State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 4, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Merta, Bruce, Lingo, Massoudi, Rendell, Willis)
Division of Auditing & Safety (Vandiver)
Office of the General Counsel (Jaeger)

RE: Docket No. 030423-WU – Investigation into 2002 earnings of Residential Water Systems, Inc. in Marion County.

AGENDA: 03/16/04 – Regular Agenda – Proposed Agency Action Except for Issues 15 and 17 - Interested Persons May Participate

CRITICAL DATES: 05/03/04 – Statutory Deadline for 2002 Price-Index

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030423.RCM.DOC

Table of Contents

Table of Contents

Case Background

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

Pursuant to Order No. 12842, issued January 4, 1984, in Docket No. 830436-W, In Re: Application of Residential Water Systems, Inc., for a certificate to provide water service in Marion County, pursuant to the provisions of Section 367.041, Florida Statutes, RWS was granted Certificate No. 419-W. The facility was not yet constructed; however, rate base and initial rates and charges were tentatively established at that time based on estimates of investment and expenses. Since its certification, docketed activity for this utility has included several applications for amendment to its certificate to include additional territory. Furthermore, the Commission, in Order No. PSC-98-1152-FOF-WU, issued August 25, 1998, in Docket No. 961210-WU, In Re: Application for transfer of majority organizational control of Residential Water Systems, Inc, holder of Certificate No. 419-W in Marion County, to Charles DeMenzes, p. 6, approved a transfer of majority organizational control from Nancy and Elaine Finney to Charles DeMenzes. In addition, the utility has taken advantage of price indexing and pass-through opportunities. A 2002 price index resulted in a $2,473 annual revenue increase effective May 31, 2002, and a 2003 price index resulted in a $2,083 annual increase in revenues effective June 6, 2003.

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

At the request of the utility, a meeting was held October 27, 2003, to discuss the overearnings which was attended by the utility's attorney, Office of Public Counsel and staff. The utility requested copies of the audit work papers and other staff documents. By letter dated November 6, 2003, the utility requested additional time to analyze the information provided by staff. In an effort to work with the parties to reach a possible settlement, staff postponed filing its final recommendation on the overearnings. However, because of the extension of time requested by the utility, and to insure that the Commission protects the appropriate amount of possible overearnings, staff filed a second recommendation that the Commission hold additional revenue subject to refund.

By Order No. PSC-03-1411-FOF-WU, issued December 15, 2003, in this docket, the Commission ordered RWS, in addition to the $19,365 already held subject to refund, to hold additional revenues of $51,653 subject to refund. Again, the Commission recognized that

$2,083 in revenues from the 2003 price index increase were already subject to refund and need not be protected by a security arrangement.

Staff's recommendation addresses the utility's earnings for the test years ended December 31, 2002, 2003, and 2004. The test years 2002 and 2003 were examined to determine the utility's excess earnings and the amount of refunds. In addition, staff addresses a rate reduction based on projected revenues and expenses for 2004. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statues.

Discussion of Issues

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

Recommendation: Yes. The quality of service provided by RWS should be considered satisfactory. (MASSOUDI)

Staff Analysis: Staff's analysis below addresses quality of utility's product and operational conditions of utility's plant and facilities based on the information available.

RWS is a Class C utility which provides water service to 86 residential customers in Sun Tree (estimated to be 86 equivalent residential connections (ERCs)), 183 residential customers in High Pointe (estimated to be 183 ERCs), 71 residential customers in Edgewood (estimated to be 71 ERCs), 81 residential customers in Country Estates Buffington Addition (estimated to be 81 ERCs), 109 residential customers in Wineberry (estimated to be 109 ERCs), 98 residential customers in Dalton Woods subdivision (estimated to be 98 ERCs), and two general service connections (estimated to be 4 ERCs) in Dalton Woods subdivision.

QUALITY OF UTILITY'S PRODUCT

In RWS, the potable water program is regulated by the Central District of the Florida Department of Environmental Protection (FDEP) in Orlando and consumptive use is permitted by the St. Johns River Water Management District. According to the FDEP's records, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The utility serves water which meets or exceed all standards for safe, potable water. Therefore, the water quality is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Maintenance of the building which houses the well and pump at the water treatment plant is satisfactory. The building itself appears well maintained. The quality of the water treatment plant-in-service is considered satisfactory.

In general, during the engineering field inspection, maintenance at the water plant-site appeared to have been given adequate attention. Water plant equipment appeared to have been receiving periodic maintenance and many improvements have been made. The plant ground within the fenced-in area was organized. The operational conditions of the water treatment plant-in-service are considered satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

Because this docket was an overearnings investigation, there was no customer meeting. Therefore, there was no direct input from the customers on the utility's attempt to address customer satisfaction. However, staff's limited contact with the customers, a review of the Consumer Affairs data base, and upon checking with FDEP, staff found no complaints. Based on the above, staff recommends that the quality of service be considered satisfactory.

Issue 2: Does the utility have excessive unaccounted for water and, if so, what adjustments should be made?

Recommendation: Yes. RWS had approximately 11.71% excessive unaccounted for water in the year 2002. Therefore, allowable expenses for purchased electricity and chemicals should be reduced by 11.71% in 2002. (MASSOUDI)

Staff Analysis: It is the Commission practice to allow 10% of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc.

The total treated water pumped form the wells was compared with the total water sold to the customers during the test year 2002. The total unaccounted for water was determined to be 41.73 gallons per minute (gpm) (21.71%). The reasonable unaccounted amount was determined to be 19.22 gpm (10% of average daily flow). The excessive unaccounted for water was calculated to be 22.51 gpm which was 11.71%. This percentage shows the difference between treated water leaving the plant and the metered water sold to the customers. It appears that a large portion of the unmetered water relates to brittle laterals or pipes that are leaking. Staff recommends that, in accordance with Commission practice, 11.71% be considered excessive and that allowable expenses for purchased electricity and chemicals be reduced by 11.71% in the year 2002.

In the years 2003 and 2004 the complete data for the total treated water pumped from the wells and the total water sold to the customers was not available; therefore, staff was not able to calculate the actual excessive unaccounted for water in the years 2003 and 2004. In 2003, the utility owner made substantial improvements and repairs to water loss sources (such as: replacing the current one-inch lateral services with new thick wall poly services and replacing old meters with automatic meter readers (AMR). Because of these improvements, staff believes excessive unaccounted water to be zero for these two years.

USED AND USEFUL

Issue 3: What portions of RWS are used and useful?

Recommendation: The water treatment plant and water distribution systems for years 2002, 2003 and 2004, should be considered 100% used and useful. (MASSOUDI)

Staff Analysis:

Water Treatment Plant – Year 2002

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

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

During the 12-month test year review period, the peak month of water usage occurred during May, 2002. The single maximum day was a one-day spike (902,000 gallons per day (gpd)) that had no resemblance to the average of the next highest five days in the peak month (656,000 gpd). Staff recommends the average of the five highest days, which is 656,000 gpd (455.55 gpm), should be considered because the one-day spike appears to be an anomaly. Since the water plant is a closed system operation having three hydro-tanks (no storage tank), the actual peak hours of the average of 5 maximum days should be considered. Therefore, the actual peak hours {2 x (average of five highest days – excessive unaccounted water)} was used in the used and useful formula. The average daily flow is 276,800 gpd or 192.20 gpm. The utility provides fire protection via fire hydrants throughout the distribution system. The Marion County fire code requires a minimum of 500 gpm, sustainable for a period of 4 hours which is considered in the calculations. A regression analysis was performed to anticipate a growth of 23 ERCs for the next year which results in a projection of 171.48 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., Florida Statutes. The excessive unaccounted for water was calculated to be 22.52 gpm which was 11.71%. Therefore, as shown in Attachment A, page 1 of 6, staff recommends that the used and useful for the water treatment plant should be 100%.

Water Distribution System – Year 2002

The Water distribution system has the potential of serving 675 customers (675 ERCs) and 2 general service (4 ERCs) which is estimated to be 679 ERCs. The average number of customers served during the test year was estimated to be 611 ERCs. A regression analysis of

growth over the past five years indicates that next year's growth should be 23 ERCs per year. When staff applies the 23 ERCs to the statutory growth period, the future growth is calculated to be 115 ERCs. By the formula approach, the staff calculates the distribution system to be 100% used and useful (Attachment A, page 2 of 6).

Water Treatment Plant - Year 2003

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

Since the 2003 data was not available, the used and useful calculation was projected based on 20 new customers (according to the utility's letter dated October 10, 2003). The results for the projected test year (Jan. 03 – Dec. 03) follow: The average of five highest days was 470.46 gpm. The actual peak hours {2 x (average of five highest days – excessive unaccounted for water)} was used in the used and useful formula in year 2003. The average daily flow was 198.49 gpm. The fire flow of 500 gpm was considered in the calculations. A separate regression analysis resulted in a projected growth of 25.4 ERCs (Aprox. 26 ERCs) or 190.53 gpm for the statutory growth period. Since substantial improvements and leak repairs have been made, the excessive unaccounted for water was assumed to be zero. Therefore, as shown in Attachment A, Page 3 of 6, staff recommends that the used and useful for water treatment plant should be 100% for 2003.

Water Distribution System – Year 2003

In 2003, new areas known as Dalton Wood, First addition and Buffington Estate were developed near the RWS service area. Based on the staff information, RWS will serve drinking water to 70 new residential customers in the new areas. Therefore, the water distribution system has the potential of serving 745 residential customers (745 ERC's) and 2 general services (4 ERCs) which is estimated to be 749 ERC's. The average number of customers served during the projected test year 2003 was estimated to be 642 ERCs. A regression analysis of growth over the past five years indicates that next year's growth should be 26 ERCs per year. When the 26 ERCs is applied to the statutory growth period, the future growth is calculated to be 130 ERCs. By the formula approach, staff calculates the distribution system to be 100% used and useful (Attachment A, page 4 of 6).

Water Treatment Plant – Year 2004

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

The used and useful calculation for year 2004 was projected based on 64 new residential customers. The capacity of the plant was considered to be 750 gpm. The average of five highest

days was 517.36 gpm. The actual peak hours {2 x (average of five highest days – excessive unaccounted for water)} was used in the used and useful formula in the year 2004. The average daily flow was 218.28 gpm. The fire flow of 500 gpm was considered in the calculations. A separate regression analysis results in a projected growth of 37.4 ERCs (Approx. 38 ERCs) or 287.42 gpm for the statutory growth period. As previously stated, substantial improvements and repairs have been made for the leaking problem and water loss by this utility in 2003; therefore, the excessive unaccounted for water is assumed to be zero for 2004 also. As shown in Attachment A, Page 5 of 6, staff recommends that the used and useful for the water treatment plant for 2004 is 100%.

Water Distribution – Year 2004

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

Issue 4: Did RWS earn above the range of its authorized rate of return for the average test year ended December 31, 2002?

Recommendation: Yes, the utility's revenues exceeded the range of its authorized rate of return of 5.09% by $71,299 (35.98%) for the test year ended December 31, 2002. (Merta)

Staff Analysis: Based on our audit and analysis, staff is recommending that the following adjustments be made to the utility's December 2002 general ledger balances:

RATE BASE

As stated above, rate base for RWS was tentatively established based on estimates of investment and expenses pursuant to Order No. 12842. During the audit investigation of the test year ended December 31, 2002, staff discovered that the utility did not have sufficient documentation to support its investment in plant. Therefore, an original cost study was conducted by staff. Rate base components have been updated using the original cost study for plant balances through December 31, 2002. A discussion of each component follows:

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

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

The total adjustment for UPIS is an increase of $192,634. Therefore, staff recommends UPIS of $894,574.

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

Non-used and useful Plant: Staff has determined that the utilities water treatment plant and distribution system are 100% used and useful. Therefore, no adjustment was made.

Contributions in Aid of Construction (CIAC): The utility recorded CIAC of $508,358 for the test year ended December 31, 2002. This amount included transmission and distribution lines ($132,714 recorded in 2000 plus $64,078 recorded in 2001), and hydrants ($10,000 recorded in 2001) contributed by developers and the collection of connection fees. These fees do not cover the value of the transmission and distribution lines identified in the original cost study. Based on the utility's Annual Reports, CIAC was not recorded for contributed transmission and distribution lines prior to 2000. In addition, the utility recorded transmission and distribution lines of only $861 in plant-in-service prior it 2000. As stated above, because of the lack of adequate property records, staff conducted an original cost study and estimated the cost of transmission lines and other plant for 1984 through 2002. Included in the audit work papers are developer agreements dated 1984, 1999 and 2003, which state that the developer will construct the lines and convey them to the utility at no cost. Therefore, staff believes that the utility did not record lines in plant-in-service because they were contributed by developers. Rule 25-30.570, Florida Administrative Code (F.A.C.), specifies that:

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

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

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

The total adjustment to CIAC is an increase of $373,177. Therefore, staff recommends CIAC of $881,535.

Accumulated Depreciation: The utility recorded an accumulated depreciation balance of $185,669. Consistent with Rule 25-30.140(3), F.A.C., for additions to plant after 1984, staff has recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Plant recorded in 1984, prior to the implementation of Rule 25-30.140, F.A.C., was depreciated at 2.5%. Staff's calculated accumulated depreciation on December 31, 2002 is $190,850. Therefore, staff has increased this account by $5,181 to reflect staff-calculated accumulated depreciation. This adjustment includes the accumulated depreciation related to the office

furniture and miscellaneous equipment, as well as the impact of the retirement of meters. In addition, staff has decreased this account by $10,341 to reflect an averaging adjustment.

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

The total adjustment to Accumulated Depreciation is a decrease of $5,250. Therefore, staff recommends Accumulated Depreciation of $180,419.

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

The total adjustment to Amortization of CIAC is an increase of $73,406. Therefore, staff recommends Amortization of CIAC of $271,732.

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 recommends that the one-eight of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $13,244 (based on O&M of $105,950). Working capital has been increased by $13,244 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average rate base for the test year ended December 31, 2002, is $125,300.

Rate Base is shown on Schedule No. 1-A and the adjustments to rate base are shown on Schedule No. 1-B.

COST OF CAPITAL

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

The long term debt is made up of three loans with interest rates of 3.90%, 8.75% and 3/55%. The long term debt represents 98.97 % of the utility's capital structure. The interest cost of customer deposits is a minimum of 6.0% pursuant to Rule 25-30.311(4)(a), F.A.C. Customer deposits represent 1.03% of the utility's capital structure.

Per Audit Exception No.8, the utility does not adjust its general ledger at year-end for closing adjusting journal entries. However, the annual report is adjusted to reflect these entries. Retained Earnings should be increased by $2,756 and long term debt, owed to Bobcat & Kubota of Ocala, should be reduced by $1,700 to agree with the annual report.

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

The utility's capital structure was reconciled with staff's recommended rate base. Staff's recommended return on equity is 16.35% with a range of 15.35% - 17.35% and an overall rate of return of 5.90%. The return on equity and overall rate of return are shown of Schedule No. 1-C.

OPERATING INCOME

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

Staff calculated revenues based on the appropriate rates times the number of bills and consumption provided in the billing analysis. Staff calculated total test year revenues (including $8,035 of Other Revenues) to be $198,157. Therefore, staff increased revenues by $3,220 to reflect revenues based on staff's calculation. Staff recommends test year revenues of $198,157.

Test year revenue is shown on Schedule No. 1-D and the adjustments to revenues are shown on Schedule No. 1-E.

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

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

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

worked only for RWS. According to Data Request Response No. 2, the vice president works 41 hours per week. Per the utility's response, in addition to 30 hours per week with RWS, the vice president also spends one hour each per week on responsibilities with BFF, Corp. (BFF), and C.F.A.T.H2O, Inc. (C.F.A.T), and nine hours per week on Tradewinds Utilities, Inc. (Tradewinds). Her duties at RWS include scheduling maintenance department work orders, scheduling monthly meter reading, billing calculations and mailing, collecting and posting payments to customer accounts, preparing bank deposits, opening new customer accounts, customer relations, delivering day labor to field personnel, and working with the maintenance man when required for safety reasons. She and the president are on call for emergencies.

While the vice president performs a variety of duties, staff believes that $26.79 per hour is unreasonable for a part time office manager of a water-only utility. Staff is recommending a rate of $19.00 per hour for the vice president for an annual amount of $29,640 ($19.00 per hour x 30 hours x 52 weeks). Staff determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey. Staff took the average salary of the office/management function and adjusted for inflation.

Staff believes that $19.00 per hour is a reasonable rate for the vice president. By Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In Re: Application for a staff assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc., p. 25, the Commission approved $19.00 per hour (indexed to 2003 or $19.26) for an office manager with similar hours and duties. Therefore, staff recommends that this account be decreased by $12,160 to reflect an annual salary of $29, 640 for the vice president.

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

While staff understands the variety of responsibilities and skills required for this position, it believes $38.33 per hour is unreasonable for a part time manager of a water-only utility. After reviewing prior rate cases and a history of salary amounts approved for utility managers, staff is recommending a rate of $28.63 per hour for the president for a total annual amount of $44,663 ($28.63 per hour x 30 hours x 52 weeks). Staff determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey. Staff took the average salary of the management function with the most responsibilities and adjusted for inflation.

In a December 18, 2003 letter, the utility stated that it does not believe staff's proposal to reduce the president's salary based on $28.63 per hour is fair. In addition, the utility attached a letter from the utility's contract services plumber showing an hourly rate of $50. The president believes his salary should be at least comparable to the hourly rates paid to outside contractors. The utility believes a more reasonable rate would be $39 per hour based on the 2000 U.S. Census Bureau Median earnings for Chief Executives in Florida, who were working full time. According to this Census Data, the median 2000 salary was $76,651, assuming a 40 hour week, which equates to $36.85 per hour. Applying the Commission's GNP Price Deflator Indexes for 2001-2003, the utility believes a fair hourly rate is $39.00 which yields an annual salary of $60,840 based on 30 hours per week for 2003.

If the 2000 U.S. Census Bureau data described above were used to determine salary, staff believes that the president should be classified as a General and Operations Manager instead of a Chief Executive. He merely manages a water-only utility with approximately 650 customers and $213,000 in annual revenues. In addition, the Census Bureau data defines full time workers as workers who worked 50 weeks or more and 35 hours or more per week. Therefore, the president would be considered part time. The median salary for General and Operations Manager was $50,031 or $24.05 per hour, assuming a 40 hour week. Indexing to 2002 produces an hourly rate of $25.57 and an annual salary of $39,887. Staff believes the American Water Works Association 1998 Water Utility Compensation Survey is a better source for determining salaries because it evaluates salaries specifically for water and wastewater utilities.

Staff believes $28.63 per hour is a reasonable rate for the president of a water-only utility. (See also: Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In Re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc., p. 20. and Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In Re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc., p. 34.) Therefore, staff recommends that this account be decreased by $15,137 to reflect an annual salary of $44,663 for the president.

Employee Pension and Benefits - (604) - The utility recorded $1,324 in this account for health insurance for the test year ended December 31, 2002. According to Audit Exception No. 5, the utility also recorded $4,785 for health insurance in Account No. 636, Contractual Services - Other. In response to Data Request No. 15, the utility stated that the annual cost of health insurance for the vice president was $5,967, and that RWS was not charged for this expense. In a November 18, 2003 letter, the utility requested $5,568 ($5,967 - $399) for health insurance for the vice president.

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

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

Purchased Power - (615) - The utility recorded $6,273 in this account for the test year ended December 31, 2002. Based on staff's determination that the utility has 11.71% excessive unaccounted for water, as discussed in Issue No. 2, staff has decreased this account by $735. Therefore, staff recommends $5,538 for Account No. 615.

In a November 18, 2003 letter, the utility requested that staff not make an unaccounted for water adjustment. It believes the Commission has, in the past, recognized greater than 10% unaccounted for water as reasonable, based upon the systems involved being relatively old and therefore having a higher level of unaccounted for water. However, the utility did not provide a cite to any order. As discussed above, in 2002 the utility began a project to upgrade its distribution system, thus, the leakage should diminish. However, staff believes that the unaccounted for water adjustment is appropriate for 2002, because the project had just begun. Therefore, because the problem will be corrected for the future, staff did not make such an adjustment for 2003 and 2004.

Chemicals - (618) - The utility recorded $712 in this account for the test year ended December 31, 2002. Per Audit Exception No. 5, staff decreased this account by $50 to remove out of period expense. Staff also decreased this account by $78, based on staff's determination that the utility has 11.71% excessive unaccounted for water, as discussed in Issue No. 2. Therefore, staff recommends $584 for Account No. 618. As stated above, staff did not make an unaccounted for water adjustment for 2003 and 2004 because it believes the problem will be corrected.

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

the frequency at which those tests must be repeated for this utility are:

WATER-DEP REQUIRED TESTING

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

The utility recorded $400 in this account for the test year ended December 31, 2002. Staff increased this account by $1,334 to reclassify the testing costs that were included in the operator's fee and recorded in Account No. 636, Contractual Services – Other, per staff engineer. Staff recommends $1,734 for Account No. 635.

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

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

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

includes the mortgage payment, are included in the MIRA management fee. Therefore, staff has decreased this account by $5,350.

Transportation Expenses - (650) - The utility recorded $4,408 in this account for the test year ended December 31, 2002. Per Audit Disclosure No. 1, this amount related to the lease of a 2002 Lincoln Navigator for the vice president's use to run errands to the bank, post office, and other offices. Staff believes it is unreasonable for RWS customers to bear this expense. By Order No. 24735, issued July 1, 1991, in Docket No. 900718-WU, In re: Application for a rate increase in Lee County by Gulf Utility Company, p. 7, the Commission approved the reduction of expenses for luxury cars leased for company executives. (See also Order No. PSC-94-1570-FOF-GU, issued December 19, 1994, in Docket No. 940276-GU, In Re: Application for a rate increase by City Gas Company of Florida, p. 10.) Staff recommends an allowance based on 29 cents per mile in accordance with allowances for state travel and 100 miles per week. Therefore, staff has decreased this account by $2,900 and recommends transportation expense of $1,508 (100 miles x .29 x 52 weeks).

Insurance Expenses - (655) - The utility recorded $5,920 for life insurance for the president and $678 for insurance on plant and equipment in this account for the test year ended December 31, 2002. Per Audit Disclosure No. 5, the life insurance was required pursuant to the sales contract between the buyer and seller of the utility. The seller was the beneficiary of this life insurance policy, thus there was no benefit to ratepayers. In a December 18, 2003 letter, RWS advised staff that the beneficiary had been changed and that RWS was now a 40% beneficiary. However, pursuant to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) for Class C Water Utilities, life insurance on officers and employees where the utility is beneficiary are non-utility expenses. These expenses are recorded below the line as non-utility expenses in Account 426, Miscellaneous Non-utility Expenses. By Order No. PSC-99-1912-FOF-SU, issued September 27, 1999, Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc., the Commission disallowed expenses associated with Keyman Life Insurance where the utility was the beneficiary. (See also: Order No. PSC-97-0531-FOF-WU, issued May 9, 1997, Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., p. 22.) Therefore, staff has decreased this account by $5,920. Staff recommends $678 for insurance expense on plant and equipment.

Miscellaneous Expenses - (675) - The utility recorded the following amounts in this account for the test year ended December 31, 2002: repairs of $1,779; maintenance expenses of $859; interest expense of $1,741; State Tax expense of $109; and payroll taxes of $6,991. Staff has reclassified all of these costs to the proper account per Audit Exception No. 5. Staff has decreased this account by $2,638 to reclassify maintenance and repairs to Account No. 636, Contractual Services - Other. Staff has also decreased this account by $1,740 to reclassify interest expense below the line to Account No. 427, Interest Expense. In a December 18, 2003 letter, the utility stated that it believed the auditor's finding that $1,740 in this account was interest is erroneous. However, no evidence was provided to refute the finding. In addition, staff has decreased this account by $109 to reclassify state taxes to Account 408, Taxes Other Than Income. Finally, staff has decreased this account by $6,991 to reclassify payroll taxes to Account No. 408, Taxes Other Than Income.

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

The total adjustment to this account is a decrease of $10,349. Therefore, staff recommends Miscellaneous Expense of $1,129.

Operation and Maintenance Expense Summary - The total O&M adjustment is a decrease of $53,048. Staff's recommended O&M expenses are $105,950, and are shown on Schedule Nos. 1-E and 1-F.

Depreciation Expense (Net): The utility recorded $23,634 of depreciation expense and $17,116 in amortization of CIAC for a net depreciation expense of $6,518 in the test year ended December 31, 2002. Staff recalculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C., for plant additions after 1984 and 2.5% for plant recorded in 1984. Staff's calculated depreciation expense is $27,258; therefore, staff increased this account by $3,624 to reflect staff's calculated depreciation expense. CIAC amortization and non-used and useful depreciation have a negative impact on depreciation expense; however, since the water treatment and distribution system are considered 100% used and useful, an adjustment has not been made for non-used and useful depreciation. Staff recalculated amortization of CIAC based on composite rates. Therefore, amortization of CIAC was increased by $9,059 to reflect staff's calculated amortization of $26,175. Staff's net depreciation expense is $1,083.

Taxes Other Than Income: The utility recorded taxes other than income of: $413 in property tax; $2,264 in tangible personal property tax; and $8,772 in RAFs. Staff increased this account by $145 to reflect RAFs on our adjustment to test year revenues. Staff also increased this account by $109 and by $6,991 to reclassify corporate tax and payroll taxes, respectively, from Account 675. Per Audit Exception No. 5, staff increased this account by $50 for a correction to the amount of corporate tax. In addition, staff decreased this account by $930 and $1,158 to decrease payroll taxes for the reduction in the vice president and president's salaries, respectively.

The total adjustment to this account is an increase of $5,207. Staff recommends Taxes Other Than Income of $16,656.

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

Operating expenses are shown on Schedule No. 1-D. The related adjustments are shown on Schedule No. 1-E.

Summary: Based on the above, staff's adjusted test year figures for the test year ended December 31, 2002, produce revenues of $198,157 and operating expenses of $123,689. The

utility's revenues exceed its authorized rate of return by $71,299 for the test year ended December 31, 2002.

Issue 5: Did RWS earn above the range of its authorized return for the interim collection period ended December 31, 2003?

Recommendation: Yes. RWS earnings for the interim collection period ended December 31, 2003, exceeded its authorized rate of return of 7.46%, by $58,435, or 27.44%. (MERTA)

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

The utility did not file data for the test year ended December 31, 2003. As beginning balances for the average test year, staff used the staff-adjusted December 31, 2002 ending balances for rate base and operating income. Staff's adjustments to these balances, revenues and expenses are outlined below:

RATE BASE

Utility Plant in Service (UPIS): Staff added back the 2002 averaging adjustments to rate base beginning balances for 2003. Therefore, the beginning balance for this account is $912,542. Per Data Request Response No. 39, staff increased plant-in-service by $82,145 for the following plant completed in 2003: $1,610 re-roofing of the plant building; $41,724 for an upgrade of well pumps; $13,233 for replacing laterals; and $25,578 for meters. Pursuant to a November 18, 2003 letter from RWS, staff updated the cost of the well pumps from $39,906 to $41,724. In addition, staff decreased plant by $32,163 for retirements which included: $1,208 for the retirement of the old roof based on 75% of cost of the new roof (Staff was unable to identify the original cost of the roof); $1,976 for office furniture; and $28,979 for pumping equipment. In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, In Re: Application for a staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc., p. 10, the Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. RWS supplied the retirement amount for pumping equipment. However, due to a difference in the amount of plant booked by the utility and staff's original cost study, staff calculated the retirement of pumping equipment based on the ratio of the utility's retirement amount to the utility's booked pumping equipment and applied it to staff's plant amount for pumping equipment. Staff also decreased this account by $24,991 to reflect an averaging adjustment. The above referenced adjustment results in UPIS of $937,533 for the test year ended December 31, 2003.

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

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

The total adjustment to Accumulated Depreciation is a decrease of $1,018. With the above referenced adjustments, staff recommends Accumulated Depreciation of $189,832.

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

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 recommends that the one-eighth of O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $15,409 (based on O&M of $123,269). Working capital has been increased by $2,165 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average rate base for the test year ended December 31, 2003, is $165,155.

Rate base is shown on Schedule No. 2-A and the adjustments to rate base are shown on Schedule No. 2-B.

COST OF CAPITAL

The staff-recommended 2002 capital structure components were used as beginning balances for 2003. Staff adjusted these balances for known changes in 2003.

Per a November 18, 2003 letter from RWS and documentation provided, the utility owner repaid the $84,065 Wachovia Bank loan and will provide $35,661 in funds to continue the distribution system upgrade. Therefore, staff decreased the Wachovia loan by $84,065 and increased Paid in Capital by $119,726 ($84,065 + $35,661). Equity represents 27.85% of the utility's capital structure.

In addition, the utility provided documentation that the Bobcat & Kubota of Ocala and State of Florida loan balances were reduced by $5,224 and $7,854, respectively. Staff decreased the loan balances for these changes. Finally, staff increased Customer Deposits by $360 to include the deposits of 18 new customers in 2003. The long term debt represents 70.11% of the utility's capital structure and customer deposits represents 2.04%.

As discussed in Issue No. 4, the midpoint of the utility's return on equity was set at 16.35%. The utility's capital structure was reconciled with staff's recommended rate base. Applying the upper limit of 17.35% for return on equity, in conjunction with the appropriate cost rates for other components in the utility's capital structure, yields a 7.46% overall rate of return.

The return on equity and rate of return are shown on Schedule No. 2-C.

OPERATING INCOME

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

Operation and Maintenance Expenses: The staff-adjusted 2002 O&M expenses were indexed for inflation, except for Purchased Power, and the management fees recorded in Contractual Services - Other. This resulted in an increase of $1,161 to O&M expenses.

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

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

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

In a November 18, 2003 letter, the utility requested $2,000 for legal fees. Staff requested support and documentation for this expense, however it was not supplied by RWS. Therefore, staff recommends Contractual Services - Professional Expense of $3,030 for the test year ended December 31, 2003.

Contractual Services - Other - (636) - Per Response to Data Request No. 12, in 2003 MIRA charged RWS a weekly fee of $500 for services. In a December 18, 2003 letter, the utility stated that the MIRA fee should be $782 per week and that the $500 per week allowed by staff is understated, does not reflect a fair allocation of costs, and excludes the maintenance department.

Staff has received conflicting information on exactly what is included in the management fee. Information provided by the utility to staff auditor and reflected in Audit Workpaper 43-3, p. 3, breaks the fee down as follows: $50 for insurance on plant and equipment including liability insurance; $350 Administration Fee including phone, meter reading, utilities, postage, hospitalization, supplies and yellow pages, etc.; and $100 for rent. In response to Data Request No. 10, Attachment A, the utility stated that MIRA fees include: costs for a maintenance department (salary, overtime, payroll taxes, hospitalization, workmen's compensation, van insurance, and fuel); office expenses, (mortgage, utilities, grounds maintenance, property taxes, phone service, yellow pages and janitorial services); and other general expenses (liability and casualty insurance, meter reading, postage, supplies, cell phones, and miscellaneous). Based on Response to Data Request No. 10, it appears that the maintenance department is included in the $500 fee. Further, $1,763 in maintenance and repairs performed by MIRA is included in this account. Therefore, an amount for maintenance is already included in expenses in addition to the charge included in the management fee.

The utility prepared Attachment A describing and allocating the services included in the $500 per week charged by MIRA – staff did not calculate this number for the utility. If it did not reflect a fair allocation of costs, it was the utility's burden of proof to demonstrate this to staff. Staff recognizes that in a rate proceeding, it is the utility's burden to prove that its expenses are prudent and reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). See also Rolling Oaks Utilities Inc. v. Florida Public Service Commission, 533 So. 2d 770, 773 (Fla. 1st DCA 1988) and South Florida Natural Gas Co. v. Public Service Commission, 534 So. 2d 695, 697 (Fla. 1988). Because the utility stated the management fee would continue to be $500 per week for 2003, and appeared to charge only $16,800 in management fees per the 2003 annual report, staff believes $26,000 ($500 x 52) annually should be allowed to be recovered through rates.

In response to Data Request No. 12, the utility stated that there had been no change in the weekly charges, i.e., MIRA fees for 2003 would continue to be $500 per week. In addition, the 2003 Annual Report shows management fees of $16,800 were recorded. Therefore, staff increased the 2002 expense ($11,807) by $14,193 to allow $26,000 annually for MIRA charges based on $500 per week. Staff believes this amount is reasonable for the services described.

As stated above, the operator and repair expense included in this account were indexed. Based on the foregoing, staff recommends Contractual Services - Other of $29,029 for the test year ended December 31, 2003.

Operation and Maintenance Expense Summary - The total O&M adjustment is an increase of $17,320. Staff's recommended O&M expenses are $123,269 and are shown on Schedule Nos. 2-E and 2-F.

Depreciation Expense (Net): Staff calculated 2003 test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C., for plant additions after 1984, and 2.5% for plant recorded in 1984. Staff's calculated depreciation is $30,125; therefore, staff increased this account by $2,867 to reflect staff's calculated depreciation expense. Staff calculated amortization of CIAC based on composite rates. Therefore, amortization of CIAC was increased by $2,328 to reflect staff's calculated amortization of $28,503. Amortization of CIAC has a negative impact on depreciation expense. Therefore, staff's net depreciation expense is $1,622.

Taxes Other Than Income: Staff increased 2002 expenses for this account by $666 to reflect RAFs on adjusted 2003 test year revenues. Staff also increased this account by $1,724 for payroll taxes on the vice president and president's salary increases. In addition, staff increased tangible personal property taxes by $996 to reflect actual taxes paid in 2003 per the November 18, 2003 letter. Further, staff decreased this account by $108 to reflect actual property taxes paid in 2003 per the November 18, 2003 letter.

The total adjustment to this account is an increase of $3,277. Therefore, staff recommends Taxes Other Than Income of $19,933.

Operating expenses are shown on Schedule No. 2-D. The related adjustments are shown on Schedule No. 2-E.

Summary: Based on the above, staff's adjusted test year figures for the test year ended December 31, 2003, result in revenues of $212,950 and operating expenses of $144,824. The utility's revenues exceed its authorized rate of return by $58,435 for the interim collection period ended December 31, 2003.

Issue 6: Should the Commission update the utility's authorized return on equity (ROE), and if so, what is the appropriate return on equity for the projected test year ended December 31, 2004?

Recommendation: Yes. The utility's authorized ROE should be updated to establish the return based on the current leverage formula for the projected test year ended December 31, 2004, and on a going-forward basis. Based on the current leverage formula, the utility's ROE is 11.46%, with a range from 10.46% to 12.46%. (MERTA)

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

Using the current leverage formula approved by Order No. PSC-03-0707-PAA-WS, issued June 16, 2003, in Docket No. 030006-WS, 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, p. 2, the appropriate rate of return on equity is 11.46% with a range of 10.46% to 12.46%.

Issue 7: What is the appropriate methodology for projecting customers and consumption for the projected test year ending December 31, 2004, and what are the appropriate ERCs and gallons (billing determinants) to be used for ratesetting for the 2004 projected test year?

Recommendation: The appropriate methodology for projecting customers is simple linear regression, and the appropriate methodology for projecting consumption is based on historical average consumption per bill per customer class and meter size. The appropriate billing determinants to be used for ratesetting for the 2004 projected test year are 10,680 ERCs and 88,614,432 gallons. (LINGO)

Staff Analysis: As discussed in the case background, staff's recommendation addresses the utility's earnings for the test years ended December 31, 2002, 2003 and 2004. Due to high customer growth, staff believes that a prospective rate reduction should be based on projected revenues and expenses for 2004. Staff's analysis of this projection issue included an examination of the utility's historical billing determinants, utility responses to staff data requests, as well as conversations with the utility's owner and examinations of the utility's service area. Our discussion of each topic follows.

Customer Growth Projections

In response to staff's second set of data requests, numbers 36 and 37, the utility provided information regarding its anticipated number of additional customers, by meter size, for the years 2003 and 2004. As contained in those responses, the utility anticipates that there will be no growth in the 5/8" meter category and 20 additional 1" meter customers during the 2004 calendar year. To more closely evaluate the utility's growth, staff asked the utility to provide data regarding the utility's growth over the past five years. Specifically, in response to staff's third set of data requests, number 44, the utility provided information detailing the number of customers, by month and meter size, for the period January 1998 through December 2002. Comparable information for the year 2003 was obtained from detailed utility billing records. A summary of the information is provided in the Actual Customer Growth table (Growth table) on the following page.

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

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

As also shown in the Growth table, beginning in January 2001, the utility experienced significant growth in a new, upscale subdivision called Dalton Woods. In order to better understand the differences between the two customer bases, staff conducted a site visit in December 2003. During that visit, staff learned that all homes in the Dalton Woods subdivision have 1" meters, are situated on ¾ acre lots, and that there are 128 total lots available. In addition, according to the utility's owner Mr. Charles deMenzes, Dalton Woods' deed restrictions require each lawn to be landscaped with St. Augustine grass, and that all lawns remain watered to keep the grass green. Staff's visual inspection of the subdivision supported Mr. deMenzes' statements. Also according to the utility, the greater meter size is necessary to provide adequate water pressure to both the home and irrigation systems during peak usage periods. During its December 2003 site visit, staff also learned that customers with 5/8" meters are located in several different subdivisions, live in homes ranging in size from approximately 1300 square feet to approximately 1850 square feet, and have no requirements regarding landscaping or watering.

During the December 2003 site visit, staff also discussed the potential growth of the 1" customer base with Mr. deMenzes. He informed staff that, although the Dalton Woods subdivision was approaching buildout, there are two new subdivisions in the utility's service area in various stages of development. One subdivision is located adjacent to Dalton Woods and is referred to as Dalton Woods 1st Addition. During the visit, staff observed that all

infrastructure (water lines, underground utilities and streets) were in place. The other subdivision is referred to as Buffington Estates. Land had been cleared, but no infrastructure other than water lines had been installed. According to Mr. deMenzes, Dalton Woods 1st Addition will have 31 lots, Buffington Estates will have 32 lots, and all will have 1" meters. It was Mr. deMenzes' belief that, due to the continuation of relatively low mortgage interest rates, all 63 new lots (31 + 32) would be built out. Additionally, the 13 remaining lots in the original Dalton Woods subdivision may possibly be built out as well, placing the utility's projected increase in 1" customers in a range from 63 customers to 76 customers during 2004.

Because staff believes the simple linear regression methodology accurately quantifies a relationship between time and growth, staff used simple linear regression analysis to project customer growth in this case. Furthermore, the use of simple linear regression to project customer growth is consistent with Commission practice. (See, Order No. PSC-97-0618-FOF-WS, issued May 30, 1997 in Docket No. 960451-WS, In re: Application for rate increase in Duval, Nassau and St. Johns Counties by United Water Florida Inc., p. 46; Order No. PSC-99-0513-FOF-WS, issued March 12, 1999 in Docket No. 980214-WS, In re: Application for rate increase in Duval, Nassau and St. Johns Counties by United Water Florida Inc., pp. 28-29.) Due to the different demand requirements of those customers with 5/8" meters vs. customers with 1" meters, separate regression analyses were performed on these different customer bases. Staff's analysis produced projected growth of 6 customers for the 5/8" customer base during 2004, with growth of 53 customers projected for the 1" meter customer base in 2004.

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

Recently, staff has learned that substantial construction progress has been made in the Buffington Estates area. The underground utilities have been installed, and curbs were installed during the first part of February. In addition, we have learned that the lots in Dalton Woods 1st Addition are ½ acre in size, while those in Buffington Estates range in size from 1/3 acre to ½ acre. Based on the analysis of information obtained in this case, staff believes it is more appropriate to recommend projected 1" meter customer growth of 53, rather than 76, customers for 2004.

Staff's next task was to determine the magnitude of growth in each subdivision with 1" meters. As shown in part [A] of the Projected Customer Growth and Consumption table (Projection table) at the end of this issue, staff believes that, based on the number of sold and reserved lots thus far in 2004, Buffington Estates will in fact reach buildout of 32 customers in 2004. Since staff projects a total increase in 1" meter customers of 53 during 2004, the

remaining projected growth of 21 customers (53 customers- 32 customers) should be divided between Dalton Woods (projected growth of 11 customers) and Dalton Woods 1st Addition (projected growth of 10 customers). This results in average projected growth in 2004 of 6 customers in Dalton Woods, 5 customers in Dalton Woods 1st Addition, and 16 customers in Buffington Estates.

It is also Commission practice to project growth (and consumption) differentiated between residential and general service customers. (See, Order No. PSC-99-0513-FOF-WS, issued March 12, 1999 in Docket No. 980214-WS, In re: Application for rate increase in Duval, Nassau and St. Johns Counties by United Water Florida, Inc., pp. 28-29; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000 in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), pp. 23, 25.) Staff's analysis revealed that during 2003, 17.2 percent of the 1" meter customers represented general service customers. As shown in part [A] of the Projection table, this would result in general service customer projections of one additional customer in Dalton Woods, one additional customer in Dalton Woods 1st Addition, and three additional customers in Buffington Estates. The remaining projected customers in each subdivision (5, 4, and 13, respectively) represent staff's projected growth in residential customers.

Based on the foregoing, staff recommends that there will be an average of 535 5/8" customers and 142 1" customers (115 customers at year-end + 27 projected average additions) during the 2004 test year. Staff recommends that 10,680 projected ERCs ((535 customers x 1 ERC x 12 months) + (142 customers x 2.5 ERCs x 12 months)) be used for ratesetting for the year 2004.

Customer Consumption Projections

The next task in the projection process was to project the additional consumption of residential and general service customers. Consumption projections based on the historical average consumption per bill are Commission practice for cases involving Class C utilities. (See, Order No. PSC-01-1246-PAA-WS, issued June 4, 2001 in Docket No. 001382-WS, In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc., p. 21.) Since there is no actual data regarding the consumption patterns of customers in the new subdivisions, staff estimated the projected average consumption based upon a ratio of the average consumption of residential and general service customers in Dalton Woods. As indicated in part [B] of the Projection table, a lot in Dalton Woods 1st Addition is 67 percent of the size of a Dalton Woods lot, while a lot in Buffington Estates is approximately 56 percent of the size of those in Dalton Woods. These ratios were used to prorate the historical monthly average general service consumption of 22,538 gallons per customer to arrive at comparable consumption figures for the projected additional customers in Dalton Woods 1st Addition and Buffington Estates. As shown in part [B] of the Projection table, based on staff's projections regarding additional customers per subdivision and average anticipated monthly consumption per customer per subdivision, staff projects 846,679 gallons that will be attributable to general service growth during 2004. Comparable residential service calculations are shown in part [C] of the Projection table, resulting in 4,751,157 gallons attributable to projected residential growth

in 2004. The projected consumption growth, when combined with actual 2003 consumption of 83,016,596 gallons, results in projected 2004 consumption of 88,614,432 gallons.

Therefore, the appropriate methodology for projecting customers is simple linear regression, and the appropriate methodology for projecting consumption is based on historical average consumption per bill per customer class and meter size. The appropriate billing determinants to be used for ratesetting for the 2004 projected test year are 10,680 ERCs and 88,614,432 gallons.

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

Issue 8: What is the appropriate revenue requirement for RWS for the projected test year ended December 31, 2004?

Recommendation: The appropriate revenue requirement for RWS for the projected test year ended December 31, 2004 is $169,828, which represents a decrease of $64,203 (-27.43%). (MERTA)

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

RATE BASE

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

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

The utility provided the auditor a description of scheduled replacements and upgrades since 2001. RWS planned to replace all meters with AMR meters, and replace thin wall poly services with current standard thick wall poly in five subdivisions. The utility stated it expended $25,900 in 2002 and $14,910 in 2003, for a total to date of $40,810. It stated that the estimated projected cost to complete AMR and lateral service replacement is $120,000 to be completed in 18 months (audit workpaper 16-16 p. 4). Based on that document, the auditor in Audit Disclosure No. 6 estimated pro forma plant to be $59,000 less $5,000 expended in 2002 equals $54,000 for a building plus $120,000 less $20,900 expended in 2002 equals $99,100 for the distribution system. In order to determine the total amount of the $99,100 project completed in 2003, staff asked in Data Request No. 40, "Of the 2003 additions, what amount was included in the pro forma provided to the auditors ($54,000 storage building; $99,100 upgrade distribution system)?" In response, the utility stated, "Of the 2003 additions that were indicated on the pro forma, $29,253 has been completed of the $99,100 upgrade to the distribution system."

Per Data Request Response No. 42, the utility stated that projected plant additions for 2004 were limited to developer CIAC of distribution lines and that the amount was unknown. It also stated that a storage building should be under way in 2004. However in its November 18, 2003 letter, for 2004 the utility requested $54,000 for the building addition, $99,100 for distribution system upgrades, and $32,623 for meter replacements. Subsequently, in its December 18, 2003 letter, the utility stated that workpaper 16-16 p.4, meant to convey that after the actual expenditures totaling $40,810 (through June 19, 2003), an additional $120,000 would be needed to complete the project and requested $99,249 to complete the distribution system upgrade and meter replacements in 2004.

Because of the conflict in information provided, staff used data provided by the utility, to calculate the portion of this project that it believes will be completed in 2004. First, staff calculated the total cost of the meter replacement project then subtracted the meters replaced in

2002 and 2003. Second, staff subtracted the services replaced in 2002 and 2003 from the utility's estimated cost for the new services. Based on staff's projections, the utility will have 168 customers with one-inch meters and 535 customers with 5/8-inch meters in 2004. According to the utility, the cost of one-inch and 5/8-inch meters is $175 and $99 respectively. One-inch meters are contributed by contractors and therefore are CIAC. However, they are also recorded as plant-in-service. The cost of one-inch meters to be included in plant and CIAC is $19,910 (168 meters x $175 = $29,400 - $6,340 replaced in 2002 - $3,150 replaced in 2003). The cost of 5/8-inch meters to be included in plant is $18,041 (535 meters x $99 = $52,965 - $12,496 replaced in 2002 - $22,428 replaced in 2003). The cost of services to be included in plant is $58,767 ($72,000 estimated - $13,233 replaced in 2003). Therefore, staff recommends that plant be increased by $96,718 ($19,910 + $18,041 + $58,767) for pro forma distribution upgrades. The utility should be required to complete the pro forma additions by December 31, 2004.

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

Therefore, staff increased plant-in-service by $48,359. Based on the foregoing, staff recommends UPIS of $1,010,883 for the projected test year ended December 31, 2004.

Contributions in Aid of Construction (CIAC): After adding back the 2003 averaging adjustment, the beginning balance for this account is $926,435. In Issue No. 16, staff is recommending the Service Availability Charges be discontinued; therefore, there are no additions to CIAC for connection fees. However, the utility's tariff includes a $70 meter installation fee. Therefore, staff has increased CIAC by $3,710 to include meter fees for 53 new customers. In addition, staff increased this account by $19,910 for pro forma meters as discussed above. Further, staff decreased this account by $11,810 to reflect an averaging adjustment. Staff recommends CIAC of $938,245 for the projected test year ended December 31, 2004.

Accumulated Depreciation: The beginning balance of this account is $188,813, after adding back the 2003 averaging adjustment. Consistent with Rule 25-30.140(3), F.A.C., for additions to plant after 1984, staff has recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Plant recorded in 1984, prior to the implementation of Rule 25-30.140, F.A.C., was depreciated at 2.5%. Staff's calculated accumulated depreciation for the test year ended December 31, 2004 is $222,841. This amount includes the accumulated depreciation on the pro forma additions. Therefore, staff has increased this account by $34,028 to reflect staff calculated accumulated depreciation. In addition, staff has decreased this account by $17,014 to reflect an averaging adjustment.

The total adjustment to Accumulated Depreciation is an increase of $17,014. Therefore, staff recommends Accumulated Depreciation of $205,827.

Amortization of CIAC: The beginning balance for this account is $313,323, after adding back the 2003 averaging adjustment. Amortization of CIAC was calculated by staff using composite depreciation rates. This account was increased by $29,877 to reflect staff's calculated CIAC amortization of $343,200. An averaging adjustment was made to decrease CIAC amortization

by $14,939. Therefore, staff recommends amortization of CIAC of $328,261 for the projected test year ended December 31, 2004.

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 calculated working capital using the one-eight of O&M expense formula approach. Applying that formula, staff recommends a working capital allowance of $16,449 (based on O&M of $131,591). Working capital has been increased by $1,040 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average rate base for the projected test year ended December 31, 2004, is $219,225.

Rate base is shown on Schedule No. 3-A and the adjustments to rate base are shown on Schedule No. 3-B.

COST OF CAPITAL

The staff-recommended 2003 capital structure components were used as beginning balances for 2004. Staff adjusted these balances for projected changes in 2004.

Per a November 18, 2003 letter from the utility, the owner will fund the completion of the distribution system update. Therefore, staff increased Paid in Capital by $76,808 ($58,767 + $18,041). Equity represents 45.03% of the utility's capital structure.

The long term debt is made up of two loans with interest rates of 3.90% and 3.55%. Staff decreased the Bobcat & Kubota and Wachovia Bank loans by $5,224 and $7,854, respectively, to reflect amounts projected to be paid to principal in 2004. The long term debt represents 52.92% of the utility's capital structure.

Staff increased Customer Deposits by $1,060 to include the deposits of 53 new customers projected in 2004. Customer deposits represent 2.05% of the utility's capital structure.

As discussed in Issue No. 6, staff used the current leverage formula to determine ROE for the utility of 11.46%. The utility's capital structure was reconciled with staff's recommended rate base. Staff's recommended return on equity is 11.46% with a range of 10.46% - 12.46% and an overall rate of return of 7.17%. The return on equity and rate of return are shown on Schedule No. 3-C.

OPERATING INCOME

Operating Revenue: For 2004, staff projected service revenue based on the average number of new customers plus existing customers times current rates. Consumption was projected based on 2003 gallons adjusted for the usage of the average number of new customers. Therefore, staff increased 2003 revenues by $21,081 to reflect 2004 service revenues of $227,347 based on staff's calculation. Staff recommends 2004 projected test year revenues (including $6,684 of Other Revenues) to be $234,031. Test year revenue is shown on Schedule No. 3-D and the adjustments to revenues are shown on Schedule No. 3-E.

Operation and Maintenance Expenses: The 2003 O&M expenses were indexed for inflation, except for Purchased Power. This resulted in an increase of $1,877.

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

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

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

Operation and Maintenance Expense Summary - The total O&M adjustment is an increase of $8,321. Staff's recommended O&M expenses are $131,591, and are shown on Schedule Nos. 3-E and 3-F.

Depreciation Expense (Net): Staff calculated projected 2004 test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. The calculation results in an increase of $5,860 to 2003 depreciation expense to reflect staff's calculated depreciation of $35,985. Staff calculated amortization of CIAC based on composite rates. Staff has increased 2003 amortization of CIAC by $3,048 to reflect staff's calculated amortization of $31,551. Amortization of CIAC has a negative impact on depreciation expense. Net depreciation expense is $4,434 for the projected test year ended December 31, 2004.

Taxes Other Than Income: Staff increased 2003 expenses for this account by $948 to reflect RAFs on our adjustment to 2004 test year revenues. Staff also increased this account by $92 for payroll taxes on the vice president and president's salary increases.

The total adjustment to this account is an increase of $1,040. Therefore, staff recommends Taxes Other Than Income of $20,973.

Operating Revenues: An adjustment to decrease operating revenues by $64,203 was made to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income: An adjustment to decrease taxes other than income by $2,889 was made to reflect regulatory assessment fees of 4.5% on the change in operating revenues.

Operating Expenses Summary: The application of staff's recommended adjustment to the projected test year operating expenses results in staff's calculated operating expenses of $154,109.

Operating expenses are shown on Schedule No. 3-D The related adjustments are shown on Schedule No. 3-E.

Summary: The appropriate revenue requirement is $169,828. Based on the above, the utility should be required to decrease its revenues by $64,203 (-27.43%). This will allow the utility the opportunity to recover its expenses and earn a 7.17% return on its investment. The calculations are as follows:

	Water
Adjusted Rate Base	$219,225
Rate of Return	x .0717
Return on Investment	$ 15,718
Adjusted O & M Expense	$131,591
Depreciation Expense (Net)	$4,434
Taxes Other Than Income	$18,084
Revenue Requirement	$169,828
Adjusted Test Year Revenues	$234,031
Percent Increase/(Decrease)	(27.43%)

Revenue requirements are shown on Schedule No. 3-D.

Issue 9: Should RWS be required to complete its pro forma projects by December 31, 2004, and should the revenue related to the pro forma plant be held subject refund?

Recommendation: Yes. RWS should be required to complete its pro forma projects by December 31, 2004, and should be ordered to hold 4.18% of 2004 revenues subject to refund. (MERTA)

Staff Analysis: As stated above, the utility plans to upgrade its distribution system by replacing laterals and meters. In 2004, staff is recommending that rate base be increased by $96,718 for pro forma additions. However, of this amount, $76,808 of plant will be constructed by the utility and $19,910 will be donated by developers. Staff is concerned that the utility may not complete this project by the end of 2004. Staff believes that ratepayers should be protected and the need to reduce rates if the utility does not complete the pro forma plant should be addressed. In the event the utility does not complete the plant, a refund could be made. This would allow rates to remain stable and alleviate the need to order a rate reduction.

For the $76,808 pro forma plant the utility will construct, staff calculated the revenue requirement to be $7,102. Therefore, staff recommends that the utility be required to complete its pro forma projects by December 31, 2004, and that 4.18% ($7,102/$169,828 2004 revenue requirement) of 2004 revenues be held subject to refund pending completion of the pro forma plant by December 31, 2004.

Issue 10: Should RWS be ordered to refund the price index that was implemented May 31, 2002?

Recommendation: Yes. RWS should be required to refund 1.76% of revenues collected from June 1, 2002, through the effective date of the new rates. This refund should be made with interest as required by Rule 25-30.360(4), F.A.C., within 90 days of the date of the Consummating Order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund should be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. (MERTA)

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

For the test year ended December 31, 2002, the utility's earnings exceeded the range of its authorized return by $71,299. Pursuant to Section 367.081(4)(d), Florida Statutes, only those revenues related to the price-index rate adjustment are required to be refunded.

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

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

Issue 11: Should RWS be ordered to refund its price index rate adjustment that was implemented June 6, 2003 plus revenues held subject to refund that were collected during the interim collection period?

Recommendation: Yes. The utility should be required to refund 1.04% of revenues collected June 6, 2003 through the effective date of the new rates plus 9.09% of revenues collected June 13, 2003, through December 14, 2003, plus 27.44% of revenues collected from December 15, 2003, through the effective date of the new rates. This refund should be made with interest as required by Rule 25-30.360(4), F.A.C., within 90 days of the date of the Consummating Order. The utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The refund should be made to customers of record as of the date of the Consummating Order pursuant to Rule 25-30.360(3), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. (MERTA)

Staff Analysis: Pursuant to Order No. PSC-03-0709-PCO-WU, issued June 13, 2003, in this docket, the Commission initiated an investigation of the rates and charges of RWS. The Commission found that water revenues of $19,365 should be held subject to refund if an overearnings condition was confirmed. Subsequently, by Order No. PSC-03-1411-FOF-WU, issued December 15, 2003, in this docket, the Commission found that the utility should hold an additional $51,653 subject to refund due to the utility's request for additional time to analyze staff work papers.

The 2002 price index increase was in effect from January 1, 2003 through June 6, 2003. For service rendered after June 6, 2003, RWS implemented a 2003 price index rate adjustment increase. The rate adjustment was designed to increase revenues on an annual basis by 1.04%. Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and pass-through if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity. The utility's 2003 annual report has not been filed. Assuming a filing date of March 3, 2004, fifteen months from that date is June 3, 2005, which is the deadline for determining possible refunds for the 2003 price index.

The Commission issued two orders requiring that revenue be held subject to refund. As stated above, Order No. PSC-03-0709-PCO-WU, required the utility to hold $19,365 subject to refund effective June 13, 2003. This equates to 9.09% of 2003 revenues ($19,365/ $212,950). Order No. PSC-03-1411-FOF-WU, issued December 15, 2003, required holding an additional $51,653 subject to refund.

To determine the amount of earnings related to the price index rate adjustment, staff reviewed the earnings level for the test year ended December 31, 2003, the interim collection period. As stated above, the interim collection test period began on June 13, 2003, and will continue until the Commission votes to allow the utility to discontinue holding its revenues subject to refund. For the test year ended December 31, 2003, the utility's earnings exceeded the range of its authorized return by $58,435 or 27.44%.

The percent of service revenues to be refunded are shown in the following schedule.

2003 INDEX

June 6, 2003 – Effective Date of New Rates	1.04% *

INTERIM PERIOD

June 13, 2003 – December 14, 2003	9.09% *
December 15, 2003 – Effective Date of New Rates	27.44% *

* Water Service Revenue Collected During Respective Periods

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

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

Issue 12: What is the appropriate rate structure for this utility?

Recommendation: The appropriate rate structure for this utility is a two-tier inclining-block rate structure for the residential class. The first usage block should be for monthly consumption of 0-10,000 gallons, and the second usage block for consumption over 10,000 gallons. The inclining-block structure should have rate factors for the first and second blocks of 1.0 and 1.25, respectively, and have a base facility charge (BFC) cost recovery percentage of 40%. The BFC / uniform gallonage charge rate structure should be continued for the general service class. (LINGO, BRUCE)

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

As discussed in Issue 8, staff is recommending a revenue requirement reduction of approximately $64,000, representing a 27% reduction from projected 2004 revenues. This presented staff with the challenge of designing a rate structure which, despite the revenue requirement reduction, still conforms to Commission practice regarding sending pricing incentives to encourage water conservation. There are several steps involved in evaluating, designing and calculating an appropriate rate structure, including (but not limited to) determining: 1) the appropriate BFC cost recovery percentage; 2) the appropriate usage blocks, if any; 3) the appropriate usage block rate factors; and 4) whether the recommended rate structure is consistent with Commission practice. This evaluation is for the residential class only; consistent with Commission practice, an inclining-block rate structure will not be applied to the general service class.

As shown in the Rate Structure Comparisons table (table) contained on the last page of this issue, staff developed a series of different rate structures based on BFC cost recovery percentages of 25%, 40% and 50% (see the shaded portions of the table). As indicated in the table, a BFC which generates 25% in cost recovery results in a BFC of $3.92, which is a 60% reduction from the current BFC of $9.85. This would, in effect, place the entire revenue reduction burden on the BFC while leaving the current (uniform) gallonage charge of $1.38 in tact. While a BFC = 25% represents a better cost recovery allocation percentage for water conservation purposes, staff believes a reduction in the BFC of this magnitude is potentially harmful to the utility's fixed revenue stream, and does not appropriately spread the revenue reduction burden between the BFC and gallonage charges. Therefore, a BFC cost recovery allocation of 25% was removed from consideration.

Staff also examined rates based on a BFC cost recovery allocation of 50%. Although a BFC cost recovery percentage of 50% is greater than Commission practice, the magnitude of the recommended revenue requirement reduction presents an uncommon circumstance which, staff

believes, might have justified a deviation from Commission practice. As indicated in the table, a BFC at 50% results in a BFC of $7.84, which is approximately 20% less than the current BFC of $9.85. However, staff believes this cost recovery allocation leaves too little revenue to be recovered through the gallonage charge, and, as indicated with each rate structure compared in the BFC = 50% column in the table, the resulting gallonage charges range from a high of $0.93 under a uniform gallonage charge to a low of $0.80 for the first block under a three-tier inclining-block structure. Gallonage charges below $1.00 are contrary to Commission practice, and, in consideration of the water resource concerns in the area, staff removed a BFC cost recovery allocation of 50% from consideration.

Staff also examined rates based on a BFC cost recovery allocation of 40%, which represents the maximum BFC cost recovery percentage that is consistent with Commission practice. As shown in the table, a BFC cost recovery of 40% results in a BFC of $6.27, which is a 36% reduction from the current rate of $9.85. The gallonage charges range from a high of $1.11 under a uniform gallonage charge rate structure to a low of $0.96 for the first block under a three-tier inclining-block structure. As discussed above, gallonage charges below $1.00 are contrary to Commission practice and water resource considerations, so the three-tier structure was removed from consideration.

The two remaining rate structures under consideration – the BFC/uniform gallonage charge rate structure and a two-tier inclining-block structure – were then analyzed to determine which rate structure best meets the Commission's practice of sending increasingly greater price signals as consumption increases. Under the BFC/uniform gallonage charge rate structure, the percentage point spread, which measures how aggressive the price changes are, is 16.2 percentage points for consumption ranging from 0 kgal to 200 kgal per month, while the corresponding spread under a two-tier structure is 26.5 percentage points. For example, a customer using 5 kgal per month receives an approximate 50% greater price break (price break due to the recommended revenue requirement reduction) than a customer with extraordinary usage of 200 kgal per month. In contrast, under a two-tier inclining-block structure, the same customer using 5 kgal per month receives a price break approximately 230 percent greater than the customer using 200 kgal per month.

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

RATE STRUCTURE COMPARISONS: ANTICIPATED PRICE CHANGES				
		Base Facility Charge Cost Recovery Percentages		
Usage Blocks and Rate Factors	**Cons (kgal)**	**BFC = 25% BFC = $3.92 UGC = $1.38**	**BFC = 40% BFC = $6.27 UGC = $1.11**	**BFC = 50% BFC = $7.84 UGC = $0.93**
BFC/unif gal chg	0	-60.2 %	-36.3 %	-20.4 %
	5	-35.4 %	-29.4 %	-25.5 %
	10	-25.1 %	-26.6 %	-27.5 %
	15	-19.4 %	-25.0 %	-28.7 %
	20	-15.8 %	-24.0 %	-29.4 %
	30	-11.6 %	-22.8 %	-30.3 %
	50	-7.5 %	-21.7 %	-31.1 %
	70	-5.6 %	-21.1 %	-31.5 %
	100	-4.0 %	-20.7 %	-31.8 %
		BFC too low; No change in gal chg	**Spread = 16.2 pts**	**Increasing price breaks; Gal chg below $1.00**
Usage Blocks and Rate Factors	**Cons (kgal)**	**BFC = $3.92 $1.26 / $1.58**	**BFC = $6.27 $1.01 / $1.26**	**BFC = $7.84 $0.84 / $1.05**
Blocks 0-10	0	-60.2 %	-36.3 %	-20.4 %
Factors 1/1.25	5	-39.0 %	-32.4 %	-28.1 %
	10	-30.2 %	-30.8 %	-31.3 %
	15	-20.2 %	-25.8 %	-29.7 %
	20	-13.8 %	-22.6 %	-28.6 %
	30	-6.3 %	-18.8 %	-27.3 %
	50	0.8 %	-15.2 %	-26.1 %
	70	4.3 %	-13.5 %	-25.6 %
	100	7.0 %	-12.1 %	-25.1 %
	200	11.7 %	-9.8 %	-24.5 %
		BFC too low; Gal chgs are OK	**Spread = 26.5 pts**	**Increasing price breaks; Gal chg below $1.00**
Usage Blocks and Rate Factors	**Cons (kgal)**	**BFC = $3.92 $1.10 / $1.38 / $2.20**	**BFC = $6.27 $0.96 / $1.20 / $1.44**	**BFC = $7.84 $0.80 / $1.00 / $1.20**
Blocks 0-10-20	0	-60.2 %	-36.3 %	-20.4 %
Factors 1/1.25/1.5	5	-40.8 %	-33.9 %	-29.3 %
	10	-32.7 %	-32.9 %	-33.0 %
	15	-23.3 %	-28.4 %	-31.8 %
	20	-17.4 %	-25.6 %	-31.0 %
	30	-4.5 %	-17.5 %	-26.2 %
	50	7.7 %	-9.9 %	-21.6 %
	70	13.6 %	-6.2 %	-19.4 %
	100	18.3 %	-3.2 %	-17.6 %
	200	24.2 %	0.4 %	-15.4 %
		BFC too low; Gal chgs are better	**Gal chg below $1.00**	**Shifting price breaks; Gal chg below $1.00**

Issue 13: Is an adjustment to reflect repression of consumption appropriate?

Recommendation: No. The recommended revenue requirement reduction and recommended rate structure results in price decreases to all customers; therefore, a repression adjustment is not appropriate. However, in order to monitor the effects of staff's recommended revenue requirement and rate structure changes, the utility should be ordered to prepare monthly reports, filed on a quarterly basis, detailing the number of bills, the gallons billed and the revenues billed. The reports should be prepared by customer class, meter size and usage block, for a period of two years, after the first month that the rates go into effect. (LINGO)

Staff Analysis: As discussed in Issue 8, staff is recommending a revenue requirement reduction of approximately 27%. As discussed in Issue 12, staff's recommended rate structure (in conjunction with the recommended revenue requirement reduction) results in price decreases at all consumption levels. Therefore, a repression adjustment is not appropriate. However, in order to monitor the effects of staff's recommended revenue requirement and rate structure changes, the utility should be ordered to prepare monthly reports, filed on a quarterly basis, detailing the number of bills, the gallons billed and the revenues billed. The reports should be prepared by customer class, meter size and usage block, for a period of two years, after the first month that the rates go into effect.

Issue 14: What are the appropriate monthly rates for service?

Recommendation: The appropriate monthly rates should be designed to produce revenues of $163,144, excluding Other Revenues. The utility should adjust water service rates downward as set forth in the staff analysis. The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates within 30 days of the Consummating Order. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice, 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. (LINGO, MERTA)

Staff Analysis: As stated previously in Issue 8, the appropriate revenue requirement is $169,828. The utility had other revenues totaling $6,684 during the test year. Other revenues should be used to reduce the revenue requirement recovered through rates. Therefore, staff has designed rates to produce revenues of $163,144 ($169,828 - $6,684).

As discussed in Issue No. 12, staff recommends that the utility's residential rate structure should be changed to a two-tier inclining-block rate structure, with usage blocks of 0-10 kgal and 10+ kgal. Also discussed previously, the rate factors for the first and second blocks should be 1.0 and 1.25, respectively. Therefore the resulting monthly rates for service are those shown below.

Monthly Rates – Water
Residential and General Service

Base Facility Charge

Meter Size	Test Year Rates	Staff's Recommended Rates
5/8"	$9.85	$6.27
¾"	N/A	$9.40
1"	$24.63	$15.68
1 ½"	$49.27	$31.35
2"	$78.86	$50.16
3"	$157.71	$100.32
4"	$246.43	$156.75
6"	N/A	$313.50

Gallonage Charge

Residential Per 1,000 Gallons		
0-10,000 Gallons	$1.38	$1.01
Above 10,000 Gallons	$1.38	$1.26
General Service		
Per 1,000 Gallons	$1.38	$1.11

Staff's recommended decrease in water service rates is $64,203 or approximately 27.43% on an annual basis. The rates approved for the utility should be designed to produce revenues of $163,144.

Approximately 40% ($64,790) of the service revenues are recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 60% ($98,354) of the service revenues represents revenues collected through the consumption charge based on the number of factored gallons.

In addition to adjusting its water service rates downward as indicated above, the utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The 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.

Issue 15: 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, Florida Statutes?

Recommendation: The water rates should be reduced as shown on Schedule 4, 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, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 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. (MERTA)

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

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility 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 16: Should the utility's service availability policy be changed to discontinue service availability charges?

Recommendation: Yes, the utility's service availability policy should be changed to discontinue its service availability charges. However, the meter installation charges as reflected in the utility's water tariff should be continued. The utility should file revised tariff sheets and proposed notice which are consistent with the Commission's vote. The discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided that customers have been noticed. (MERTA)

Staff Analysis: The utility's current service availability charges were established by Order No. 12842, issued January 4, 1984, in Docket No. 830436-W (AP). At that time, the utility was assigned a customer connection (tap-in) charge of $500.00. Its present meter installation fee is $70.00. There have been no changes in the service availability charges since the initial fees were approved.

Shown below are the utility's UPIS balances compared to its CIAC balances, net of accumulated depreciation and accumulated amortization, for the past three years.

SOURCE	UPIS (NET)	CIAC (NET)	CONTRIBUTION LEVEL %
2001 Annual Report	$490,596	$(319,303)	65.08%
2002 As Adjusted By Staff	$721,859	$(609,803)	84.48%
2003 As Adjusted By Staff	$755,405	$(605,659)	80.18%

As illustrated above, the utility's contribution levels for the last two years have been higher than the 75% maximum allowed by Rule 25-30.580(1), F.A.C. Staff believes that if this utility continues to collect CIAC at this rate, in a matter of just a few years, the utility's rate base may be negative.

Applying the current service availability charges as reflected in the utility's tariff, staff calculated the utility's current contribution levels and the projected levels at design capacity for the water system. This calculation reflects the utility's current contribution level of 74.97%. If the utility continues to collect its current authorized service availability charges, by the end of 2004, the utility will reach contribution levels of 76.11%, which will be above the ranges as specified in Rule 25-30.580, F.A.C. According to Rule 25-30.580(1), F.A.C.:

> The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

Based on the above, staff recommends that RWS's service availability charges be discontinued. However, the meter installation charges as reflected in the water system's tariff should be continued. The utility should file revised tariff sheets and proposed notice which are consistent with the Commission's vote. The discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided that customers have been noticed.

Issue 17: Should the utility be required to provide proof, within 90 days of the consummating order, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

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

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that RWS should provide proof, within 90 days of the consummating order, that the adjustments for all the applicable NARUC USOA primary accounts have been made. To assist the utility, staff has reflected its recommended 2002 year-end plant balance, by primary account in Schedule No. 5.

Issue 18: Should the docket be closed?

Recommendation: No. If no timely protest is received from a substantially affected person within 21 days of the date of the Proposed Agency Action (PAA) Order, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional ten months after the Consummating Order to allow staff time to verify the utility has completed the pro forma distribution project and to verify that the refund has been made to RWS customers. Upon verification of the above by staff, the docket should be administratively closed. (JAEGER, MERTA)

Staff Analysis: If no timely protest is received from a substantially affected person within 21 days of the date of the Proposed Agency Action (PAA) Order, upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. This docket should remain open for an additional ten months after the Consummating Order to allow staff time to verify the utility has completed the pro forma distribution project and to verify that the refund has been made to RWS customers. Upon verification of the above by staff, the docket should be administratively closed.

Residential Water Systems Inc.

Attachment A Page 1 of 6
Historical Test Year 2002

WATER TREATMENT PLANT - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2 x (Ave. of Max days - EUW) + FF + Growth] / Capacity of Plant

[2 X (455.50 - 22.51) + 500 + 171.48] / 475 = 100% Used & Useful

Residential Water Systems Inc.

Historical Test Year 2002

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2+3]/(1) = 107% = 100% Used and Useful

Residential Water Systems Inc.

WATER TREATMENT PLANT - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2 x (Ave. of Max days - EUW) + FF + Growth] / Capacity of Plant

[2 X (470.46 - 0) + 500 + 190.53] / 750 = 100% Used & Useful

Residential Water Systems Inc.

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2+3]/(1) = 103.1% = 100% Used and Useful

Residential Water Systems Inc.

WATER TREATMENT PLANT - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2 x (Ave. of Max days - EUW) + FF + Growth] / Capacity of Plant

[2 X (517.36 - 0) + 500 + 287.42] / 750 = 100% Used & Useful

Residential Water Systems Inc.
Docket No: 030423-WU

Attachment A, page 6 of 6
Projected Test Year 2004

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

[2+3]/(1) = 116.7% = 100% Used and Useful

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 1-A
TEST YEAR ENDING 12/31/02
SCHEDULE OF WATER RATE BASE

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$701,940	$192,634	$894,574
2. LAND & LAND RIGHTS	0	$7,704	$7,704
3. NON-USED AND USEFUL COMPONENTS	0	$0	$0
4. CIAC	(508,358)	($373,177)	($881,535)
5. ACCUMULATED DEPRECIATION	(185,669)	$5,250	($180,419)
6. AMORTIZATION OF CIAC	198,326	$73,406	$271,732
7. WORKING CAPITAL ALLOWANCE	0	$13,244	$13,244
8. WATER RATE BASE	$206,239	($80,939)	$125,300

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 1-B
TEST YEAR ENDING 12/31/02 DOCKET NO. 030423-WU

ADJUSTMENTS TO RATE BASE

	WATER
UTILITY PLANT IN SERVICE	
1. Plant per original cost study	$208,995
2. To include office furniture & equipment	3,084
3. To include miscellaneous equipment	4,920
4. Retirement of meters	(6,397)
5. Averaging adjustment	(17,968)
Total	$192,634
LAND AND LAND RIGHTS	
1. Land value determined by auditor	$7,704
NON-USED AND USEFUL	
1. To reflect non-used and useful plant	
2. To reflect non-used and useful accumulated depreciation	
Total	$0
CIAC	
1. CIAC imputed by staff	($379,527)
2. Retirement	4,860
3. Averaging adjustment	1,490
Total	($373,177)
ACCUMULATED DEPRECIATION	
1. Accumulated depreciation per Rule 25-30.140, F.A.C.	($5,181)
2. Averaging adjustment	10,431
Total	$5,250
AMORTIZATION OF CIAC	
1. To adjust amortization based on composite rates	$86,494
2. Averaging adjustment	(13,088)
Total	$73,406
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$13,244

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF CAPITAL STRUCTURE

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

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$100	$0	$100					
2. RETAINED EARNINGS	(46,003)	2,756	($43,247)					
3. PAID IN CAPITAL	400	0	$400					
4. OTHER COMMON EQUITY	0	42,747	$42,747					
5. TOTAL COMMON EQUITY	($45,503)	$45,503	0	0	0	0.00%	17.35%	0.00%
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	21,926	(1,700)	20,226	(11,605)	8,621	6.88%	3.90%	0.27%
Wachovia Bank	84,065	0	84,065	(48,232)	35,833	28.60%	8.75%	2.50%
N/P State of Florida	186,648	0	186,648	(107,088)	79,560	63.50%	3.55%	2.25%
TOTAL LONG TERM DEBT	292,639	(1,700)	290,939	(166,924)	124,015	98.97%		
7. CUSTOMER DEPOSITS	3,015	0	3,015	(1,730)	1,285	1.03%	6.00%	0.06%
8. TOTAL	$250,151	$43,803	$293,954	($168,654)	$125,300	100.00%		5.09%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	15.35%	17.35%
OVERALL RATE OF RETURN	5.09%	5.09%

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 1-D
TEST YEAR ENDING 12/31/02 DOCKET NO. 030423-WU
SCHEDULE OF WATER OPERATING INCOME

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$194,937	$3,220	$198,157	($71,299) -35.98%	$126,858
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	158,998	(53,048)	105,950	0	105,950
3. DEPRECIATION (NET)	6,518	(5,435)	1,083	0	1,083
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	11,449	5,207	16,656	(3,208)	13,447
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$176,965	($53,276)	$123,689	($3,208)	$120,481
8. **OPERATING INCOME/(LOSS)**	$17,972		$74,468		$6,378
9. **WATER RATE BASE**	$206,239		$125,300		$125,300
10. **RATE OF RETURN**	8.71%		59.43%		5.09%

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/02 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 1-E DOCKET NO. 030423-WU PAGE 1 OF 2
OPERATING REVENUES	
To adjust utility revenues to staff calculation.	$3,220
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages Employees (601)	
To reduce the salary of the Vice President	($12,160)
2. Salaries and Wages Officers (603)	
To reduce the salary of the President	($15,137)
3. Employees Pension and Benefits (604)	
Reclassify health insurance from Account 655	$4,785
To remove charges for doctors and dentists	(399)
To allocate Vice President's health insurance	(1,542)
Subtotal	$2,844
4. Purchased Power (615)	
Reduce 11.71% for excessive unaccounted for water	($735)
5. Chemicals (618)	
Remove out of period chemical expense	($50)
Reduce 11.71% for excessive unaccounted for water	(78)
Subtotal	($128)
6. Contractual Services - Professional (631)	$0
7. Contractual Services - Testing (635)	
Reclassify testing costs from Account 636	$1,334
8. Contractual Services - Other (636)	
Reclassify testing costs to Account 635	($1,699)
Reclassify health insurance included in Admin Fee to Account 604	(4,785)
Reclassify repairs and maintenance from Account 675	2,638
Amortize nonrecurring repairs over 5 years	(702)
Subtotal	($4,548)
9. Rents (640)	
To remove rent expense included in management fee	($5,350)
10. Transportation Expenses (650)	
To remove Lincoln Navigator expenses	($2,900)

(O &M EXPENSES CONTINUED ON NEXT PAGE)

RESIDENTIAL WATER SYSTEMS, INC.	SCHEDULE NO. 1-E
TEST YEAR ENDING 12/31/02	DOCKET NO. 030423-WU
ADJUSTMENTS TO OPERATING INCOME	PAGE 2 OF 2

(O & M EXPENSES CONTINUED)

	WATER
11. Insurance Expenses (655)	
To remove life insurance premium	($5,920)
12. Miscellaneous Expenses (675)	
Reclassify repairs and maintenance to Account 636	(2,638)
Reclassify interest expense to Account 427	(1,740)
Reclassify corporate tax to Account 408, Taxes Other	(109)
Reclassify payroll taxes to Account 408, Taxes Other	(6,991)
To include bank charges	1,129
Subtotal	($10,349)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**($53,048)**
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-130.140, F.A.C.	$3,624
2. To include amortization of CIAC per composite rates	(9,059)
3.	
Total	($5,435)
TAXES OTHER THAN INCOME	
1. To include RAFs on annualized revenue	$145
2 Reclassify corporate tax from Account 675	109
3 Reclassify payroll taxes from Account 675	6,991
4 To increase corporate tax per Audit Exception No. 5	50
5 To reduce payroll taxes for Vice President's salary	(930)
6 To reduce payroll taxes for President's salary	(1,158)
Total	$5,207

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

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

	TOTAL PER UTILITY	STAFF ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES – EMPLOYEES	41,800	(12,160)	29,640
(603) SALARIES AND WAGES – OFFICERS	59,800	(15,137)	44,663
(604) EMPLOYEE PENSION & BENEFITS	1,324	2,844	4,168
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	6,273	(735)	5,538
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	712	(128)	584
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES – BILLING	0	0	0
(631) CONTRACTUAL SERVICES – PROFESSIONAL	1,510	0	1,510
(635) CONTRACTUAL SERVICES – TESTING	400	1,334	1,734
(636) CONTRACTUAL SERVICES – OTHER	19,345	(4,548)	14,797
(640) RENTS	5,350	(5,350)	0
(650) TRANSPORTATION EXPENSE	4,408	(2,900)	1,508
(655) INSURANCE EXPENSE	6,598	(5,920)	678
(665) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	11,478	(10,349)	1,129
	158,998	(53,048)	105,950

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/03
SCHEDULE OF WATER RATE BASE

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

DESCRIPTION	12/31/02 BALANCE PER STAFF	STAFF ADJUST. TO 2002 BAL.	12/31/03 BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$912,542	$24,991	$937,533
2. LAND & LAND RIGHTS	7,704	$0	$7,704
3. NON-USED AND USEFUL COMPONENTS	0	$0	$0
4. CIAC	(883,025)	($21,705)	($904,730)
5. ACCUMULATED DEPRECIATION	(190,850)	$1,018	($189,832)
6. AMORTIZATION OF CIAC	284,820	$14,251	$299,071
7. WORKING CAPITAL ALLOWANCE	13,244	$2,165	$15,409
8. WATER RATE BASE	$144,435	$20,720	$165,155

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 2-E
TEST YEAR ENDING 12/31/03 DOCKET NO. 030423-WU
ADJUSTMENTS TO RATE BASE

	WATER
UTILITY PLANT IN SERVICE	
1. Plant additions in 2003	$82,145
2. Retirements	(32,163)
3. Averaging adjustment	(24,991)
4.	
Total	$24,991
LAND AND LAND RIGHTS	
1. Land value determined by auditor	$0
Non-Used and Useful	
1. To reflect non-used and useful plant	
2 To reflect non-used and useful accumulated depreciation	
Total	$0
CIAC	
1. Per staff calculation based on composite rates	($43,410)
2. Averaging adjustment	21,705
Total	($21,705)
ACCUMULATED DEPRECIATION	
1. Accumulated depreciation per Rule 25-30.140, F.A.C.	$2,037
2. Averaging adjustment	(1,019)
3.	
4.	
Total	$1,018
AMORTIZATION OF CIAC	
1. To adjust amortization based on composite rates	$28,503
2. Averaging adjustment	(14,252)
Total	$14,251
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$2,165

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/03
SCHEDULE OF CAPITAL STRUCTURE

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

CAPITAL COMPONENT	2002 PER STAFF	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$100	$0	$100					
2. RETAINED EARNINGS	(43,247)	0	($43,247)					
3. PAID IN CAPITAL	400	119,726	$120,126					
4. OTHER COMMON EQUITY	0	0	$0					
5. TOTAL COMMON EQUITY	($42,747)	$119,726	76,979	(30,986)	45,993	27.85%	17.35%	4.83%
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	20,226	(5,224)	15,002	(6,039)	8,963	5.43%	3.90%	0.21%
Wachovia Bank	84,065	(84,065)	0	0	0	0.00%	8.75%	0.00%
N/P State of Florida	186,648	(7,854)	178,794	(71,970)	106,824	64.68%	3.55%	2.30%
TOTAL LONG TERM DEBT	290,939	(89,289)	193,796	(78,009)	115,787	70.11%		
7. CUSTOMER DEPOSITS	3,015	360	3,375	0	3,375	2.04%	6.00%	0.12%
8. TOTAL	$251,207	$30,797	$274,150	($108,995)	$165,155	100.00%		7.46%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	15.35%	17.35%
OVERALL RATE OF RETURN	6.91%	7.46%

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 2-D
TEST YEAR ENDING 12/31/03 DOCKET NO. 030423-WU
SCHEDULE OF WATER OPERATING INCOME

	12/31/02 TEST YEAR PER STAFF	STAFF ADJUSTMENTS	STAFF ADJ. 12/31/03 TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$198,157	$14,793	$212,950	($58,435) -27.44%	$154,515
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	105,949	17,320	123,269	0	123,269
3. DEPRECIATION (NET)	1,083	539	1,622	0	1,622
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	16,656	3,277	19,933	(2,630)	17,304
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$123,688	$21,136	$144,824	($2,630)	$142,195
8. **OPERATING INCOME/(LOSS)**	$74,469		$68,126		$12,321
9. **WATER RATE BASE**	$144,435		$165,155		$165,155
10. **RATE OF RETURN**	51.56%		41.25%		7.46%

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/03 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 2-E DOCKET NO. 030423-WU PAGE 1 OF 2
OPERATING REVENUES	
1 To adjust utility revenues to annualized amount.	$16,144
2 To adjust other revenues to annualized amount	(1,351)
Subtotal	$14,793
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages Employees (601)	
To index 2002 expenses to 2003	$388
2. Salaries and Wages Officers (603)	
To index 2002 expenses to 2003	$585
3. Employees Pension and Benefits (604)	
To index 2002 expenses to 2003	$55
4. Purchased Power (615)	
To increase for new customers	$422
Subtotal	$422
5. Chemicals (618)	
To index 2002 expenses to 2003	$8
To increase for new customers	44
Subtotal	$52
6. Contractual Services - Professional (631)	
To increase for pro forma additional accounting expenses	$1,500
To index 2002 expenses to 2003	20
Subtotal	$1,520
7. Contractual Services - Testing (635)	
To index 2002 expenses to 2003	$23
8. Contractual Services - Other (636)	
To increase management fees	$14,193
To index operator & repair expense	39
Subtotal	$14,232
9. Rents (640)	$0

(O &M EXPENSES CONTINUED ON NEXT PAGE)

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

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

(O & M EXPENSES CONTINUED)

	WATER
10. Transportation Expenses (650)	
To index 2002 expenses to 2003	$20
11. Insurance Expenses (655)	
To index 2002 expenses to 2003	$9
12. Miscellaneous Expenses (675)	
To index 2002 expenses to 2003	$15
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**$17,320**
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-130.140, F.A.C.	$2,867
2. To include amortization of CIAC per composite rates	(2,328)
3.	
Total	$539
TAXES OTHER THAN INCOME	
1. To include RAFs on annualized revenue	$666
2. To increase payroll taxes for salaries	1,724
3. To increase tangible personal property taxes	996
4. To decrease real estate taxes	(108)
Total	$3,277

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 2-F
TEST YEAR ENDING 12/31/03 DOCKET NO. 030423-WU

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	12/31/02 TOTAL PER STAFF	STAFF ADJUST.	ADJUSTED TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	29,640	388	30,028
(603) SALARIES AND WAGES - OFFICERS	44,663	585	45,248
(604) EMPLOYEE PENSION & BENEFITS	4,168	55	4,223
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,538	422	5,960
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	584	52	636
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,510	1,520	3,030
(635) CONTRACTUAL SERVICES - TESTING	1,734	23	1,757
(636) CONTRACTUAL SERVICES - OTHER	14,797	14,232	29,029
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,508	20	1,528
(655) INSURANCE EXPENSE	678	9	687
(665) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	1,129	15	1,144
	105,949	17,320	123,269

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 3-A
TEST YEAR ENDING 12/31/04 DOCKET NO. 030423-WU
SCHEDULE OF WATER RATE BASE

DESCRIPTION	12/31/03 BALANCE PER STAFF	STAFF ADJUST. TO 2003 BAL.	12/31/04 BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$962,524	$48,359	$1,010,883
2. LAND & LAND RIGHTS	7,704	$0	$7,704
3. NON-USED AND USEFUL COMPONENTS	0	$0	$0
4. CIAC	(926,435)	($11,810)	($938,245)
5. ACCUMULATED DEPRECIATION	(188,813)	($17,014)	($205,827)
6. AMORTIZATION OF CIAC	313,323	$14,938	$328,261
7. WORKING CAPITAL ALLOWANCE	15,409	$1,040	$16,449
8. WATER RATE BASE	$183,712	$35,513	$219,225

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/04 DOCKET NO. 030423-WU
ADJUSTMENTS TO RATE BASE

	WATER
UTILITY PLANT IN SERVICE	
1. Pro forma plant additions in 2004	$96,718
2. Averaging adjustment	(48,359)
Total	$48,359
LAND AND LAND RIGHTS	
	$0
Non-Used and Useful	
1. To reflect non-used and useful plant	
2. To reflect non-used and useful accumulated depreciation	
Total	$0
CIAC	
1. Per staff calculation based on composite rates	($3,710)
2. Pro forma CIAC	(19,910)
3. Averaging adjustment	11,810
Total	($11,810)
ACCUMULATED DEPRECIATION	
1. Accumulated depreciation per Rule 25-30.140, F.A.C.	($34,028)
2. Averaging adjustment	17,014
Total	($17,014)
AMORTIZATION OF CIAC	
1. To adjust amortization based on composite rates	$29,877
2. Averaging adjustment	(14,939)
Total	$14,938
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$1,040

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04
SCHEDULE OF CAPITAL STRUCTURE

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

CAPITAL COMPONENT	2003 PER STAFF	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$100	$0	$100					
2. RETAINED EARNINGS	(43,247)	0	($43,247)					
3. PAID IN CAPITAL	120,126	76,808	$196,934					
4. OTHER COMMON EQUITY	0	0	$0					
5. TOTAL COMMON EQUITY	$76,979	$76,808	153,787	(55,066)	98,721	45.03%	11.46%	5.16%
6. LONG TERM DEBT								
Bobcat & Kubota of Ocala	15,002	(5,224)	9,778	(3,501)	6,277	2.86%	3.90%	0.11%
Wachovia Bank	0	0	0	0	0	0.00%	8.75%	0.00%
N/P State of Florida	178,794	(7,854)	170,940	(61,208)	109,732	50.05%	3.55%	1.78%
TOTAL LONG TERM DEBT	193,796	(13,078)	180,718	(64,709)	116,009	52.92%		
7. CUSTOMER DEPOSITS	3,435	1,060	4,495	0	4,495	2.05%	6.00%	0.12%
8. TOTAL	$274,210	$64,790	$339,000	($119,775)	$219,225	100.00%		7.17%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.46%	12.46%
OVERALL RATE OF RETURN	6.72%	7.62%

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 3-D
TEST YEAR ENDING 12/31/04 DOCKET NO. 030423-WU
SCHEDULE OF WATER OPERATING INCOME

	12/31/03 TEST YEAR PER STAFF	STAFF ADJUSTMENTS	STAFF ADJ. 12/31/04 TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. **OPERATING REVENUES**	$212,950	$21,081	$234,031	($64,203) -27.43%	$169,828
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	123,270	8,321	131,591	0	131,591
3. DEPRECIATION (NET)	1,622	2,812	4,434	0	4,434
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	19,933	1,040	20,973	(2,889)	18,084
6. INCOME TAXES	0	0	0	0	0
7. **TOTAL OPERATING EXPENSES**	$144,825	$12,173	$156,998	($2,889)	$154,109
8. **OPERATING INCOME/(LOSS)**	$68,125		$77,032		$15,718
9. **WATER RATE BASE**	$183,712		$219,225		$219,225
10. **RATE OF RETURN**	37.08%		35.14%		7.17%

RESIDENTIAL WATER SYSTEMS, INC. TEST YEAR ENDING 12/31/04 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-E DOCKET NO. 030423-WU PAGE 1 OF 2
OPERATING REVENUES	
To adjust utility revenues to annualized amount.	$21,081
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages Employees (601)	
To index 2003 expenses to 2004	$480
2. Salaries and Wages Officers (603)	
To index 2003 expenses to 2004	$724
3. Employees Pension and Benefits (604)	
To index 2003 expenses to 2004	$68
4. Purchased Power (615)	
To increase for new customers	$424
5. Chemicals (618)	
To index 2003 expenses to 2004	$10
To increase for new customers	45
Subtotal	$55
6. Contractual Services - Professional (631)	
To index 2003 expenses to 2004	$48
7. Contractual Services - Testing (635)	
To index 2003 expenses to 2004	$28
8. Contractual Services - Other (636)	
To index 2003 expenses to 2004	$464
9. Rents (640)	$0
Transportation Expenses (650)	
10. To index 2003 expenses to 2004	$24
Insurance Expenses (655)	
11. To index 2003 expenses to 2004	$11

(O &M EXPENSES CONTINUED ON NEXT PAGE)

RESIDENTIAL WATER SYSTEMS, INC. — SCHEDULE NO. 3-E
TEST YEAR ENDING 12/31/04 — DOCKET NO. 030423-WU
ADJUSTMENTS TO OPERATING INCOME — PAGE 2 OF 2

(O & M EXPENSES CONTINUED)

12. Regulatory Expense (665)	
To include rate case expense	$5,975
13. Miscellaneous Expenses (675)	
To index 2003 expenses to 2004	$18
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$8,321

DEPRECIATION EXPENSE

1. To reflect test year depreciation calculated per 25-130.140, F.A.C.	$5,860
2. To include amortization of CIAC per composite rates	(3,048)
3.	
Total	$2,812

TAXES OTHER THAN INCOME

1. To include RAFs on annualized revenue	$948
2. To increase payroll taxes for salaries	92
Total	$1,040

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 3-F
TEST YEAR ENDING 12/31/04 DOCKET NO. 030423-WU

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	12/31/03 TOTAL PER STAFF	STAFF ADJUST.	ADJUSTED TOTAL PER STAFF
(601) SALARIES AND WAGES – EMPLOYEES	30,028	480	30,508
(603) SALARIES AND WAGES – OFFICERS	45,248	724	45,972
(604) EMPLOYEE PENSION & BENEFITS	4,223	68	4,291
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	5,960	424	6,384
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	636	55	691
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	3,030	48	3,078
(635) CONTRACTUAL SERVICES - TESTING	1,757	28	1,785
(636) CONTRACTUAL SERVICES - OTHER	29,029	464	29,493
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	1,528	24	1,552
(655) INSURANCE EXPENSE	687	11	698
(665) REGULATORY COMMISSION EXPENSE	0	5,975	5,975
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	1,144	18	1,162
	123,270	8,321	131,591

RECOMMENDED RATE REDUCTION SCHEDULE

RESIDENTIAL WATER SYSTEMS, INC.
TEST YEAR ENDING 12/31/04

SCHEDULE NO. 4
DOCKET NO. 030423-WU

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	6.27	0.23
3/4"		9.40	0.35
1"		15.68	0.58
1-1/2"		31.35	1.15
2"		50.16	1.85
3"		100.32	3.70
4"		156.75	5.77
6"		313.50	11.55
RESIDENTIAL GALLONAGE CHARGE (Per 1,000 gallons)			
0 - 10,000 gallons	$	1.01	0.04
Above 10,000 gallons		1.26	0.05
GENERAL SERVICE GALLONAGE CHARGE			
Per 1,000 gallons	$	1.11	0.04

RECOMMENDED BALANCES FOR YEAR END DECEMBER 31, 2002

RESIDENTIAL WATER SYSTEMS, INC. SCHEDULE NO. 5
TEST YEAR ENDING 12/31/02 DOCKET NO. 030423-WU

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