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Ms. Blanca S. Bayó  
Director, Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Lake Utility Services, Inc.  
Docket No. 960844-WU

Dear Ms. Bayó:

Enclosed for filing on behalf of Lake Utility Services, Inc.  
are the original and 15 copies of the rebuttal testimony of:

Frank Seidman  
Don Rasmussen

By copy of this letter, this testimony has been provided to  
the parties on the attached service list.

If you have any questions, please call.

RECEIVED & FILED

Very truly yours,

- ACK
- AFA
- APP
- CAF  RDM/mee
- CMU  Enclosures
- CTR  cc: Parties of Record
- EAG  Mr. Kramer
- LEG  Mr. Rasmussen
- LIN  Mr. Seidman
- OPC
- RCH
- SEC
- WAS
- OTH

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Richard D. Melson

Seidman  
DOCUMENT NUMBER-DATE  
08634 AUG 13 1998  
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Rasmussen  
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ORIGINAL

1 REBUTTAL TESTIMONY OF FRANK SEIDMAN  
2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
3 REGARDING THE APPLICATION FOR RATE INCREASE  
4 AND FOR INCREASE IN SERVICE AVAILABILITY CHARGES  
5 IN LAKE COUNTY  
6 BY LAKE UTILITY SERVICES, INC.

7 DOCKET NO. 960444-WU  
8

9 Q. Please state your name, profession and address.

10 A. My name is Frank Seidman. I am President of  
11 Management and Regulatory Consultants, Inc.,  
12 consultants in the utility regulatory field. My  
13 mailing address is P.O. Box 13427, Tallahassee, FL  
14 32317-3427.

15  
16 Q. Are you the same Frank Seidman that submitted  
17 direct testimony in this proceeding?

18 A. Yes I am.  
19

20 Q. What is the purpose of your rebuttal testimony?

21 A. The purpose of my rebuttal testimony is to respond  
22 to the testimony of Citizen's witness Larkin and  
23 Commission Staff witness Monroe as it regards the  
24 subject of used and useful and the determination of  
25 used and useful plant for this utility.

1           RESPONSE TO TESTIMONY OF MR. LARKIN

2           Q.    On pages six and seven of his prefiled testimony,  
3                Mr. Larkin concludes that Mr. Rasmussen and I are  
4                at odds with each other regarding the benefits of  
5                the interconnection transmission mains. Is that a  
6                correct conclusion?

7           A.    No. There is apparently a misunderstanding on the  
8                part of Mr. Larkin as to the part played by the  
9                interconnection transmission mains. My testimony  
10              clearly states that "several of the systems have  
11              been interconnected such that there are now six  
12              systems serving the eighteen subdivisions." I never  
13              stated nor implied that the interconnection mains  
14              would result in just one integrated system. But  
15              investment in the interconnection mains being  
16              considered in this proceeding has allowed the  
17              utility to reduce the number of individual systems  
18              from nine to six. As a result, four wells that were  
19              operating independently are now interconnected with  
20              other wells to provide additive capacity to meet  
21              demand and backup capacity to improve reliability.  
22              These benefits are in addition to providing the  
23              utility with the ability to serve the EDB  
24              contamination areas. I am in complete agreement as

1 to the benefits of these mains as summarized in Mr.  
2 Rasmussen's testimony.

3

4 Q. Does your calculation of used and useful  
5 ignore the interconnections as Mr. Larkin  
6 states on page 7 of his testimony?

7 A. No. Had I ignored the interconnections, I would  
8 have had to prepare a used and useful analysis of  
9 nine systems rather than six systems.

10

11 Q. On page 8 of his testimony, Mr. Larkin suggests  
12 that the Commission should accept its staff's used  
13 and useful methodology because it is a methodology  
14 that has consistently been accepted in the past. Do  
15 you agree?

16 A. No. Mr. Larkin is venturing into a very sensitive  
17 area, one which may be beyond his expertise. There  
18 is no used and useful methodology that has been  
19 consistently accepted in the past. If there was,  
20 the Commission would easily have been able to set  
21 that methodology out in a rule. Instead, the  
22 Commission has grappled with this subject for five  
23 years. After numerous public workshops, two  
24 rulemaking dockets and many days of testimony, it  
25 still has not committed used and useful methodology

1 to a rule. And now Staff witness Monroe, whose  
2 testimony I will address later, indicates that  
3 staff is once again working on a recommendation for  
4 a rule on used and useful methodology. Clearly,  
5 there is no cut and dry, consistent used and useful  
6 methodology. Each system must be separately  
7 evaluated.

8  
9 Q. Even if there were some consistent methodology, is  
10 that reason to ignore your approach?

11 A. No. Even if there were a consistent approach, it  
12 does not mean it fits every situation. I have  
13 pointed out that the approach taken by staff does  
14 not capture the actual physical requirements for  
15 meeting demand for this system. The used and useful  
16 calculation is not an end in itself. It is a means  
17 to an end and that end is to determine, as fairly  
18 as possible, the amount of plant that is used and  
19 useful in serving the public, and the investment on  
20 which the utility should have an opportunity to  
21 recover and earn a return. If the used and useful  
22 methodology does not result in that end, it should  
23 not be used.

24

1 Q. On page 8 of his testimony, Mr. Larkin states that  
2 you proposed only a different methodology, but did  
3 not point out any staff errors. Is that a correct  
4 conclusion?

5 A. No. First of all, what I am proposing is not a  
6 different methodology. It is the methodology  
7 proposed by the Commission for small water systems  
8 with no storage facilities other than  
9 hydropneumatic tanks or with insufficient storage  
10 to buffer its instantaneous demands. The  
11 methodology was proposed in Order No. PSC-93-0455-  
12 NOR-WS, Notice of Rulemaking, page 106. In that  
13 Order, for systems lacking significant storage  
14 capacity, the recommended formula for determining  
15 used and useful supply, treatment and pumping plant  
16 was  $(\text{Instantaneous Demand} + \text{Margin Reserve}) / \text{Firm}$   
17  $\text{Reliable Capacity}$ . The Order also included as an  
18 alternate formula,  $(\text{Maximum Day Demand} + \text{Fire Flow}$   
19  $+ \text{Margin Reserve}) / \text{Firm Reliable Capacity}$ . I have  
20 used Instantaneous Demand because I believe it  
21 better captures the characteristic instantaneous  
22 peaks which the system must be able to serve. The  
23 Staff, in its recommendation for the PAA used  
24 Maximum Day plus Fire Flow. However, neither the  
25 formulas used by staff nor by the utility in its

1 MFR are adjusted for the "Firm Reliable Capacity"  
2 of the systems. That is the major reason for  
3 differences in the results I calculated from those  
4 calculated by the Staff. Regardless of how demand  
5 is expressed, capacity should reflect only firm  
6 reliable capability. The first thing I stated in my  
7 testimony regarding the determination of supply and  
8 pumping capacity for each system was that it must  
9 be based on firm reliable capacity. That is, it  
10 must be anticipated that demand can be met with the  
11 largest well out of service. Although I did not  
12 specifically state that ignoring firm reliable  
13 capacity was an error, it is. And if staff does  
14 nothing else but make that change, it would have a  
15 significant impact on the used and useful  
16 calculations.

17

18 **Q. Why is this an error and not a difference in**  
19 **methodologies?**

20 **A.** Because the staff and the Commission have  
21 recognized "Firm Reliable Capacity" as a governing  
22 factor, regardless of methodology and regardless of  
23 plant category, but especially with regard to wells  
24 and well pumps. The Commission summed up its  
25 position quite succinctly in Order No. PSC-96-1320-  
26 FOF-WS, stating, "We find that the use of firm

1 reliable capacities in used and useful calculations  
2 for wells, high service pumps, and water treatment  
3 components is appropriate, because it provides  
4 utilities with an economic incentive to construct  
5 redundancy consistent with safe standards." (see 96  
6 FPSC 10:34).

7

8 Q. Mr. Larkin, at page 8 of his testimony, raises a  
9 question as to whether the methodology you propose  
10 has been accepted in the past for a Class B or  
11 Class C utility. Would you please address that  
12 comment?

13 A. Yes. At my deposition on August 8, 1997, I  
14 indicated that the methodology of using  
15 instantaneous demand had been accepted in a  
16 previous case. The question was raised as to  
17 whether it was for a Class C or Class B utility. My  
18 recollection was that it was for a Class B utility,  
19 and after checking, I can confirm that it was. The  
20 real question though is, why should anyone care?  
21 Water and wastewater utilities are classified as  
22 "A", "B" or "C", based on levels of annual  
23 operating revenue, for the purpose of applying the  
24 Uniform System of Accounts. These classifications  
25 determine the degree of detail required in



1            accounting records and have nothing to do with the  
2            physical characteristics of the system. Whether a  
3            water system has one dollar or \$1 million in  
4            revenues, if it provides service directly from its  
5            wells with no meaningful amount of storage it must  
6            have sufficient firm reliable capacity in its wells  
7            and pumps to meet instantaneous demand. That is all  
8            that is at issue with regard to the evaluation of  
9            used and useful in this case.

10

11            RESPONSE TO TESTIMONY OF MR. MONROE

12            Q.    On pages 1 and 2 of his testimony, Mr. Monroe  
13            indicates that the Commission's methods of  
14            determining used and useful are not covered in the  
15            statutes or rules. Do you agree?

16            A.    Yes. It is an important observation. As I  
17            previously indicated in my responses to Mr.  
18            Larkin's testimony, the Commission, after five  
19            years of workshops and hearings, has not issued any  
20            rules for determining used and useful. Mr. Monroe  
21            also states that staff is working on updating the  
22            rules for that purpose. However, Staff's position  
23            is already on record in a formal recommendation to  
24            the Commission for rules to define and determine  
25            used and useful. That recommendation, dated

1           December 31, 1992, was the basis for the  
2           Notification of Rulemaking issued March 24, 1993,  
3           a complete update of Chapter 25-30, F.A.C. The  
4           Commission did not act on the portion of the  
5           recommendation regarding used and useful. However,  
6           in subsequent drafts and in workshops related  
7           thereto, the staff has not veered from its  
8           recommendation regarding the formulas for  
9           instantaneous demand for systems lacking storage  
10          capability.

11

12          Q.    Mr. Monroe also indicates that a rule governing  
13               margin reserve is currently being challenged in the  
14               First District Court of Appeal. Is that correct?

15          A.    No. At the time Mr. Monroe prepared his testimony,  
16               that rule was being challenged at the Department of  
17               Administrative Hearings (DOAH). DOAH has since  
18               issued a final order declaring the margin reserve  
19               rule invalid. The Commission is now appealing the  
20               DOAH order at the First District Court of Appeal.

21

22          Q.    Also, at page 2 of his testimony, Mr. Monroe states  
23               that a used and useful adjustment may be required  
24               when design capacity is not being fully utilized

1           because load is less than expected at buildout or  
2           design capacity. Do you agree with that statement?  
3       A.   No. Prudent management will design plant to meet  
4           load expectations based on the best information  
5           available at the time the decision is made. That is  
6           all that can and should be expected. Should load,  
7           determined on that basis, be less than expected, it  
8           should not result in an adjustment in used and  
9           useful. If it does, then it is a penalty based on  
10          hindsight, not an adjustment reflecting prudently  
11          invested plant, used and useful in serving the  
12          public. Water and wastewater utilities are  
13          regulated monopolies. They cannot pick and choose  
14          their market. They are obligated to be ready to  
15          serve reasonably anticipated load. If Mr. Monroe's  
16          statement is meant to be a generic definition of  
17          the term "used and useful adjustment" it is  
18          incorrect. If it is meant to identify the basis for  
19          used and useful adjustments to well and pumping  
20          capacity in this particular case, it is  
21          inappropriate. There has been no indication that  
22          the load on these facilities is less than was  
23          expected at buildout or design load.  
24

1 Q. Beginning at line 25 at page 2 of his testimony,  
2 and continuing through line 4 of page 4, Mr. Monroe  
3 provides what would appear to be a statement of the  
4 factors considered by staff when calculating used  
5 and useful percentages for water utilities, in  
6 general. Do you agree with that characterization?

7 A. No. Rather than describing factors considered, it  
8 appears that Mr. Monroe describes only the  
9 components of the Staff's formulas de jour. This  
10 appears to be an attempt to codify non-rule used  
11 and useful policy outside of a rulemaking  
12 proceeding. In addition, some of the formulas  
13 described are at odds with formulas in the  
14 previously referenced Staff December 31, 1992  
15 recommendation and the March 24, 1993 Commission  
16 Notice of Rulemaking. They lack the detailed  
17 variations associated with differing system  
18 characteristics. As I previously indicated in  
19 response to Mr. Larkin's testimony, if the  
20 formulation of used and useful was that simple, the  
21 Commission would have already set out a rule  
22 instead of grappling with the issue for the last  
23 five years. If, however, Mr. Monroe is merely  
24 trying to provide a simple summary of what staff  
25 considers, as a segue to the remainder of his

1 testimony, it is overly simplistic, and as a  
2 result, misleading.

3

4 Q. At page 4 of his testimony, Mr. Monroe summarizes  
5 how used and useful was calculated in the PAA, for  
6 wells and pumping plant. Do you have any comment on  
7 his summary?

8 A. Yes. The formula utilized by Mr. Monroe, maximum  
9 daily demand plus fire flow plus margin reserve  
10 divided by permitted plant capacity, is purported  
11 to be the method accepted as Commission policy in  
12 the vast majority of Class A and B utility cases.  
13 First, I disagree that there is any established  
14 Commission policy. Nor has there been any  
15 distinction regarding used and useful analysis on  
16 the basis of revenue classification. Formulas for  
17 used and useful are still being determined on a  
18 case by case basis. Second, the Commission has  
19 previously accepted "firm reliable capacity" as the  
20 denominator, as I have previously indicated in my  
21 response to Mr. Larkin's testimony. Again, this  
22 simple correction would have a significant impact  
23 on the staff's resulting used and useful  
24 percentages. In addition, "firm reliable capacity"  
25 is the basis for determining capacity in the

1 staff's December 31, 1992 recommendation and in its  
2 May 12, 1995 proposed redraft of used and useful  
3 rules.

4

5 Q. Mr. Monroe also states that the method in the PAA  
6 is consistent with that of LUSI in its MFR. Can you  
7 comment on that?

8 A. He is essentially correct in that both utilize  
9 maximum day demand plus fire flow. But he is not  
10 correct in saying that the PAA method is consistent  
11 with the MFRs; it is the other way around. LUSI, in  
12 preparing its MFRs, contacted staff and asked what  
13 method to use. LUSI simply used the method  
14 recommended by Staff without investigating further.  
15 For that reason, the MFRs are consistent with the  
16 Staff, at least with regard to the methodology.  
17 There are differences in interpretation of  
18 capacity, but most importantly, neither reflect the  
19 Firm Reliable Capacity of the systems. So if they  
20 are consistent, they are consistently wrong and  
21 should be corrected. LUSI, in submitting its MFR  
22 under a PAA procedure, made simple calculations of  
23 used and useful based on its general understanding  
24 of the Commission's approach. However, when the  
25 company elected to protest the PAA, it considered  
26 it prudent to have an independent analysis of used

1 and useful prepared. Having prior knowledge of the  
2 system, the first questions I asked were, did you  
3 remove the largest well from service and did you  
4 consider the instantaneous demand on the systems.  
5 My testimony and exhibits take those factors into  
6 account.

7

8 Q. At page 5 of his testimony, Mr. Monroe implies that  
9 used and useful should not be based on  
10 instantaneous demand because DEP permits use peak  
11 day demand for system capacity. Do you agree?

12 A. No. This is faulty reasoning. The peak day capacity  
13 used by DEP is simply the gallons per minute  
14 capacity of the well pumps multiplied by 12 hours.  
15 Regardless of how the capacity is stated on the  
16 permit, DEP starts with the gallon per minute  
17 rating of the well pump as determined in field  
18 tests when placed in service. The DEP permit style  
19 is the same whether the system has storage or does  
20 not; that is, it states the capacity in terms of  
21 gallons per day. The Commission cannot simply  
22 ignore that these systems must meet instantaneous  
23 demand directly from the wells just because the  
24 style of the DEP permit does not, on its face,

1 specify the gallon per minute rating of the wells  
2 upon which its gallon per day capacity is based.

3

4 Q. At page 5 of his testimony, Mr. Monroe states that  
5 he has not found any past cases where instantaneous  
6 demand was used. Are there any?

7 A. I have not surveyed prior cases. Normally, such  
8 details are not discussed in the order and  
9 reviewing the filings would be prohibitive. I do  
10 know that I have used instantaneous demand in a  
11 prior case. In Docket No. 910020-WS, In re:  
12 Petition for rate increase in Pasco County by  
13 Utilities, Inc. of Florida, I proposed that used  
14 and useful be based on instantaneous demand plus  
15 fire flow. That system was similar to the systems  
16 in this case, in that water was pumped directly  
17 from the wells without any significant storage. In  
18 its January 31, 1992 recommendation to the  
19 Commission, staff stated:

20

21 "However, the following changes, testified to  
22 by Mr. Seidman, should be made. The analysis  
23 should be made using gallons per minute  
24 instead of gallons per day because of the  
25 instantaneous customer demand which the wells



1 must provide. (TR 724) Fire flow of 500  
2 gallons per minute should be allowed. (TR 693)  
3 because the system has fire hydrants and is  
4 required to provide fire protection."

5

6 Q. Did the Commission accept the staff's  
7 recommendation?

8 A. The Commission did not address it in Final Order  
9 No. 25821 because the Commission found that the  
10 rate base to which the used and useful percentage  
11 would apply was not supported in the record.  
12 However, support for that rate base was provided in  
13 a subsequent limited proceeding. The rate base  
14 allowed in that proceeding (Order No. PSC-93-0430-  
15 FOF-WS, 3/23/93) reflects the used and useful  
16 percentage recommended by staff in its January 31,  
17 1992 recommendation. I think it is a bit  
18 disingenuous for staff to disassociate itself from  
19 the use of instantaneous demand when warranted by  
20 system characteristics, when it has agreed with  
21 that approach in the past and when the method I  
22 have used, including the chart used to approximate  
23 instantaneous demand, is based on the methodology  
24 it has, itself, proposed.

25

1 Q. You have previously stated that if the staff does  
2 nothing else, it should correct its formula to  
3 reflect firm reliable capacity in the denominators.  
4 Have you calculated what used and used percentages  
5 would result if the denominators in staff's  
6 formulas were corrected to show the firm reliable  
7 capacity?

8 A. Yes. I have prepared Exhibit (FS-8)\_\_\_\_\_, to show  
9 the results. Page 1 of this exhibit is a  
10 comparative summary of the used and useful  
11 percentages A) as calculated in the PAA, B) as  
12 calculated in the PAA but corrected for firm  
13 reliable capacity, C) as calculated in LUSI's MFR,  
14 D) as calculated in the MFR but corrected for firm  
15 reliable capacity, and E) as calculated from my  
16 direct testimony and exhibits. Page 2 of the  
17 exhibit is my worksheet showing how I corrected the  
18 staff calculations. Page 3 of the exhibit provides  
19 a graphic comparison, with my results, of the PAA  
20 calculations before and after the correction for  
21 firm reliable capacity. As you can see, the used &  
22 useful percentages prepared by Staff increase  
23 significantly when firm reliable capacity is taken  
24 into consideration. In fact, for Systems 4 and 6,

1 the results are greater than my calculations of  
2 used & useful.

3

4 Q. At page 5 of his testimony, Mr. Monroe takes issue  
5 with my use of repression adjustments rather than  
6 actual flows. Do you agree?

7 A. No. In this case, LUSI contends that test year  
8 gallons per customer in some systems are abnormally  
9 high as a result of rates being low. LUSI has  
10 argued, based on its experience, that those levels  
11 will drop significantly if a rate increase is  
12 approved. In the PAA, staff agreed, and for  
13 ratemaking purposes, test year gallon sales were  
14 reduced. In effect, LUSI and staff agree that  
15 during the period new rates would be in effect, the  
16 per customer demand levels will be less than those  
17 actually experienced during the test year. If that  
18 is the case, why shouldn't used & useful  
19 calculations also reflect the anticipated reduced  
20 gallons per customer demand levels? That is all  
21 that my use of the repression adjustment does.

22

23 Q. Does that complete your rebuttal testimony?

24 A. Yes it does.

25

26

Lake Utility Services, Inc.  
 Comparative Summary of Used & Useful Results

SYSTEM	(A) PAA	(B) PAA Corrected for Firm Rel Cap.	(C) LUSI MFR	(D) LUSI MFR Corrected for Firm Rel Cap.	(E) LUSI (Seidman) based on Inst. Demand Tables
System No.1 – Clermont I, Amber Hill, Lake Ridge Club	67.38%	100.00%	100.00%	100.00%	100.00%
System No.2 – Clermont II	100.00%	100.00%	100.00%	100.00%	100.00%
System No.3 – Preston Cove, Crescent Bay, Crescent West,	54.76%	76.66%	53.00%	88.23%	100.00%
System No.4 – Oranges, Vista	37.97%	100.00%	32.00%	82.37%	88.14%
System No.5 – Four Lakes	36.48%	72.95%	100.00%	100.00%	100.00%
System No.6 – Lake Saunders	41.03%	82.06%	59.00%	23.66%	68.41%

Lake Utility Services, Inc.

Used and Useful Based on Max Day + Fireflow

DEP Well Operating Hours =

12

Based on PSC Staff Assumptions but with Largest Well Out of Service (Firm Reliable Capacity).

System	Well Identification	Rated Pump Capacity gpm	DEP Permit Capacity GPD	Max Day GPD	Fire Flow GPD	Margin Reserve GPD	Excess Unacc. GPD	Total Demand GPD	Used & Useful w/FRC %	Staff (PAA) Proposed. %	LUSI (Seidman) Proposed. %
No. 1	Clermont I, well no.1	236	169,920								
	Clermont I, well no.2	54	38,880								
	Amber Hill	750	540,000								
	Lake Ridge Club	650	468,000								
	Total Capacity	1,690	1,216,800								
	Less: Largest well out of service	(750)	(540,000)								
	Firm Reliable Capacity	940	676,800	699,000	120,000	6,319	0	825,319	100.00%	67.83%	100.00%
No. 2	Clermont II, well no.1	40	28,800								
	Clermont II, well no.2	30	21,600								
	Total Capacity	70	50,400								
	Less: Largest well out of service	(40)	(28,800)								
	Firm Reliable Capacity	30	21,600	53,000	0	0	0	53,000	100.00%	100.00%	100.00%
No. 3	Crescent Bay	700	504,000								
	Crescent West	600	432,000								
	Crescent Hills	600	432,000								
	Highland Point	550	396,000								
	Total Capacity	2,450	1,764,000								
	Less: Largest well out of service	(700)	(504,000)								
	Firm Reliable Capacity	1,750	1,260,000	817,000	120,000	45,660	(16,744)	965,916	76.66%	54.76%	100.00%
No. 4	Oranges	530	381,600								
	Vistas, well no.1	1,000	720,000								
	Vistas, well no.2 (not in service in TY)	0	0								
	Total Capacity	1,530	1,101,600								
	Less: Largest well out of service	(1,000)	(720,000)								
	Firm Reliable Capacity	530	381,600	290,000	120,000	10,296	(2,057)	418,239	100.00%	37.97%	88.14%
No. 5	Four Lakes, well no.1	105	75,600								
	Four Lakes, well no.2	105	75,600								
	Total Capacity	210	151,200								
	Less: Largest well out of service	(105)	(75,600)								
	Firm Reliable Capacity	105	75,600	52,000	0	6,947	(3,795)	55,152	72.95%	36.48%	100.00%
No. 6	Lake Saunders, well no.1	300	216,000								
	Lake Saunders, well no.2	300	216,000								
	Total Capacity	600	432,000								
	Less: Largest well out of service	(300)	(216,000)								
	Firm Reliable Capacity	300	216,000	57,000	120,000	1,042	(782)	177,260	82.06%	41.03%	68.41%
Cumulative Firm Reliable Capacity - All Systems		3,655	2,631,600								

# LAKE UTILITY SERVICES, INC.

## COMPARISON OF USED & USEFUL RESULTS

