGHTS	96,409	0	96,409
3. NON-USED AND USEFUL COMPONENTS	0	(78,968)	(78,968)
4. CIAC	(543,472)	(17,715)	(561,187)
5. ACCUMULATED DEPRECIATION	(1,087,070)	(274,934)	(1,362,004)
6. AMORTIZATION OF CIAC	284,063	27,094	311,157
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>27,764</u>	<u>27,764</u>
8. WASTEWATER RATE BASE	<u>\$1,560,022</u>	<u>(\$93,615)</u>	<u>\$1,466,407</u>

CWS COMMUNITES LP D/B/A PALM VALLEY
TEST YEAR ENDED 09/30/2009
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 090447-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect the appropriate UPIS balance.	(\$12,835)	\$243,358
2. To reclassify plant from materials and supplies	0	\$2,546
3. To reflect averaging adjustments.	(22,185)	(31,755)
4. To reflect pro forma plant addition for mag meters.	<u>0</u>	<u>8,995</u>
Total	<u>(\$35,020)</u>	<u>\$223,144</u>
<u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-U&U plant.	(\$66,331)	(\$223,422)
2. To reflect non-U&U accumulated depreciation.	<u>37,800</u>	<u>144,454</u>
Total	<u>(\$28,531)</u>	<u>(\$78,968)</u>
<u>CIAC</u>		
1. To reflect the appropriate CIAC balance.	(\$16,140)	(\$18,689)
2. To reflect an averaging adjustments.	<u>1,195</u>	<u>974</u>
	<u>(\$14,945)</u>	<u>(\$17,715)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per Rule 25-30.140 F.A.C.	\$306,782	(\$340,592)
2. To reflect an averaging adjustments.	21,574	67,457
3. To reflect accumulated depreciation for pro forma plant.	<u>0</u>	<u>(1,799)</u>
Total	<u>\$328,356</u>	<u>(\$274,934)</u>
<u>AMORTIZATION OF CIAC</u>		
1. To reflect the appropriate amort of CIAC.	\$21,413	\$39,524
2. To reflect an averaging adjustments.	<u>(6,324)</u>	<u>(12,430)</u>
Total	<u>\$15,089</u>	<u>\$27,094</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
To reflect 1/8 of test year O & M expenses.	<u>\$10,102</u>	<u>\$27,764</u>

CWS COMMUNITES LP D/B/A PALM VALLEY
 TEST YEAR ENDED 09/30/2009
 SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. TOTAL COMMON EQUITY	\$1,270,790,310	\$0	\$1,270,790,310	(\$1,269,931,382)	\$858,928	41.12%	10.76%	4.42%
2. TOTAL LONG-TERM DEBT	\$1,819,297,660	\$0	\$1,819,297,660	(\$1,818,067,996)	\$1,229,664	58.88%	5.48%	3.23%
3. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
4. TOTAL	<u>\$3,090,087,970</u>	<u>\$0</u>	<u>\$3,090,087,970</u>	<u>(\$3,087,999,379)</u>	<u>\$2,088,591</u>	<u>100.00%</u>		<u>7.65%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.76%</u>	<u>11.76%</u>	
OVERALL RATE OF RETURN						<u>7.24%</u>	<u>8.06%</u>	

CWS COMMUNITES LP D/B/A PALM VALLEY			SCHEDULE NO. 3-A		
TEST YEAR ENDED 09/30/2009			DOCKET NO. 090447-WS		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$170,079</u>	<u>(\$4,850)</u>	<u>\$165,229</u>	<u>\$8,741</u> 5.29%	<u>\$173,970</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$102,351	(\$21,536)	\$80,815	\$0	\$80,815
3. DEPRECIATION (NET)	47,429	(18,967)	28,462	0	28,462
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,841	14,862	16,703	393	17,096
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$151,621</u>	<u>(\$25,641)</u>	<u>\$125,980</u>	<u>\$393</u>	<u>\$126,373</u>
8. OPERATING INCOME/(LOSS)	<u>\$18,458</u>		<u>\$39,249</u>		<u>\$47,597</u>
9. WATER RATE BASE	<u>\$347,133</u>		<u>\$622,184</u>		<u>\$622,184</u>
10. RATE OF RETURN	<u>5.32%</u>		<u>6.31%</u>		<u>7.65%</u>

CWS COMMUNITES LP D/B/A PALM VALLEY			SCHEDULE NO. 3-B		
TEST YEAR ENDED 09/30/2009			DOCKET NO. 090447-WS		
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR	STAFF	STAFF	ADJUST.	REVENUE
	PER UTILITY	ADJUSTMENTS	ADJUSTED	FOR	REQUIREMENT
			TEST YEAR	INCREASE	
1. OPERATING REVENUES	<u>\$230,259</u>	<u>\$3,871</u>	<u>\$234,130</u>	<u>\$241,615</u> 103.20%	<u>\$475,745</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$256,048	(\$33,932)	\$222,116	\$0	\$222,116
3. DEPRECIATION (NET)	73,927	24,181	98,108	0	98,108
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	29,999	2,469	32,468	10,873	43,341
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0
7. TOTAL OPERATING EXPENSES	<u>\$359,974</u>	<u>(\$7,282)</u>	<u>\$352,692</u>	<u>\$10,873</u>	<u>\$363,565</u>
8. OPERATING INCOME/(LOSS)	<u>(\$129,715)</u>		<u>(\$118,562)</u>		<u>\$112,180</u>
9. WASTEWATER RATE BASE	<u>\$1,560,022</u>		<u>\$1,466,408</u>		<u>\$1,466,407</u>
10. RATE OF RETURN	<u>-8.31%</u>		<u>-8.09%</u>		<u>7.65%</u>

**CWS COMMUNITES LP D/B/A PALM VALLEY
 TEST YEAR ENDED 09/30/2009
 ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C
 DOCKET NO. 090447-WS
 PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To reflect test year revenues per audit (AF 4)	(\$6,431)	\$3,871
2. To reflect test year per billing determinants	<u>1,581</u>	<u>0</u>
Subtotal	<u>(\$4,850)</u>	<u>\$3,871</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601,701)		
a. To adjust salary for duplicate meter reading duties.	<u>(\$1,441)</u>	<u>(\$1,441)</u>
2. Sludge Removal (711)		
a. To reflect the appropriate sludge removal expense	<u>\$0</u>	<u>(\$16,306)</u>
3. Purchased Power (615,715)		
a. To reflect the appropriate purchased power expense.	(\$2,122)	\$7,016
b. To reflect unaccounted for adjustment.	<u>(547)</u>	<u>(5,202)</u>
Subtotal	<u>(\$2,669)</u>	<u>\$1,814</u>
4. Fuel for Power Production (616,716)		
a. To reflect the appropriate fuel for power production	<u>\$407</u>	<u>\$407</u>
5. Chemicals (618, 718)		
a. To reflect the appropriate chemical expense per AF 6.	(\$150)	(\$591)
b. To reflect unaccounted for adjustment.	<u>(162)</u>	<u>(5,272)</u>
Subtotal	<u>(\$312)</u>	<u>(\$5,863)</u>
6. Materials and Supplies (620,720)		
a. To reflect the appropriate material and supplies expense per AF 6.	\$835	\$8,059
b. To capitalize plant additions	<u>0</u>	<u>(2,546)</u>
Subtotal	<u>\$835</u>	<u>\$5,513</u>
7. Contractual Services - Billing (630, 730)		
a. To reflect the appropriate billing cost per AF 6.	<u>(\$864)</u>	<u>(\$864)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

CWS COMMUNITES LP D/B/A PALM VALLEY
TEST YEAR ENDED 09/30/2009
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 090447-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services - Professional (631, 731)		
a. To amortize non recurring engineering expense.	(\$162)	(\$242)
b. To record an invoice for professional services AF 6.	<u>797</u>	<u>797</u>
Subtotal	<u>\$635</u>	<u>\$555</u>
9. Contractual Services - Testing (635, 735)		
a. To reflect the appropriate test expense per AF 6.	(\$980)	\$0
b. To amortize 5-year testing expense.	0	(843)
c. To amortize 3-year testing expense	<u>(1,533)</u>	<u>0</u>
Subtotal	<u>(\$2,513)</u>	<u>(\$843)</u>
10. Contractual Services - Other (636,736)		
a. To reflect the appropriate operator expense per AF 6.	<u>(\$75)</u>	<u>\$2,200</u>
11. Regulatory Commission Expense (665)		
a. To reflect the 4-year amortization of rate case expense.	<u>\$320</u>	<u>\$320</u>
12. Miscellaneous Expense (675,775)		
a. To reflect miscellaneous expense per AF 6.	<u>(\$15,859)</u>	<u>(\$19,424)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	(\$21,536)	(\$33,932)
1 DEPRECIATION EXPENSE		
a. To reflect the depreciation expense.	(\$12,952)	\$43,377
b. To reflect non-U&U test year depreciation.	(3,573)	(11,384)
c. To reflect CIAC Amortization.	<u>(2,442)</u>	<u>(7,812)</u>
Subtotal	<u>(\$18,967)</u>	<u>\$24,181</u>
2 TAXES OTHER THAN INCOME		
a. To reflect payroll taxes on staff's recommended salaries.	(\$187)	(\$187)
b. To reflect appropriate RAFs.	7,435	10,536
c. To reflect the appropriate tangible property taxes.	8,345	(7,122)
d. To reflect used and useful adjustment for tangible property taxes.	<u>(731)</u>	<u>(758)</u>
	<u>\$14,862</u>	<u>\$2,469</u>

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 3-D	
TEST YEAR ENDED 09/30/2009		DOCKET NO. 090447-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$19,118	(\$1,441)	\$17,677
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	2,949	0	2,949
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	20,363	(2,669)	17,694
(616) FUEL FOR POWER PRODUCTION	1,048	407	1,455
(618) CHEMICALS	5,544	(312)	5,232
(620) MATERIALS AND SUPPLIES	1,004	835	1,839
(630) CONTRACTUAL SERVICES - BILLING	3,917	(864)	3,053
(631) CONTRACTUAL SERVICES - PROFESSIONAL	270	635	905
(635) CONTRACTUAL SERVICES - TESTING	5,773	(2,513)	3,260
(636) CONTRACTUAL SERVICES - OTHER	19,143	(75)	19,068
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	900	0	900
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	320	320
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>22,322</u>	<u>(15,859)</u>	<u>6,463</u>
	<u>\$102,351</u>	<u>(\$21,536)</u>	<u>\$80,815</u>

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 3-E	
TEST YEAR ENDED 09/30/2009		DOCKET NO. 090447-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$19,118	(1,441)	\$17,677
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	2,949	0	2,949
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	41,236	(16,306)	24,930
(715) PURCHASED POWER	20,363	1,814	22,177
(716) FUEL FOR POWER PRODUCTION	1,048	407	1,455
(718) CHEMICALS	28,339	(5,863)	22,476
(720) MATERIALS AND SUPPLIES	1,004	5,513	6,517
(730) CONTRACTUAL SERVICES - BILLING	3,917	(864)	3,053
(731) CONTRACTUAL SERVICES - PROFESSIONAL	302	555	857
(735) CONTRACTUAL SERVICES - TESTING	2,560	(843)	1,717
(736) CONTRACTUAL SERVICES - OTHER	110,973	2,200	113,173
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	900	0	900
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	0	320	320
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>23,339</u>	<u>(19,424)</u>	<u>3,915</u>
	<u>\$256,048</u>	<u>(\$33,932)</u>	<u>\$222,116</u>

CWS COMMUNITES LP D/B/A PALM VALLEY		SCHEDULE NO. 4-A	
TEST YEAR ENDED 09/30/2009		DOCKET NO. 090447-WS	
MONTHLY WATER RATES			
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
Residential and General Service			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$9.98	\$10.51	\$0.02
3/4"	\$14.98	\$15.77	\$0.03
1"	\$24.96	\$26.28	\$0.05
1-1/2"	\$49.91	\$52.55	\$0.10
2"	\$79.86	\$84.08	\$0.16
3"	\$159.72	\$168.16	\$0.33
4"	\$249.56	\$262.75	\$0.51
6"	\$499.11	\$525.50	\$1.02
<u>Residential and General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$2.40	\$2.62	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$17.18	\$18.37	
5,000 Gallons	\$21.98	\$23.61	
10,000 Gallons	\$33.98	\$36.71	

CWS COMMUNITES LP D/B/A PALM VALLEY			SCHEDULE NO. 4-B	
TEST YEAR ENDED 09/30/2009			DOCKET NO. 090447-WS	
MONTHLY WASTEWATER RATES				
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION	
<u>Residential Service</u>				
All Meter Sizes	\$11.96	\$24.13	\$0.02	
Gallage Charge per 1,000 gallons (6,000 gallon cap)	\$4.24	\$9.25	\$0.01	
<u>General Service</u>				
Base Facility Charge by Meter Size:				
All Meter Sizes				
5/8"X3/4"	\$11.96	\$24.13	\$0.02	
3/4"	\$17.95	\$36.20	\$0.03	
1"	\$29.92	\$60.33	\$0.04	
1-1/2"	\$59.83	\$120.65	\$0.09	
2"	\$95.73	\$193.04	\$0.14	
3"	\$191.46	\$386.08	\$0.27	
4"	\$299.15	\$603.25	\$0.43	
6"	\$598.31	\$1,206.50	\$0.86	
Gallage Charge per 1,000 gallons	\$5.08	\$11.10	\$0.01	
<u>Reuse Service</u>				
Gallage Charge per 1,000 gallons	\$1.21	\$1.21	\$0.00	
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$24.68	\$51.88		
5,000 Gallons	\$33.16	\$70.38		
10,000 Gallons	\$37.40	\$79.63		