

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and
wastewater rates in Polk County by Cypress
Lakes Utilities, Inc.

DOCKET NO. 060257-WS
ORDER NO. PSC-07-0199-PAA-WS
ISSUED: March 5, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES AND
ORDER INITIATING SHOW CAUSE PROCEEDINGS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the initiation of show cause proceedings, the four-year rate reduction, and proof of adjustment of books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

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

<u>Docket No.</u>	<u>Utility Subsidiary</u>
060253-WS	Utilities, Inc. of Florida
060254-SU	Mid-County Services, Inc.
060255-SU	Tierra Verde Utilities, Inc.
060256-SU	Alafaya Utilities, Inc.
060257-WS	Cypress Lakes Utilities, Inc.
060258-WS	Sanlando Utilities, Inc.
060260-WS	Lake Placid Utilities, Inc.
060261-WS	Utilities, Inc. of Pennbrooke
060262-WS	Labrador Utilities, Inc.
060285-SU	Utilities, Inc. of Sandalhaven

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

This order addresses Docket No. 060257-WS, Cypress Lakes Utilities, Inc. (Cypress Lakes or utility), which is a Class B utility providing water and wastewater service to approximately 1,287 residential and 43 general service customers in Polk County. Rates were last established for Cypress Lakes in its 2003 rate proceeding.¹

On May 15, 2006, Cypress Lakes filed its Application for Rate Increase at issue in the instant docket. The utility requested the application be processed using the Proposed Agency Action (PAA) procedure. The utility had deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and August 22, 2006, was established as the official filing date. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2005.

In its filing, Cypress Lakes requested interim rates. On July 18, 2006, we approved interim rates designed to generate annual water revenues of \$271,997, an increase of \$23,640, or 9.52%; and annual wastewater revenues of \$437,155, an increase of \$76,918, or 21.35%.² The utility requested final rates designed to generate annual water revenues of \$350,147, an increase of \$101,790 or 40.99%, and annual wastewater revenues of \$510,566, an increase of \$150,329 or 41.73%.

The intervention of the Office of Public Counsel was acknowledged by Order No. PSC-06-0648-PCO-WS, issued August 2, 2006. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

QUALITY OF SERVICE

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

Cypress Lakes provides both water and wastewater service in Polk County and is located in Lakeland, Florida. The customer base consists of single-family residential (SFR) and general service customers. The water and wastewater treatment plants are located inside of the Cypress Lakes community and the water treatment facility is monitored by the Polk County Health Department (PCHD). The water treatment plant contains two wells, two hydro pneumatic tanks,

¹ See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

² See Order No. PSC-06-0661-FOF-WS, issued August 7, 2006, in Docket No. 060257-WS, In re: Application for increase in wastewater rates in Polk County by Cypress Lakes, Inc.

a utility building, and transmission lines. The water treatment process consists of pumping, chlorine disinfection, and distribution, with no storage capability.

The wastewater treatment plant is an extended-aeration domestic wastewater treatment facility, with activated sludge. The DEP permitted capacity for the wastewater plant is 175,000 gallons per day on a 3 month average daily flow (3MADF) basis. The wastewater treatment plant processes the incoming waste, the activated sludge is removed and the effluent is routed to the reclaimed water processing system. The treated wastewater effluent is then transported, via a distribution line, to a holding pond to be used by two golf courses inside the Cypress Lakes community. The wastewater collection system consists of collection mains and lift stations that are located throughout the service area.

We reviewed the system maps, chemical analyses and use, monthly operation reports (MORs), the DEP and the Southwest Florida Water Management District (SWFWMD) permits, the water sanitary survey, the wastewater compliance inspection reports, field employees' records, vehicles, and customer complaint logs maintained by the utility. We also researched whether any customer complaints were filed with the Commission related to this utility. We conducted a field inspection of the water and wastewater facilities and spoke with DEP and PCHD officials regarding the quality of those facilities.

Quality of Product

We reviewed DEP, PCHD and the utility records. The information contained in those records indicates the quality of both the water produced and wastewater treated meet environmental regulatory standards. However, on several occasions, since the 2005 inspection, the utility's product has not met the minimum chlorine residual requirement of 0.2 parts per million (ppm). Because its product did not meet standards, the utility was fined a total of \$1,200 by PCHD and required to bring its product up to regulatory requirements. On December 21, 2006, the utility paid the fine. Currently, PCHD and DEP staff indicate the finished products of both plants meet regulatory standards. Therefore, we find that the quality of the finished products for the water and wastewater plants is satisfactory.

Operating Condition of the Water and Wastewater Facilities

We conducted a field inspection of the water and wastewater treatment, water distribution, wastewater collection, and reclaimed water systems. Based on our staff's investigation, the Cypress Lakes' plants appear to be in compliance with PCHD and DEP rules and regulations. In addition, the inspectors of both plants indicated the plants were in compliance with each agency's rules. Therefore, we find that the operating condition of the utility's facilities is satisfactory.

Customer Satisfaction

A customer meeting was held in the utility's service area on October 19, 2006, at the Cypress Lakes Clubhouse. There were approximately 350 customers who attended the meeting

and twenty-one customers spoke. Our staff also held an informal meeting earlier that day with members of the Cypress Lakes Homeowners Association (HOA). During the customer meeting, residents expressed numerous concerns, the majority of which dealt with the level of the rate increase, low/no chlorine residual, excessive line flushing and water quality.

Mr. Dennis McLaughlin, the president of the HOA, expressed concern about the excessive amount of line flushing by the utility. Mr. Richard Holzschuh and Mr. Robert Halleen, representatives of the HOA, sent staff several letters of concerns from the homeowners. They stated the majority of the homeowners believe the quality of the product, particularly the water, has deteriorated and they see no incentive for the utility to improve it. In addition, the homeowners have concerns regarding the justification for the interim rates granted by the Commission, who is paying for the water used for line flushing, and many others.

When our staff met with the board members of the HOA prior to the customer meeting, our staff explained the interim procedures mandated by Section 367.082, F.S. A HOA board member had a question regarding the appropriate test year. The analysis of the test year approval indicated the historical test year did not have excessive customer growth or any other material anomaly that would make the 2005 test year not representative. In addition, our staff responded to questions regarding the interim increase of 19% for water and 26% for wastewater. The customers also inquired whether the revenue requirement approved in the utility's last rate case was subsequently achieved by the utility. The HOA also requested an explanation as to how water and wastewater rates are determined. Our staff addressed all customer questions at both meetings, in addition to numerous inquiries received by the HOA subsequent to the meetings.

Other questions discussed at the meeting concerned what new plant items were installed by the utility, extended line flushing, and water quality issues (bad odor and taste and clogged filters). Our staff addressed the customers' questions and investigated these concerns by walking through the community to observe the fire hydrant flushing. At the time of the customer meeting, the lines were not being flushed; however, the next day line flushing resumed while our staff was investigating the service area. Further, in a data request, we asked the utility to explain why it was performing line flushing for extended periods of time and if installing a chlorine booster station would be a prudent solution to eliminate extensive flushing. In its response, the utility explained it was flushing lines in an effort to maintain adequate chlorine residual throughout the distribution system and stated "there is insufficient information available to answer the question. An engineering evaluation of the distribution system, water quality, and treatment options would need to be conducted before offering a response." Further, it stated, "The utility has not investigated the value of installing a booster station. Without having conducted an evaluation of the worth of installing a chlorine booster station or having initiated any engineering design efforts for such a project, it would be imprudent if not impossible to provide an estimate of probable cost." We are very concerned about the large quantity of water that is being used for flushing.

Regarding the customer water quality concerns, the utility stated it had initiated an analysis of the water produced from each of the two wells with particular attention to focus on total sulfide concentration. Further, the utility explained that one possibility under consideration

is that sulfide levels have increased over time in the ground water and the water facility does not have the means to remove sulfides from the source water. The common procedure is to add chlorine in sufficient quantities to oxidize the sulfide compounds and produce a residual chlorine concentration. In certain circumstances, sulfide-reducing bacteria may grow on the interior surface of pipes causing discoloration of the water, produce strong odors, and precipitate out of solution in the form of elemental sulfur. Upon completion of the analysis, the utility expects to have a better understanding of the cause of the water quality problem and can then initiate a resolution.

Other customers expressed concerns regarding the capacity of the water treatment plant, since a new phase was about to be developed. In a data request, we asked the utility whether it would be required to expand its plant to serve the new development. In its response, the utility stated it had reviewed the site for the new development (Phase 12), which will contain approximately 120 residential lots. In addition, a review of the historical water demand indicated sufficient permitted capacity is available to serve the proposed 120-lot subdivision. Further, the utility states it is not planning to expand the water plant's permitted capacity, at this time.

In its MFRs, the utility listed a total of 632 recorded customer complaints during the test year. These complaints were concerning water odor, low pressure, low chlorine, no water, black residue in toilets, billing and water meter readings. The majority of these complaints were billing and meter-related. In most cases, the utility's records indicate its response time was about 24 hours. We have reviewed the customer complaint logs and the records indicate the utility has attempted to satisfactorily address each complaint. However, the customers have stated they are not satisfied with the utility. Based on the above, we conclude that the utility has been unable to fully satisfy its customers' concerns.

Summary

Based on our review of the water and wastewater treatment, distribution, collection, and reclaimed water systems, it appears that all systems are operating properly and are in compliance with DEP and PCHD standards. We believe that the majority of the customers are not satisfied with the current level of service provided by the utility. In addition, the customers stated the utility is not actively attempting to address their concerns. However, the utility has indicated it is in the process of connecting its current mains with the Phase 12 mains, and that would reduce the amount of flushing. Therefore, we find that the quality of service provided by Cypress Lakes is marginally satisfactory.

In addition, Cypress Lakes shall perform a complete examination of its distribution system to address the low chlorine residual. This shall include a determination of whether a chlorine booster station would help resolve the situation. The evaluation shall also examine all possible alternatives for the water treatment plant to address the hydrogen sulfide problems at Well No. 2. This examination shall include all related costs for the water treatment plant, booster pump, engineering, and permitting. In addition, all viable options, as well as the cost of each option, shall be included in the evaluation. The utility shall submit the evaluation to the

Commission, the Office of Public Counsel, and to the Cypress Lakes Homeowners Association within 9 months of the date of the Consummating Order.

RATE BASE

We approve the following adjustments to rate base:

<u>Audit Adjustments</u>	<u>Plant in Service</u>		<u>Accumulated Depreciation</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Finding No. 1-Adjustment to Utility Plant in service		\$200,004		(\$44,481)
Finding No. 2- Adj. to Accum. Depreciation			(\$3,968)	(\$163)
Finding No. 6-Adj. to Transportation Equipment-average adj.	(\$9,295)		\$3,099	
Finding No. 6-Adj. to Transportation Equipment-average adj.	<u>(\$17,548)</u>	<u>\$17,548</u>	<u>\$9,082</u>	<u>(\$9,082)</u>
Adjustment Totals	<u>(\$26,843)</u>	<u>\$217,552</u>	<u>\$8,213</u>	<u>(\$53,726)</u>

The utility agrees with all of the above audit adjustments. Therefore, we find that water plant in service shall be reduced by \$26,843 and increased by \$217,552 for wastewater plant. Associated accumulated depreciation shall be decreased by \$8,213 for water and increased by \$53,726 for wastewater.

WSC and UIF Rate Base Allocations

On MFR Schedule A-3, the utility reflected a WSC rate base allocation of \$6,161 for water and \$5,741 for wastewater. Cypress Lakes also recorded \$33,917 of its UIF rate base allocation to the water system only. Our staff performed an affiliate transactions (AT) audit of Utilities, Inc., the parent company of Cypress Lakes and its sister companies. WSC (a subsidiary service company of UI) supplies most of the accounting, billing, and other services required by UI's other subsidiaries. UIF (a subsidiary of UI) provides administrative support to its sister companies in Florida. As discussed below, we find several adjustments are necessary to the WSC and UIF rate bases before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

Audit Adjustments

In Audit Finding No. 1 of the AT audit, our staff auditor recommended adjustments to WSC's rate base consistent with Order No. PSC-03-1440-FOF-WS.³ First, deferred income taxes were removed because it should be a component of the capital structure. Second, the net computer plant balances were set to zero because WSC was unable to provide sufficient supporting evidence for inter-company transfers of computers and was unable to locate several missing invoices requested. Third, the office structure and furniture balances were adjusted because WSC was unable to locate several missing invoices the auditors had requested. In its response to the AT audit, UI agreed with the above audit adjustments. Based on the above, the appropriate simple average WSC rate base before any allocation is \$2,122,628. As there were no audit findings in the AT audit regarding UIF's rate base, we find that the appropriate simple average UIF rate base before any allocation is \$1,113,433, as reflected in UIF's general ledger.

ERC Methodology

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

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

Conclusion

Based on the above, we find that the appropriate WSC net rate base allocation for Cypress Lakes is \$7,597 for water and \$6,918 for wastewater. This represents an increase of \$1,436 and \$1,177 for water and wastewater, respectively. WSC depreciation expense shall also

³ Issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

be reduced by \$70 and \$64, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Cypress Lakes is \$11,089 for water and \$10,364 for wastewater. This represents water plant and accumulated depreciation decreases of \$17,841 and \$5,181, respectively, and wastewater plant and accumulated depreciation increases of \$14,637 and \$4,274, respectively. In addition, depreciation expense shall be decreased by \$914 for water and increased by \$469 for wastewater.

Pro Forma Plant Additions and Accumulated Depreciation

In Schedule A-3 of its MFRs, the utility requested the inclusion of \$4,343 of pro forma water plant and \$8,696 of wastewater pro forma plant additions. The utility also included \$203 and \$483 of water and wastewater accumulated depreciation.

Based on the MFR dollar amounts and the documentation provided by the utility, we believe that these additions are normal recurring plant additions. If normal recurring plant additions were allowed, a strong argument could be made that contributions in aid of construction (CIAC) and accumulated amortization of CIAC should also be projected forward another year due to the expected growth, as well as billing determinants and expenses. This would have the effect of changing the approved 2005 historical test year to a projected test year. Because of the utility's assertion in its test year request letter that the 2005 historical test period is representative of a full year of operation and the expected growth for the utility, we find that these normal recurring plant additions be removed from plant.

Overall, we find that water and wastewater pro forma plant shall be reduced by \$4,343 and \$8,696, respectively, and that accumulated depreciation and depreciation expense shall be reduced by \$203 and \$483 for water and wastewater, respectively.

Used and Useful

Water Treatment Plant

In its MFRs, the utility reflected the used and useful percentage for the water treatment plant in excess of 100%. The utility stated the system consists of simple chlorination and the only storage is in hydro pneumatic tanks with no high service pumping. Thus, the utility stated that all demands must be met by well pumping capacity and used and useful was calculated on peak demand. The utility stated that its peak demand was 410 gallons per minute (gpm).

The utility has two wells with a total capacity of 1,500 gpm. 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. By taking the largest 770 gpm well out of service, the utility reflected a firm reliable capacity of 730 gpm, which is the capacity of the smaller well. The utility's calculation of firm reliable capacity is consistent with

Commission practice.⁴ The utility used the average of the five highest days (within a 30 day period in the test year) because an anomaly occurred on the single maximum day of the test year. Further, the utility included a 500 gpm fire flow requirement and it calculated a five-year growth margin of 71 gpm. The result exceeded 100% used and useful.

For small water systems that do not have storage capacity, the demand for the water system has to be supplied by the well capacity alone. The utility has to provide sufficient capacity to meet its maximum day, as well as its peak hour demands. Most smaller water utilities measure water gallons pumped on a daily basis, not on a per-minute or even per-hour basis. Daily measurements generate average demand and will not reflect what the peak demand is at a given minute or hour on that day. In determining the demand to use for U&U purposes, this Commission uses gallons per minute (gpm), as opposed to a gallons per day (gpd), as the basis for those water systems without storage. Without actual measurements for the peak hour or minute demand, some type of estimation is appropriate in order to recognize the utility's demand requirements based on the number of customers during the test year.

While we agree that the water system is 100% used and useful, we disagree with the utility's method to determine the water customer demand factor. We have recognized peaking factors of 2.0 applied to the maximum day demand to determine peak hour demands to calculated used and useful water plant without storage. Further, the maximum day should be a day exclusive of any abnormal events such as fire flows and line breaks.⁵ In its MFRs, the utility stated that the maximum day demand was 492,000 gpd which occurred on October 2005. However, an anomaly occurred on that date and the utility used the highest day (295,000 gpd) of the five highest days within a 30 day period of the test year. Thus, two times the maximum day is 590,000 gpd, or 410 gpm (590,000 gpd /1,440 minutes/day). We believe the utility should have used the average of the highest five days in a 30 day period (264,000 gpd), which results in a peak demand of 367 gpm. Since the last rate case, the utility has not increased it plant capacity and at that time the facility was considered 100% used and useful.

Adding a fire flow allowance of 500 gpm to the 367 gpm peak demand equals 867 gpm, before a growth allowance. Since the firm reliable capacity of the system is 730 gpm, the water system shall be considered 100% used and useful.

Unaccounted for Water

It is this Commission's practice to allow 10% of the total water treated as an acceptable level of unaccounted for water for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc.⁶ In its revised MFRs, the utility reported 66,278,000 gallons of water pumped during the test year and 8,364,000 gallons of water were unaccounted, or

⁴ See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

⁵ See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc.

⁶ See Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, and Order No. PSC- 00-2005-PAA-WU, issued June 7, 2000, in Docket No. 000331-WU.

3.95%. Since Cypress Lakes recorded a total of 13.95% of unaccounted for water, in accordance with Commission practice, we find that 3.95% is excessive. Accordingly, adjustments shall be made to remove 3.95% of direct expenses associated with water treatment. Therefore, purchased power expenses shall be reduced by \$432 and chemicals by \$160, respectively, for a total reduction of \$592.

Wastewater Treatment Plant

In its MFRS, the utility calculated the used and useful percentage of the wastewater treatment plant by taking the sum of the maximum 3 month average daily flows (3MADF) of 142,511 gpd and an allowance of 24,888 gpd for growth. It then divided that total by the plant's DEP permitted capacity of 175,000 gpd. The result was 95.66%. The utility did not make any adjustments for inflow and infiltration in its calculations.

In calculating its growth allowance, the utility used the total gallons of water sold to single family residential (SFR) customers to estimate the wastewater customer growth on a total company basis for the years 2001-2005. It then used linear regression to project five years of growth beyond the test year. This resulted in a total wastewater growth allowance of 224 ERCs or 45 ERCs per year for five years. The utility calculated the 111 gpd consumption per ERC by taking the test year 3MADF of 142,511 gallons divided by average customers of 1,283. Thus, the utility's growth allowance was 24,888 gallons.

Rule 25-30.432, F.A.C., provides that the used and useful determination for a wastewater treatment plant should be based on, among other things, the DEP permitted capacity, the wastewater flows (using the same basis as the permitted capacity), an allowance for growth, infiltration and inflow, and whether the permitted capacity differs from the design capacity.

We reviewed the utility's calculation and agree with the utility's methodology with one exception. In calculating the growth allowance, the utility had a mathematical error and the correct amount should be 24,975 gpd/ERC (45 ERCs/year x 5 years x 111 gpd/ERC).

In addition, we reviewed the utility's MFRs and our analysis does not reflect excessive inflow and infiltration. As such, we do not believe that inflow and infiltration is an issue in this case. Based on the above, the wastewater treatment plant shall be considered 95.71% used and useful.

However, in a review of Schedule A-6 of the MFRs, we discovered that the utility appears to have transferred a large portion of the balance in Account 380 to Account 354. This transfer occurred in December 2005, the last month of the test year. This transfer has the effect of decreasing the simple average balance in Account 380, Treatment and Disposal, while increasing the simple average balance in Account 354, Structures and Improvements. In some situations, a transfer of this type would have no effect on rate base, but it does here. In this case, we applied a 4.29% non-used and useful adjustment to Account 380. No adjustment was approved in the last case for Account 354; therefore, a transfer from Account 380 to Account 354 in December 2005 has the effect of increasing rate base and revenue requirement.

Furthermore, Account 380 is the primary account used by the utility to account for its facilities used in its wastewater treatment operations, while Account 354 is normally used to account for such items as the utility offices, landscaping, or out-buildings. Account 354 does not usually contain costs for treatment plant and the utility has not justified this transfer. Therefore, we applied the same 4.29% non-used and useful percentage for Account 380 to the amount of plant we calculated that was transferred to Account 354. A portion of plant in Account 354 shall be considered 95.71% used and useful.

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

1) Permitted Capacity of Plant (on Annual Average Daily Flow basis)	175,000	gallons per day (gpd)
2) Max. 3 Month Average Daily Flow	142,511	gpd
3) Growth		
A) Average Test Year Consumption/ERCS:	111	ERCs
B) Annual Customer Growth	45	ERCs
C) Statutory Growth Period	5	Years
Growth Margin (3A x 3B x 3C)	24,975	gpd

$[(2)+(3)-(4)]/(1) = 95.71\% \text{ Used and Useful}]$

Water Distribution and Wastewater Collection Systems

In its filing, the utility calculated the used and useful percentage for the collection and distribution systems to be 100%. The utility stated that all residential wastewater customers are water customers; therefore, only one calculation was necessary for the distribution and collection systems. The utility’s calculation took the average number of the test year residential connections of 1,263 and a growth margin of 208 (41.6 ERCs x 5 years), for a sum of 1,471 connections. Since the present number of lots which have service available is 1,260, the result is 100% used and useful (1,471/1,260 connections).

We reviewed the utility’s calculation and agree with the conclusion. In its last rate case, the utility was considered 100% used and useful.⁷ Based on the above, we find that the distribution and collections systems, with the exception of a portion of Account 354, are considered 100% used and useful.

As a result of the adjustments made, net rate base shall be reduced by \$25,755. Corresponding adjustments shall also be made to reduce depreciation expense by \$1,870 and property taxes by \$217.

⁷ See Order No. PSC-03-0647-PAA-WS, p.14, issued May 28, 2003, in Docket No. 020407-WS.

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. We have approved several adjustments to the utility's balance of O&M expenses. Due to the adjustments approved in this order, working capital of \$18,377 and \$33,782 shall be approved for water and wastewater, respectively. This reflects a decrease of \$3,413 to the utility's requested working capital allowance of \$21,790 for water and a decrease of \$3,498 from the utility's request allowance of \$37,280 for wastewater.

Rate Base for the December 31, 2005, Test Year

Consistent with other approved adjustments, the appropriate rate base is \$733,047 for water and \$1,249,100 for wastewater. The approved schedules for rate base are shown on Schedules 1-A and 1-B, respectively, and the adjustments are shown on Schedule 1-C, attached hereto and incorporated herein by reference.

CAPITAL STRUCTURE

Return on Common Equity

The return on equity (ROE) included in the utility's filing is 11.77%. This return is based on the application of our leverage formula approved in Order No. PSC-05-0680-PAA-WS and an equity ratio of 40.14%.⁸

As noted in Audit Finding No. 1, UI's average common equity balance of \$90,787,422 shall be adjusted upward by \$3,093,004 to \$93,880,426. Per its response to the Audit Report, the utility is in agreement with the audit opinion. This adjustment increased the equity ratio as a percentage of investor-supplied capital from 40.14% to 40.95%.

Based on the current leverage formula approved in Order No. PSC-06-0476-PAA-WS and an equity ratio of 40.95%, the appropriate ROE is 11.45%.⁹ An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Weighted Average Cost of Capital

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, we find it appropriate to approve a weighted

⁸ Order No. PSC-05-0680-PAA-WS, issued June 20, 2005, in Docket No. 050006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

⁹ Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

average cost of capital of 8.40%. The weighted average cost of capital included in the utility's filing is 8.44%. Schedule No. 2, attached hereto and incorporated herein by reference, details our decision herein.

The test year per book amounts were taken directly from Cypress Lakes' MFR filing Schedule D-2. We made specific adjustments to two components in the utility's proposed capital structure. As noted in Audit Finding No. 14, UI's average common equity balance should be adjusted upward by \$3,093,004. In addition, we made an adjustment of \$18,425 to decrease the balance of deferred income taxes. In Audit Finding No. 15, staff auditors noted that the utility understated its calculation of deferred taxes for accelerated depreciation for state income tax purposes by \$240. Further, the auditors discovered that deferred taxes for intangible plant were overstated by \$18,665 for federal tax purposes. Accordingly, the balance of deferred taxes shall be decreased by \$18,425, the net of these amounts. Per its response to the Audit Report, the utility is in agreement with the audit opinions regarding these adjustments.

We used the respective cost rates proposed by the utility. The appropriate cost rate for common equity of 11.45% is discussed previously in this order. In addition, in Audit Finding No. 14, the staff auditor was of the opinion that the cost rate for long-term debt should be reduced from the utility's proposed rate of 6.81% to 6.73%. Per its response to the Audit Report, the utility is in agreement with the audit opinion regarding this adjustment.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005, the weighted average cost of capital is 8.40%.

NET OPERATING INCOME

Adjustments to Test Year Revenue

A utility is required to annualize test year revenues to reflect the effect of any rate increase that accrued during the test year. In its MFRs, the utility made annualized revenue adjustments of \$2,384 and \$6,717 for water and wastewater, respectively. However, the proper annualized adjustments are \$7,630 for water and \$9,299 for wastewater.

In its filing, Cypress Lakes reflected miscellaneous service revenue charges of \$2,898. Based on our decision, we approved \$21 for initial connections, normal reconnections, and premises visits during normal hours, which represents an increase of \$6 for the initial connections, normal reconnections and premises visits. The utility was unable to provide the number of initial connections during the test year. To reflect the proper imputation of miscellaneous service revenues we have increased revenues by \$1,500 for additional water miscellaneous service revenues and \$2,200 in additional wastewater miscellaneous service revenues.

Therefore, we find that annualized water test year revenues shall be increased by \$6,746, and annualized wastewater revenues shall be increased by \$4,782.

O&M Expense and Depreciation Expense

The audit findings and adjustments are listed in the table below:

<u>Audit Adjustments</u>	<u>O&M expense</u>		<u>Depreciation Expense</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
Finding No. 1- Adj. to plant in service				\$11,120
Finding No. 2- Adj. to depreciation expense			\$3,968	(\$163)
Finding No. 6-Adjustment to reflect proper transportation expense	(\$2,799)	(\$2,549)	(\$3,100)	
Finding No. 6- Adj. to allocate depreciation expense			(\$4,233)	\$4,233
Finding No. 8- various adjs. to O&M expense	(\$665)	(\$3,982)		
<u>Adjustment Totals</u>	<u>(\$3,464)</u>	<u>(\$6,531)</u>	<u>(\$3,365)</u>	<u>\$15,190</u>

The utility agrees with all of the audit adjustments listed above. Therefore, water and wastewater O&M expenses shall be reduced by \$3,464 and \$6,531, respectively. Additionally, water depreciation expenses shall be decreased by \$3,365, and wastewater depreciation expenses shall be increased by \$15,190.

WSC and UIF Allocated Expenses

On MFR Schedule B-12, the utility reflected total WSC allocated O&M expenses of \$45,103 and taxes other than income of \$2,100. Cypress Lakes also recorded total UIF allocated O&M expenses of \$3,810. As discussed below, we find that adjustments are necessary to the WSC and UIF expenses before they are allocated to the utility. These adjustments include audit adjustments and the use of an ERC-only methodology for several WSC allocation codes.

In Audit Finding No. 2 of the AT audit, the staff auditor recommended adjustments to WSC's expenses consistent with Order No. PSC-03-1440-FOF-WS, pp. 82-84. The auditor recommended removal of: (1) insurance premiums for former employee directors' life insurance policies; (2) fiduciary policies protecting directors and officers; and, (3) pension funds. The auditor believes these items should be eliminated because they were for the benefit of UI's

shareholders. Second, the auditor recommended the removal of interest expense and interest income because they are included as components of UI's capital structure. In its response to the AT audit, UI agreed with the above recommended audit adjustments. Based on the above, we find that the appropriate WSC expenses, before any allocation, are \$7,458,207. Further, there was no audit finding in the AT audit regarding UIF's expenses. Thus, we find that the appropriate UIF O&M expenses before any allocation are \$266,650.

As previously held in this order, UI shall use the ERC-only methodology for its allocation codes one, two, three, and five. Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Cypress Lakes are \$42,890 and \$1,932, respectively. As such, water O&M expenses and taxes other than income shall be decreased by \$1,158 and \$88, respectively, and wastewater O&M expenses and taxes other than income shall be decreased by \$1,055 and \$80, respectively. Further, the appropriate UIF O&M expenses for Cypress Lakes are \$2,003 for water and \$1,824 for wastewater. As such, water and wastewater O&M expense shall be increased by \$9 and \$8, respectively.

Pro Forma Salaries, Wages, Pensions and Benefits, and Payroll Taxes

On MFR Schedule B-5, Cypress Lakes reflected historical water salaries and wages and pensions and benefits of \$13,054 and \$12,700, respectively. On MFR Schedule B-6, the utility reflected historical wastewater salaries and wages and pensions and benefits of \$62,048 and \$12,683, respectively. On MFR Schedule B-15, Cypress Lakes reflected historical payroll taxes of \$5,847 for water and \$5,681 for wastewater.

On MFR Schedule B-3, the utility requested pro forma increases in water salaries and wages, pensions and benefits, and payroll taxes of \$13,229, \$1,462, and \$926, respectively, and requested increases in wastewater salaries and wages, pensions and benefits, and payroll taxes of \$12,329, \$1,362, and \$863, respectively. The pro forma salaries and wages represents increases of 20.72% for water and 19.87% for wastewater. The pro forma pensions and benefits represents increases of 11.20% for water and 10.74% for wastewater.

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

In Commission staff's Fifth Data Request in Docket No. 060256-SU, UI was asked to provide the total number of full-time and part-time employees for its Florida subsidiaries, their average salary, and average salary percentage increases for all Florida managerial and non-managerial employees through September 2006. According to the information provided, the historical average salary increases for all Florida Employees from 2001 to 2005 has been 4.51%. UI realized a net reduction of eight total Florida employees from 2005 to June 2006. The total

average salaries from 2005 to 2006 increased \$74,616; however, we note that the total requested pro forma salary increases in UI's current docketed rate cases in Florida is \$332,883. If the salary increases for all Florida employees were limited to an across the board increase of the 4.51% historical five-year average, the pro forma salary increases for all of UI's current docketed cases would be \$105,776.

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

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

With the exception of Sandalhaven (a negative pro forma salary adjustment of \$573), we find that the requested pro forma salary increases in UI's other respective rate cases are excessive. We note that the historical 5-year average salary increase of 4.51% is 177 basis points above our 2006 Price Index of 2.74%. With the exception of Sandalhaven, pro forma salary increases in all of UI's respective cases shall be limited to the 4.51% above the 2005 historical salary amounts. We have previously limited pro forma salary adjustments to a utility's historical average salary increases.¹⁰ Thus, Cypress Lakes' salaries and wages shall be decreased by \$10,349 for water and \$9,531 for wastewater. Accordingly, pensions and benefits shall be reduced by \$873 and \$790 for water and wastewater, respectively, and payroll taxes shall be reduced by \$662 and \$607 for water and wastewater, respectively.

Rate Case Expense

As discussed in detail below, in its determination of rate case expense, staff believes that adjustments are necessary to reflect the appropriate amount of test year amortization.

Rate Case Expense Audit Finding

In its response to Audit Finding No. 7, the utility disagreed with the removal of prior rate case expense of \$2,379 and \$2,311 for water and wastewater, respectively. The utility stated that, although the annual amount was only \$14,236, Cypress Lakes would incur costs shortly before hearing, during the hearing, and post hearing. The utility asserted that, while these costs could not have been known and measurable at the time the rate case expense from the prior case

¹⁰ By Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc., the Commission limited pro forma salaries to the utility's actual historical average wage increases of 3%.

was approved, those costs are known and measurable now and should remain in test year O&M expenses.

Rate Case Expense for Prior Rate Proceeding

First, we note that the utility confused the Commission's regular agenda with a formal hearing because the last rate case did not go to hearing. Second, Cypress Lakes did not protest Order No. PSC-03-0647-PAA-WS regarding the Commission's decision of the prior rate case expense, and that order was consummated by Order No. PSC-03-0738-CO-WS, issued June 20, 2003. Third, the approved \$14,236 annual amortization included Cypress Lakes' estimated costs to complete the prior case. Fourth, the combined incremental increase of \$4,690 would translate into a total amount of \$18,760 above the total \$56,943 amount approved in the prior case. Fifth, in response to the audit, the utility did not provide any invoices or other documentation in support of the additional \$18,760. Based on the above, we find that the test year Regulatory Commission Expense – Rate Case Amortization shall be decreased by \$2,379 and \$2,311 for water and wastewater, respectively, for overstated rate case expense, in order to reflect the previously approved amortization amount of \$14,236 in test year O&M expenses.

On MFR Schedule B-10, the utility combined \$14,236 for prior unamortized rate case expense with its estimated rate case expense of \$135,720 for this docket. This represents a total combined requested amount of \$149,956 with a requested annual amortization amount of \$37,489 ($\$149,956/4$). Of the \$37,489 proposed amortization expense, the amount associated with the prior case is \$3,559 ($\$14,236/4$). However, Cypress Lakes has not made any MFR adjustment to remove the annual amortization of prior rate case expense from its test year O&M expenses. The appropriate annual amortization of \$14,236 for the prior case is already included in approved test year O&M expenses. If the utility's request to reamortize prior rate case expense without an adjustment to remove the annual amortization of the prior case was approved, Cypress Lakes would double recover the remaining \$3,559 mentioned above. Further, according to Section 367.0816, F.S., and Order No. PSC-03-0647-PAA-WS, the utility's rates will be reduced on May 20, 2007. It is our practice to remove the unamortized balance of prior rate cases from the rate case expense for current cases.¹¹ As a result, \$14,236 shall be removed and O&M expenses shall be reduced by \$1,842 and \$1,716 for water and wastewater, respectively, for a total reduction of \$3,558.

Rate Case Expense for Current Case

The utility included in its MFRs an estimate of \$135,720 for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On November 27, 2006, the utility submitted a revised estimated rate case expense through completion of the PAA process of \$182,586. The components of the utility's estimated rate case expense are as follows:

¹¹ Order No. PSC-97-1225-FOF-WU, p. 17, issued October 10, 1997, in Docket No. 970164-WU, In re: Application for increase in rates in Martin County by Hobe Sound Water Company.

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Legal and Filing Fees	\$53,500	\$24,590	\$48,500	\$73,090
Consultant Fees - Seidman	5,000	3,076	3,025	6,101
Consultant - Virchow	18,032	22,435	309	22,744
WS In-House Fees	41,600	17,014	26,049	43,063
Office Temp Fees	0	2,141	17,859	20,000
Travel - WSC	3,200	0	3,200	3,200
Miscellaneous	12,000	632	11,368	12,000
Notices	<u>2,388</u>	<u>687</u>	<u>1,701</u>	<u>2,388</u>
Total R/C Expense	<u>\$135,720</u>	<u>\$70,575</u>	<u>\$112,011</u>	<u>\$182,586</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Also, it is the utility's burden to justify its requested costs.¹² Further, the Commission has broad discretion with respect to allowance of rate case expense; however, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.¹³ As such, we have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on this review, several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on a review of the invoices for expenses for the law firm representing Cypress Lakes and Mr. Frank Seidman, a consultant, no hours should be removed relating to correcting MFR deficiencies. However, invoices from Krause Virchow, the firm that prepared the MFRs, indicated that firm had billed a total of \$3,758 for the correction of deficiencies. Additionally, this firm estimated that additional expenses of \$309 would be incurred to complete this case. This firm was responsible for the preparation of the utility's MFRs with the exception of used and useful data. We do not believe the additional \$309 is prudent as the MFRs were completed and all deficiencies were corrected several months ago; therefore, we find that this amount be disallowed. We have previously disallowed rate case expense associated with correcting MFR

¹² Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

¹³ Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied, by 529 So. 2d 694 (Fla. 1988).

deficiencies because of duplicate filing costs.¹⁴ Accordingly, \$4,067 in rate case expense for Krause Virchow shall be disallowed.

The second adjustment relates to the utility's estimated legal fees and expenses to complete the rate case. The utility's counsel estimated 150 hours or \$41,250 in fees plus \$6,000 in expenses to complete the rate case. A list of tasks to complete the case was provided by legal counsel, but no specific amount of time was associated with each item. Counsel only provided a total number of hours and total cost. While the descriptions of the items appeared reasonable, we have no basis to determine whether the individual hours estimated were reasonable. Upon review of these requested legal fees and expenses, these estimates reflect an overstatement. As noted in the background, UI currently has ten pending rate cases with this Commission. In eight out of the ten rate cases, the same 150 hour amount to complete was submitted for the estimated processing of each of the cases. Although the estimate to complete did not indicate the period of time it included, Commission staff made the assumption it included November, 2006 through February, 2007. This would allow time for reviewing the recommendation, attending the agenda conference, reviewing our PAA order, and submitting the appropriate customer notice and tariffs for approval. Commission staff analyzed the reasonableness of this estimated time to complete each of these cases. Using the estimated amount of time to complete of four months for each of the eight rate cases, the legal office would have to work over 11 hours each day, including all holidays and all weekends. This would be exclusive work on just these cases. However, we are aware of numerous other pending dockets, including the two other remaining UI rate cases and undocketed projects also being worked on by this legal firm. Further, when the recognized holidays and weekends are removed, this firm would require work of approximately 18 hours every day exclusively for these eight rate cases. We do not believe this is a reasonable assumption.

It is the utility's burden to justify its requested costs. 40 hours is a reasonable amount of time to respond to data requests, conference with the client and consultants, review staff's recommendation, travel to agenda and attend to miscellaneous post PAA matters. This is consistent with hours allowed for completion in the 2004 Labrador Utilities, Inc. (Labrador) rate case.¹⁵ This amounts to a reduction in expense of \$30,250.

Further, there was no breakdown provided for the \$6,000 in disbursements required for legal counsel to complete the case. Thus, this amount is unsupported. However, Commission staff calculated a travel allowance. A reasonable cost for one person traveling from Orlando to Tallahassee, including meals, vehicle mileage and one day's lodging is \$414. This was the amount of travel expense we allowed for this law firm in the Labrador rate case supra. Commission staff calculated travel expenses of \$389, using the current state mileage rate (215 miles x 2 trips x \$.455 = \$215), hotel rates from a website (\$109) and a meal allowance (\$65),

¹⁴Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

¹⁵ See Order No. PSC-04-1281-PAA-WS, issued December 28, 2004, in Docket No. 030443-WS, In re: Application for rate increase in Pasco County by Labrador Utilities, Inc.

but recommends \$414 consistent with the 2004 Labrador case. Further, because Sanlando Utilities, Inc., in Docket No. 060258-WS, and Lake Placid Utilities, Inc., in Docket No. 060260-WS, were scheduled for the same Agenda Conference at which this matter was discussed, we find it appropriate that travel expenses should be allocated equally between the three rate cases. Therefore, staff believes \$138 is the appropriate travel expense. In addition to travel expense, Commission staff calculated an amount for miscellaneous disbursements, adding the actual and unbilled legal disbursements less the filing fee, divided by eight, the number of months represented by the data, then multiplied by two, the time remaining until the agenda. Thus, \$1,916 is a reasonable amount for miscellaneous disbursements. Therefore, disbursements shall be decreased by \$3,946 (\$6,000 - \$138 - \$1,916). Accordingly, rate case expense shall be decreased by \$34,196 (\$30,250 + \$3,946).

The third adjustment relates to the utility's estimated consultant fees for Mr. Seidman to complete the rate case. Mr. Seidman estimated 24 hours or \$3,000 plus \$25 in expenses to complete the rate case. Specifically, Mr. Seidman estimated 20 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. We find that four hours is a reasonable amount of time to prepare for and attend the agenda in this docket. This is consistent with the hours allowed for completion by the Commission in the Indiantown Company, Inc. and the Mid-County Services, Inc. rate cases.¹⁶ However, we are aware only of one subsequent data request from OPC regarding the used and useful percentage. We find that no more than two hours at \$125 per hour is reasonable for this data request. Therefore, rate case expense shall be decreased by \$2,250 (18 hours x \$125).

The fourth adjustment relates to the costs by WSC employees to complete the case. In its rate case, the utility provided timesheets for WSC employees. WSC timesheets reflected 440.07 total actual hours for 12 employees totaling \$17,012 in salaries. The timesheets indicated that Mr. Bill Thomas spent three hours, or \$117, for Cypress Lakes Indexing, and Mr. Steven Dihel spent seven hours on "Cypress Lakes-Quarterly Consumption," 28 hours on "Cypress Lakes Index & Pass Through," and seven hours on "Cypress Lakes Roll Forward," totaling \$1,488. The utility has not met its burden of proof that these hours relate to the utility's current rate case. As such, the 51 hours or \$1,605 are disallowed.

Furthermore, in its rate case expense update, the utility failed to provide any detailed documentation of what tasks were involved in its estimate to complete the case for each employee. The utility simply stated that the WSC employees estimated 920.10 hours related to assistance with data requests and audit facilitation. Using these hours, the utility asserted that the WSC employees estimates to complete are \$27,848, based on MFR rates of pay. We have two concerns regarding these estimated hours. First, there should be no estimated hours related to the audit in this case because the utility has already responded to the audit and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, it has been our practice to disallow some portion or

¹⁶ See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc. and PSC-04-0819-PAA-SU, issued August 23, 2004, in Docket No. 030446-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc.

remove all unsupported amounts.¹⁷ We believe a reasonable method to estimate WSC employee hours to complete the case is to utilize the average monthly hours of the adjusted actual hours. Using this method, our staff calculated an estimate for WSC employees to complete the case of 88.3 hours, which represents a reduction of 831.8 hours or \$22,746. Thus, rate case expense associated with WSC employees shall be decreased by \$24,353 (\$1,605 + \$22,346).

The fifth adjustment relates to WSC expenses for temporary office workers. The utility did not include this expense in its MFRs; however, in its update, \$20,000 was estimated to assist with data and audit requests. The hours needed to complete data and audit requests was not broken down to estimate the hours needed to complete each item. Therefore, we have no basis to determine whether the individual hours estimated were reasonable, although as mentioned above, the estimated hours appear to be excessive. As discussed above, it is the utility's burden to justify its requested costs. The utility indicated that it had incurred \$2,141 in expenses for office temps, and provided invoices in support of this total. We find that the additional \$17,859 estimated by Cypress Lakes is excessive, given the number of hours the utility estimated for the WSC employees, consultants and law firm to complete the case. Therefore, rate case expense shall be decreased by \$17,859.

The sixth adjustment addresses WSC travel expenses. In its MFRs, the utility estimated \$3,200 for travel. We find that a reasonable cost for one person traveling round trip from Chicago to Tallahassee, airfare, car rental, parking and lodging is \$750. This was the amount of travel expense we allowed for WSC in the Labrador rate case. Commission staff calculated travel expenses of \$507, using a coach airfare for Delta Airlines in January (\$229), current rental car rates (\$104), hotel rates from a website (\$109) and a meal allowance (\$65), but we hereby approve \$750 consistent with the Labrador case. Further, because WSC would have been present on behalf of Sanlando Utilities, Inc., and Lake Placid Utilities, Inc., at this same agenda, we find it appropriate to allocate travel expenses between the three utilities. Therefore, \$250 is the appropriate travel expense. Accordingly, rate case expense shall be decreased by \$2,950.

The seventh adjustment relates to WSC expenses for Federal Express Corporation (Fed Ex), copies, and other miscellaneous costs. In its MFRs, the utility estimated \$12,000 for these items. In support of this expense, the utility provided only \$632 in identifiable costs for Cypress Lakes from FedEx invoices for services through October 16, 2006. There was no breakdown or support for the remaining \$11,368. UI has requested and received authorization from this Commission to keep its books and records outside the state in Illinois pursuant to Rule 25-30.110(2)(b), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. By Order No. PSC-93-1713-FOF-SU,

¹⁷ See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994 in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

p. 19., issued November 30, 1993, in Docket No. 921293-SU, In Re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc., we found that the utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense.¹⁸ The requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The utility typically ships its MFRs, answers to data request, etc. to its law firm located in central Florida. Then the documents are submitted to this Commission. We do not believe that the ratepayers should bear the related costs of having the records located out of state. This is a decision of the shareholders of the utility, and therefore, they shall bear the related costs. Therefore, rate case expense shall be decreased by \$12,000.

The eighth adjustment relates to customer notices and postage thereof. The utility estimated that total costs for postage and notices would total \$2,388. In its revised estimate, the estimated total to complete was \$1,701. However, we believe that due to an error in calculation, the utility intended the actual and estimated amount to be \$3,075 (\$687 actual to date + \$2,388 estimated to complete). We estimate the postage costs for the notices will total \$1,449 using a bulk postage rate. The utility has incurred \$687 in actual printing charges, and has estimated remaining charges for printing the customer notice for final rates will be \$284. Based on a submitted invoice for an earlier, similarly-sized notice, staff believes that the cost to print the notice of final rates will total \$200, for total printing costs of \$887. Thus, total costs for postage and notices will total \$2,336 (\$1,449 + \$887). Accordingly, rate case expense shall be decreased by \$52 for expenses related to customer notices and mailing.

In summary, the utility's requested rate case expense shall be decreased by \$50,860 for MFR deficiencies, and unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$84,859. A breakdown of rate case expense is as follows:

¹⁸ Order No. 25821, issued February 27, 1991, in Docket No. 910020-WS, In re: Petition for rate increase in Pasco County by Utilities, Inc. of Florida; and Order No. 20066, issued September 26, 1988, in Docket No. 870981-WS, In re: Application of Miles Grant Water and Sewer Company for an increase in water and sewer rates in Martin County.

	<u>MFR Estimated</u>	<u>Utility Revised Actual & Estimated</u>	<u>Commission Adjustments</u>	<u>Total Allowed</u>
Legal and Filing Fees	\$53,500	\$73,090	(\$34,196)	\$38,894
Consultant Fees- Seidman	5,000	6,101	(2,250)	3,851
Consultant Fees –Virchow	18,032	22,744	(4,067)	18,677
WSC In-house Fees	41,600	43,063	(24,353)	18,710
Office Temp Fees	0	20,000	(17,859)	2,141
Travel-WSC	3,200	3,200	(2,950)	250
Miscellaneous	12,000	12,000	(12,000)	0
Notices	<u>2,388</u>	<u>2,388</u>	<u>(52)</u>	<u>2,336</u>
Total Rate Case Expense	<u>\$135,720</u>	<u>\$182,586</u>	<u>(\$97,727)</u>	<u>\$84,859</u>
Annual Amortization	<u>\$33,930</u>	<u>\$45,647</u>	<u>(\$24,432)</u>	<u>\$21,215</u>
Disallowed Yearly Expense				<u>\$12,715</u>

As a result of an audit finding, \$2,379 and \$2,311 of overstated rate case expense for the prior rate case for water and wastewater, respectively, shall be removed.

The appropriate total rate case expense for the current docket is \$84,859. This expense shall be amortized over four years for an annual expense of \$21,215, or \$12,715 less than requested. The allocated portion of the annual expense to water and wastewater is \$11,104 and \$10,111, respectively. Rate case expense shall be reduced by a total of \$16,273 (\$3,558 to correct inclusion of prior rate case expense + \$12,715 to adjust current rate case expense).

Test Year Consumption

The Directors of the Cypress Lakes Homeowners Association (Directors) have expressed their concern and belief that the 2005 test year consumption is understated due to abnormally high rainfall. These concerns were expressed during customer meetings held on October 19, 2006. At the meeting, our staff explained that 2005 test year rainfall had been analyzed and that it was within 6% of the preceding 30-year average. Therefore, no adjustments to increase consumption are appropriate. The Directors disputed our staff's calculated 30-year average rainfall value of 53 inches. The Directors stated that the correct average annual rainfall for Lakeland is 49 inches as reported in the Lakeland Ledger newspaper, and asked staff to either: a) determine and explain the reason for the difference in data; or b) accept the data from the Lakeland newspaper. Our staff assured the Directors that we would revisit our rainfall analysis and have included a discussion on the topic in this Order.

Our staff received several letters from the Directors subsequent to the customer meeting, reiterating their position that based on information in the Lakeland Ledger, there had been abnormally high rainfall in 2005. In a letter to the Directors dated December 6, 2006, our staff provided the source of our weather data, which is the Southeast Regional Climate Center (SERCC). Overall direction of the Center is provided by the National Climatic Data Center and the National Environmental Satellite, Data, and Information Service of the National Oceanographic and Atmospheric Administration. This Commission pays a subscription fee in order to obtain various forms of weather data from the SERCC.

Our staff re-analyzed the rainfall issue, and the results are presented in Table 1.

TABLE 1

ANALYSIS OF LAKELAND'S AVERAGE ANNUAL RAINFALL vs. LAKELAND'S TEST YEAR RAINFALL				
Sources of Weather Data				Combined Data:
	<u>Lakeland Ledger</u>	SERCC: Lakeland <u>Station 1</u>	SERCC: Lakeland <u>Station 2</u>	Lakeland 1 + <u>Lakeland 2</u>
Months included in reporting period	Unknown	Jan '48 – Aug '95 + Jan '98 – Apr '98	Nov '95 to present	Jan '48 to present (missing Sept, Oct '95)
Average rainfall: Jan '48 – Dec '95	Unknown	49.1 inches	N/A	N/A
Reported average annual rainfall	49.1 inches	N/A	N/A	30-yr avg (Jan '75 – Dec '04) = 53 inches
Reported rainfall: 2005 test year				56 inches (within 6% of 30-yr avg)
Sources: Lakeland Ledger, October 19, 2006; Information provided by the Southeast Regional Climate Center, January 15, 2007.				

Lakeland 1 went off-line in mid-1995 and was replaced by another station, Lakeland 2. Our original request for average annual rainfall in Lakeland using the SERCC database resulted in a compilation of data from Lakeland 1 only, for the 1948 through 1995 time period. As shown in Table 1, the average annual rainfall reported in the Lakeland Ledger of 49.1 inches matches the annual average rainfall data from January 1948 through December 1995 as reported from Lakeland 1. It is possible that the source of the annual rainfall data for the Lakeland newspaper is unaware that a data query for average annual rainfall would only reflect data from 1948 through 1995. Our staff subsequently requested all rainfall data available for both Lakeland 1 (1948 through 1995) and Lakeland 2 (1995 to the present). In order to correctly calculate Lakeland's average annual rainfall, data from both Lakeland 1 and Lakeland 2 must be combined, which results in a 30-year average rainfall value for Lakeland of 53 inches for the years 1975 through 2004.

As shown in the last column of Table 1, the reported rainfall during the 2005 test year was 56 inches, which is within 6% of Lakeland's preceding 30-year average annual rainfall of 53

inches. Based on the foregoing, rainfall during the 2005 test year was not abnormally high and therefore did not result in understated test year consumption.

Test Year Operating Income

As shown on Schedule No. 3-A, after applying the adjustments, the test year net operating income before any revenue increase is \$36,007 and \$19,594 for water and wastewater, respectively. The adjustments to operating income and expenses are shown on Schedule No. 3-B, attached hereto and incorporated herein by reference.

REVENUE REQUIREMENT

Pre-Repression Test Year Revenue Requirement

Cypress Lakes requested final rates are designed to generate annual revenues of \$350,147 and \$510,566 for water and wastewater, respectively. These revenues exceed test year revenues by \$101,790 (40.99%), and \$150,329 (41.73%) for water and wastewater, respectively.

Consistent with our determinations herein regarding the rate base, cost of capital, and operating income issues, we find it appropriate to approve rates that are designed to generate a water revenue requirement of \$297,976 and a wastewater revenue requirement of \$508,186. These revenues exceeds our adjusted test year revenues by \$42,874 or 16.81%, for water and \$143,167 or 39.22%, for wastewater. These increases are shown on Schedule Nos. 3-A and 3-B, attached hereto and incorporated herein by reference. These increases will allow the utility the opportunity to recover its expenses and earn an 8.40% return on its investment in water and wastewater rate base.

RATES AND RATE STRUCTURE

Rate Structures

The utility's current water system rate structure for the residential class consists of a three-tier inclining block rate structure. Prior to filing for rate relief, the base facility charge (BFC) for 5/8" x 3/4" meter customers was \$6.49 per month, with usage blocks for monthly consumption of: a) 0-6 kgals in the first block; b) 6-12 kgals in the second block, and c) usage in excess of 12 kgals in the third block. The monthly usage charges prior to filing were \$2.47 for usage in the first block, \$3.72 for usage in the second block, and \$4.95 for usage in the third block. The usage block rate factors are 1.0, 1.5, and 2.0 respectively. The general service usage charge prior to filing for rate relief was a uniform kgal charge of \$2.69 for each kgal sold.

Our staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures

consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Specific data presented at the hearing included but was not limited to: 1) rainfall data indicating that several counties, including Polk County, were categorized as critically abnormal; and 2) both the U.S. Drought Monitor and the Long Term Palmer Index indicates that Polk County was experiencing severely abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.

Based on our analysis of the utility's billing data, coupled with the current declared severe water shortage, we do not believe it is appropriate to recommend a less aggressive water rate structure than what is currently in place. The utility's current three-tiered rate structure, usage blocks and usage block rate factors are appropriate and shall be retained. However, the BFC cost recovery allocation shall be reduced from its original accounting allocation of 45.1% to 30%, with the remaining 70% of costs recovered through the gallonage charge. By increasing the amount to be recovered through the gallonage charge, we are able to design a more effective water conserving rate structure that targets usage above 6 kgal per month while minimizing the rate impact on usage below 6 kgal per month.

The traditional BFC/uniform gallonage charge rate structure has been our water rate structure of choice for nonresidential classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, nonresidential customers would continue to pay their fair share of the cost of service.

The utility's current wastewater system rate structure consists of a BFC/gallonage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$14.36 per month. The corresponding monthly gallonage charge for residential service was \$2.92, capped at monthly usage of 8 kgal, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at \$3.50 per kgal, with no usage cap.

Based on initial accounting allocations, the wastewater BFC cost recovery percentage was 32%. However, due to the capital-intensive nature of wastewater plants and the seasonality of the utility's customer base, the BFC cost recovery allocation shall be changed to 50%. Currently, the residential wastewater gallonage cap is 8 kgal per month. However, based on staff's analysis of the residential wastewater billing data, and estimated non-discretionary consumption per household per month, we find it appropriate to lower the cap to 6 kgal per month.

Based on the foregoing, we find that the appropriate rate structure for the water system's residential class is a continuation of its three-tier inclining-block rate structure. The current

usage blocks and usage block rate factors should also remain unchanged. The appropriate rate structure for the water system's non-residential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system shall be set at 30%. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The current residential wastewater monthly gallonage cap shall be lowered to 6 kgal. The general service gallonage charge shall be 1.2 times greater than the corresponding residential charge, and the BFC cost recovery percentage for the wastewater system shall be set at 50%.

Repression Adjustment

We conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that a substantial portion (28.7%) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that approximately half of the utility's residential customers are seasonal. This analysis also showed that average residential consumption per customer, after excluding those bills below 1 kgal per month, was 4.4 kgals per month. This level of consumption indicates that there is a moderate amount of discretionary, or non-essential, consumption of approximately 1.4 kgals per month per customer while the utility's customers are in residence. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we calculated a repression adjustment for this utility based upon the increase approved in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases. Based on this methodology, our staff calculated that test year residential water sold shall be reduced by 804 kgals, purchased power expense shall be reduced by \$156, chemicals expense shall be reduced by \$58, and regulatory assessment fees (RAFs) shall be reduced by \$10. We find that the final post-repression revenue requirement for the water system, excluding miscellaneous service charges of \$3,517, is \$294,237. For the wastewater system, test year kgals sold shall be reduced by 719 kgals, purchased power expense shall be reduced by \$847, chemicals expense shall be reduced by \$121, sludge removal expense shall be reduced by \$942, and RAFs shall be reduced by \$86. We find that the final post-repression revenue requirement for the wastewater system, excluding miscellaneous service charges of \$5,098, is \$501,092.

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

Monthly Rates for Water and Wastewater Systems

The appropriate pre-repression revenue requirements, excluding miscellaneous service charges, are \$294,460 for the water system and \$503,088 for the wastewater system. As previously discussed, the appropriate rate structure for the water system’s residential class is a continuation of its three-tier inclining-block rate structure, with no changes made to the usage blocks or usage block rate factors. The BFC cost recovery percentage should be set at 30%. The traditional BFC/uniform gallonage charge rate structure shall be applied to the general service class. As also discussed previously, the residential wastewater gallonage cap shall be lowered to 6 kgal, and the BFC cost recovery percentage shall be set at 50%. Further, repression adjustments shall be made to the water and wastewater systems. Applying these rate design and repression adjustments to the pre-repression revenue requirements results in the final rates contained in Schedules No. 4-A and No. 4-B. These rates are designed to recover a post-repression revenues for the water system of \$294,237, and post-repression revenues for the wastewater system of \$501,092.

The utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall 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 approved rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility’s original rates, requested rates, and the water and wastewater rates approved herein are shown on Schedules Nos. 4-A and 4-B, respectively, attached hereto and incorporated herein by reference.

Miscellaneous Service Charges

Miscellaneous service charges were approved for Cypress Lakes in 2000, and have not changed since that date. The approved charges have been the standard charge since at least 1990, a period of 16 years. We find that these charges shall be updated to reflect current costs. Cypress Lakes shall be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$21 for normal hours and from \$15 to \$42 for after hours. The current and approved charges are shown below:

Water and Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Commission Approved</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	\$15	\$21	\$42
Normal Reconnection	\$15	\$15	\$21	\$42
Violation Reconnection	\$25	\$25	Actual Cost	Actual Cost
Premises Visit	\$15	\$15	\$21	\$42

Even though the service charges for Cypress Lakes have only been in effect since 2000, these charges are similar to other miscellaneous service charges that have not been updated in over 16 years, and costs for fuel and labor have risen substantially since that time. Further, our price index has increased approximately 60% in that period of time. We have expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996,¹⁹ we expressed concern that miscellaneous service charges were eight years old and could not possibly cover current costs, and directed our staff to examine whether miscellaneous service charges should be indexed in the future and included in index applications. Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,²⁰ and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,²¹ we applied a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for Mad Hatter Utility, Inc. Therefore, a \$21 charge is reasonable and is cost based.

In summary, the utility's water and wastewater miscellaneous service charges of \$21 and after hours charges of \$42, shall be approved because the increased charges are cost-based, reasonable, and consistent with fees we have approved for other utilities. The utility shall file a proposed customer notice to reflect the charges approved herein. The approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by Commission staff. Within ten days of the date the order is final, the utility shall provide notice of the tariff changes to all customers. The utility shall provide proof the customers have received notice within 10 days after the date the notice was sent.

Service Availability Charge

Currently, the utility does not have a plant capacity charge. The Office of Public Counsel proposed and utility has agreed that it is appropriate for the utility to begin charging a plant capacity for future development. Therefore, we hereby we find that a plant capacity charge of \$1,500 for water and \$1,500 for wastewater is appropriate and is hereby approved.

The utility shall charge its approved plant capacity charge until this Commission authorizes a change in a subsequent proceeding. The utility shall provide written notice to all persons who have submitted a written request for service within 12 months preceding the date of this Order. The proposed plant capacity charge shall become effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475(2), F.A.C., provided that customers have received notice and the notice has been approved by Commission staff. Within

¹⁹ Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

²⁰ Docket 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

²¹ Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

10 days after the notice is given, the utility shall provide proof that all such persons have received notice. Within 30 days from the issuance of the Consummating Order, the utility shall file a revised tariff reflecting its approved plant capacity charge. The revised tariff sheets shall be approved upon Commission staff's verification that the tariffs are consistent with our decision herein.

No Refund of Interim Required

By Order No. PSC-06-0661-FOF-WS, issued August 7, 2006, in Docket No. 060257-WS, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirements are shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Water	\$271,997	423,640	9.52%
Wastewater	\$437,155	\$76,918	21.35%

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

In this proceeding, the test period for establishment of interim and final rates is the twelve-month period ended December 31, 2005. Cypress Lakes' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense and the pro forma adjustments were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the interim revenue requirement for the interim collection period is \$286,669 for water and \$496,349 for wastewater. The water and wastewater revenue levels in the table above are greater than the interim revenues which were granted in Order No. PSC-06-0661-FOF-WS. Therefore, no interim refund for water or wastewater is required.

Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization

of rate case expense and the gross-up for regulatory assessment fees which is \$11,627 for water and \$10,587 for wastewater. The decreased revenues will result in the rate reduction as shown approved on Schedule Nos. 4-A and 4-B, attached hereto and incorporated herein by reference.

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

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

Show Cause Proceeding

By Order No. PSC-03-0647-PAA-WS, issued on May 28, 2003, in Docket No. 020407-WS, In re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., (Show Cause Order), we found that the utility's failure to keep its books and records was an apparent violation and ordered the utility to show cause why it should not be fined \$3000. The utility responded to the show cause order and committed to changes that would improve its books and records. In Order No. PSC-04-0358-FOF-WS, issued on April 5, 2004, in Docket No. 020407-WS, (Final Order), we ordered that the \$3000 not be imposed based on the commitments made by the utility to adjust its books and records. In that same order, we opened a separate docket to address the issue of noncompliance with regard to all Florida subsidiaries of Utilities, Inc. By Order No. PSC-04-1275-AS-WS, issued on December 23, 2004, in Docket No. 040316-WS, In re: Analysis of Utilities, Inc.'s plan to bring all of its Florida subsidiaries into compliance with Rule 25-30.115, Florida Administrative Code (Settlement Order), we approved the settlement whereby Cypress Lakes would adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order. Based on the settlement order, the appropriate adjustments to all the applicable primary accounts should have been accomplished no later than December 31, 2004.

In the Show Cause Order, issued May 28, 2003, the utility was ordered to make several accounting adjustments by December 31, 2004. According to the utility's general ledger, the ordered entries were not made until February 15, 2006. We believe that, because these adjustments were made at such a late date, this has led to problems with reconciling the minimum filing requirements to the adjustments which should have been made pursuant to the Settlement Order. Based on the audit, we believe that the required adjustments to plant in service and accumulated depreciation were made in February 2006, effective for the calendar year ending December 31, 2005. Therefore, it appears that the appropriate adjustments were not made until almost 14 months after the due date of December 31, 2004.

Additionally, the utility has added several new developments since its last rate case. The utility's records, however, did not reflect any new additions to UPIS or CIAC for wastewater mains or lift stations. The auditors requested that the utility provide information about any additions since the last case. The requested information was included in the audit work papers. Our staff's review of the documentation provided by the utility during the audit indicated that one addition was completed in late 2004, and two other additions were completed in 2005.

In its response to the audit, the utility agreed with the auditors, and indicated that it recognized certain assets were contributed by a developer and in service that were not recorded in either CIAC or the utility's general ledger. The utility indicated it would properly record these assets in UPIS and CIAC accordingly. While it appears the failure to make these accounting entries have little or no impact on revenue requirement or rates, the utility again failed to properly update its books and records in a timely manner.

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

We find that the circumstances in this case are such that show cause proceedings shall be initiated. We are especially concerned with Cypress Lakes' apparent failure to adjust its books to reflect the adjustments to all the applicable primary accounts required by the Final Order and the subsequent Settlement Order. In the Settlement Order, issued December 23, 2004, in Docket No. 040316-WS, the utility specifically agreed that: "Beginning with the year ended December 31, 2003, and continuing through December 31, 2004, UI shall review all Commission transfer and rate case orders to determine if proper adjustments have been made to correctly state rate base balances." Both the Settlement Order and the Final Order, issued approximately eight months apart, should have made the utility acutely aware of the problems that it was having in maintaining its books and records. Also, see Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., where another Utilities, Inc. utility has failed to adjust its books and records. This continued pattern of disregard for our rules, statutes, and orders warrants more than just a warning. Accordingly, Cypress Lakes shall show cause in writing, within 21 days, why it should not be fined \$3,000 for its apparent failure to adjust its books to reflect the adjustments to all the applicable primary

accounts required by the Final Order and provide proof of such adjustments within 90 days of the Consummating Order.

Based on the above, Cypress Lakes shall show cause in writing, within 21 days, why it should not be fined a total of \$3,000 for its apparent violations noted above. The following conditions shall apply:

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

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

Proof of Compliance with NARUC USOA

To ensure that the utility adjusts its books in accordance with our decision, Cypress Lakes shall provide proof, within 90 days of the Consummating Order, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners' (NARUC) Uniform System of Accounts (USOA) primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Cypress Lakes Utilities, Inc.'s application for increased water and wastewater rates is granted to the extent set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained herein, whether set forth in the body of this Order or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall perform a complete evaluation of its distribution system to address the low chlorine residual. The evaluation shall include all viable options, as well as the cost of each option. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall submit the evaluation to the Commission, the Office of Public Counsel, and the Cypress Lakes Homeowners Association within 9 months from the date of the Consummating Order. It is further

ORDERED that the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class, usage block and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the approved rates go into effect. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedule Nos. 4-A and 4-B. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall 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. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that Cypress Lakes Utilities, Inc. is hereby authorized to charge the rates and charges are set forth in the body of this Order. It is further

ORDERED that the current residential wastewater monthly gallonage cap shall be lowered to 6 kgal. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall be authorized to revise its miscellaneous service charges as set forth herein. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall file a proposed customer notice to reflect the approved miscellaneous service charges. It is further

ORDERED that the approved miscellaneous service charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that within ten days of the date the order is final, Cypress Lakes Utilities, Inc. shall provide notice of the tariff changes regarding its miscellaneous service charges to all customers. The utility shall provide proof the customers have received notice within ten days after the date that the notice was sent. It is further

ORDERED that the approved plant capacity charge of \$1,500 for water and \$1,500 for wastewater shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(2), F.A.C., provided customers have received notice and the notice has been approved by our staff.. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall provide written notice of the Commission's decision to all persons who have submitted a written request for service within 12 months preceding the date of this Order. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall provide proof that all such persons have received noticed within ten days of the date of the notice. It is further

ORDERED within 30 days from the date of the Consummating Order, Cypress Lakes Utilities, Inc. shall file a revised tariff reflecting the approved plant capacity charge.

ORDERED that no refund of interim rates is required. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility shall 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. It is further

ORDERED that the approved rates shall 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. It is further

ORDERED that the rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that if the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through

increase or decrease, and for the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the increased rates and charges approved herein shall be effective for service rendered on or after the stamped approved date on the revised tariff sheets, in accordance with Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that the approved rates and charges shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days are the date of the notice. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$3,000 for its apparent failure to timely comply with the requirements of Order Nos. PSC-04-0358-FOF-WS and PSC-04-1275-AS-WS, to adjust its books to reflect the adjustments to all the applicable primary accounts required by these Orders. It is further

ORDERED that any response shall comply with the conditions as set forth in the body of this Order and shall be filed with the Director, Division of the Commission Clerk and Administrative Services within 21 days of the date of issuance of this Order. It is further

ORDERED that our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that if the revised tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action issues files a protest within twenty-one days of the issuance of the order, a Consummating Order will be issued. However, the docket shall remain open for Commission staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if Cypress Lakes Utilities, Inc. pays the \$3,000 in fines, and complies with the other requirements of this Order, the docket shall be closed administratively. If the utility timely responds, in writing, to the Order to show cause, the docket shall remain open to allow for the appropriate processing of the response.

By ORDER of the Florida Public Service Commission this 5th day of March, 2007.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: 

Ann Cole, Chief
Bureau of Records

(S E A L)

KEF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The show cause portion of this Order is preliminary, procedural or intermediate in nature. Any person whose substantial interests are affected by this Show Cause Order may file a response within 21 days of issuance of the Show Cause Order as set forth herein. This response must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 26, 2007.

Failure to respond within the time set forth above shall constitute an admission of all facts and a waiver of the right to a hearing and a default pursuant to Rule 28-106.111(4), Florida Administrative Code. Such default shall be effective on the day subsequent to the above date.

If an adversely affected person fails to respond to the show cause portion of this Order within the time prescribed above, that party may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this Order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure.

As identified in the body of this Order, our action herein, except for the initiation of show cause proceedings, the four-year rate reduction, and proof of adjustment of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 26, 2007. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this Order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter concerning the four-year rate reduction and proof of adjustment of books and records may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Cypress Lakes Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/05			Schedule No. 1-A Docket No. 060257-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	
1 Plant in Service	\$1,394,454	\$10,504	\$1,404,958	(\$47,592)	\$1,357,366	
2 Land and Land Rights	509	0	509	0	509	
3 Non-used and Useful Components	0	0	0	0	0	
4 Accumulated Depreciation	(441,149)	(203)	(441,352)	13,597	(427,755)	
5 CIAC	(288,599)	0	(288,599)	0	(288,599)	
6 Amortization of CIAC	73,149	0	73,149	0	73,149	
7 Net Debit Deferred Income Taxes	0	0	0	0	0	
8 Advances for Construction	0	0	0	0	0	
9 Working Capital Allowance	0	21,790	21,790	(3,413)	18,377	
10 Rate Base	<u>\$738,364</u>	<u>\$32,091</u>	<u>\$770,455</u>	<u>(\$37,408)</u>	<u>\$733,047</u>	

Cypress Lakes Utilities, Inc. Schedule of Wastewater Rate Base Test Year Ended 12/31/05			Schedule No. 1-B Docket No. 060257-WS			
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	
1 Plant in Service	\$2,323,319	\$14,437	\$2,337,756	\$224,670	\$2,562,426	
2 Land and Land Rights	2,610	0	2,610	0	2,610	
3 Non-used and Useful Components	0	(9,310)	(9,310)	(25,755)	(35,065)	
4 Accumulated Depreciation	(701,311)	(483)	(701,794)	(57,517)	(759,311)	
5 CIAC	(711,034)	0	(711,034)	0	(711,034)	
6 Amortization of CIAC	155,692	0	155,692	0	155,692	
7 CWIP	200,004	(200,004)	0	0	0	
8 Advances for Construction	0	0	0	0	0	
9 Working Capital Allowance	0	37,280	37,280	(3,498)	33,782	
11 Rate Base	<u>1,269,280</u>	<u>(158,080)</u>	<u>1,111,200</u>	<u>137,900</u>	<u>1,249,100</u>	

Cypress Lakes Utilities, Inc.
Adjustments to Rate Base
Test Year Ended 12/31/05

Schedule No. 1-C
Docket No. 060257-WS

Explanation	Water	Wastewater
<u>Plant In Service</u>		
1 Adjustment to UPIS. (AF 1).	\$0	\$200,004
2 To reflect the appropriate net WSC rate base.	\$1,436	\$1,177
4 To reflect the appropriate allocated plant from UIF.	(\$17,841)	\$14,637
5 Adjustments to Pro Forma Plant.	(\$4,343)	(\$8,696)
6 To reflect simple average adjustment (AF 6)	(\$9,295)	\$0
7 Adjustment to Transportation Equipment (AF 6).	<u>(\$17,548)</u>	<u>\$17,548</u>
Total	<u>(\$47,592)</u>	<u>\$224,670</u>
<u>Non-used and Useful</u>		
To reflect net non-used and useful adjustment.	<u>\$0</u>	<u>(\$25,755)</u>
<u>Accumulated Depreciation</u>		
1 Adjustment to UPIS. (AF 1).	\$0	(\$44,481)
2 To reflect the appropriate allocated plant from UIF.	\$5,181	(\$4,274)
3 Adjustment to Pro Forma Plant.	\$203	\$483
4 Adjustment to Accumulated Depreciation (AF 2).	(\$3,968)	(\$163)
5 To reflect simple average adjustment (AF 6)	\$3,099	\$0
6 Adjustment to Transportation Equipment (AF 6).	<u>\$9,082</u>	<u>(\$9,082)</u>
Total	<u>\$13,597</u>	<u>(\$57,517)</u>
<u>Working Capital</u>		
To reflect proper working capital	<u>(\$3,413)</u>	<u>(\$3,498)</u>

Cypress Lakes Utilities, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/05

Schedule No. 2
Docket No. 060257-WS

Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Pro rata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$123,030,942)	\$1,013,261	53.84%	6.81%	3.67%
2 Short-term Debt	11,347,000	0	\$11,347,000	(11,254,311)	\$92,689	4.93%	2.00%	0.10%
3 Preferred Stock	0	0	\$0	0	\$0	0.00%	0.00%	0.00%
4 Common Equity	90,787,422	0	\$90,787,422	(90,045,821)	\$741,601	39.41%	11.77%	4.64%
5 Customer Deposits	12,150	0	\$12,150	0	\$12,150	0.65%	6.00%	0.04%
6 Deferred Income Taxes	<u>22,295</u>	<u>0</u>	<u>\$22,295</u>	<u>0</u>	<u>\$22,295</u>	<u>1.18%</u>	0.00%	<u>0.00%</u>
10 Total Capital	<u>\$226,213,070</u>	<u>\$0</u>	<u>\$226,213,070</u>	<u>(\$224,331,074)</u>	<u>\$1,881,996</u>	<u>100.00%</u>		<u>8.44%</u>
Per Commission								
11 Long-term Debt	\$124,044,203	\$0	\$124,044,203	(\$122,980,444)	\$1,063,745	53.67%	6.73%	3.61%
12 Short-term Debt	11,347,000	0	\$11,347,000	(11,249,693)	97,307	4.91%	2.00%	0.10%
13 Preferred Stock	0	0	\$0	0	0	0.00%	0.00%	0.00%
14 Common Equity	90,787,422	3,093,004	\$93,880,426	(93,075,351)	805,075	40.62%	11.45%	4.65%
15 Customer Deposits	12,150	0	\$12,150	\$0	12,150	0.61%	6.00%	0.04%
16 Deferred Income Taxes	<u>22,295</u>	<u>(18,425)</u>	<u>\$3,870</u>	<u>\$0</u>	<u>3,870</u>	<u>0.20%</u>	0.00%	<u>0.00%</u>
20 Total Capital	<u>\$226,213,070</u>	<u>\$3,074,579</u>	<u>\$229,287,649</u>	<u>(\$227,305,502)</u>	<u>\$1,982,147</u>	<u>100.00%</u>		<u>8.40%</u>
						LOW	HIGH	
					RETURN ON EQUITY	<u>10.45%</u>	<u>12.45%</u>	
					OVERALL RATE OF RETURN	<u>7.99%</u>	<u>8.80%</u>	

Cypress Lakes Utilities, Inc.
Statement of Water Operations
Test Year Ended 12/31/05

Schedule No. 3-A
Docket No. 060257-WS

	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1	Operating Revenues:	<u>\$245,865</u>	<u>\$104,282</u>	<u>\$350,147</u>	<u>(\$95,044)</u>	<u>\$255,103</u>	<u>\$42,874</u> 16.81%	<u>\$297,976</u>
	Operating Expenses							
2	Operation & Maintenance	\$134,677	\$39,639	174,316	(27,303)	147,013	0	147,013
3	Depreciation	47,869	0	47,869	(4,412)	43,457	0	43,457
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	22,994	5,506	28,500	(5,027)	23,473	1,929	25,402
6	Income Taxes	<u>7,289</u>	<u>26,222</u>	<u>33,511</u>	<u>(28,358)</u>	<u>5,153</u>	<u>15,407</u>	<u>20,561</u>
7	Total Operating Expense	<u>212,829</u>	<u>71,367</u>	<u>284,196</u>	<u>(65,100)</u>	<u>219,096</u>	<u>17,337</u>	<u>236,433</u>
8	Operating Income	<u>\$33,036</u>	<u>\$32,915</u>	<u>\$65,951</u>	<u>(\$29,944)</u>	<u>\$36,007</u>	<u>\$25,537</u>	<u>\$61,544</u>
9	Rate Base	<u>\$738,364</u>		<u>\$770,455</u>		<u>\$733,047</u>		<u>\$733,047</u>
10	Rate of Return	<u>4.47%</u>		<u>8.56%</u>		<u>4.91%</u>		<u>8.40%</u>

Cypress Lakes Utilities, Inc.
Statement of Wastewater Operations
Test Year Ended 12/31/05

Schedule No. 3-B
Docket No. 060257-WS

Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$353,217</u>	<u>\$157,349</u>	<u>\$510,566</u>	<u>(\$145,747)</u>	<u>\$365,019</u>	<u>\$143,167</u> 39.22%	<u>\$508,186</u>
Operating Expenses							
2 Operation & Maintenance	\$260,454	\$37,784	\$298,238	(\$27,985)	\$270,253	0	\$270,253
3 Depreciation	44,979	483	45,462	13,370	58,832	0	58,832
4 Amortization	87	(87)	0	0	0	0	0
5 Taxes Other Than Income	32,579	7,628	40,207	(7,453)	32,754	6,443	39,196
6 Income Taxes	<u>(23,234)</u>	<u>54,774</u>	<u>31,540</u>	<u>(47,954)</u>	<u>(16,414)</u>	<u>51,449</u>	<u>35,035</u>
7 Total Operating Expense	<u>314,865</u>	<u>100,582</u>	<u>415,447</u>	<u>(70,023)</u>	<u>345,424</u>	<u>57,892</u>	<u>403,316</u>
8 Operating Income	<u>38,352</u>	<u>56,767</u>	<u>95,119</u>	<u>(75,525)</u>	<u>19,594</u>	<u>85,275</u>	<u>104,869</u>
9 Rate Base	<u>\$1,269,280</u>		<u>\$1,111,200</u>		<u>\$1,249,100</u>		<u>\$1,249,100</u>
10 Rate of Return	<u>3.02%</u>		<u>8.56%</u>		<u>1.57%</u>		<u>8.40%</u>

Cypress Lakes Utilities, Inc.
Adjustment to Operating Income
Test Year Ended 12/31/05

Schedule 3-C
Docket No. 060257-WS

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
1 Remove requested final revenue increase.	(\$101,790)	(\$150,329)
2 To reflect the appropriate amount of annualized revenues.	\$5,246	\$2,582
3 To reflect increased misc. service revenues	\$1,500	\$2,200
Total	<u>(\$95,044)</u>	<u>(\$145,547)</u>
<u>Operation and Maintenance Expense</u>		
1 Adjustment to transportation equipment (AF6).	(\$2,799)	(\$2,549)
2 Adjustment to prior rate case expense (AF7).	(\$2,379)	(\$2,311)
3 Various adjustments to O&M expenses (AF8).	(\$665)	(\$3,982)
5 Excessive unaccounted for water adjustments	(\$592)	\$0
4 To reflect the appropriate WSC allocated expenses.	(\$1,158)	(\$1,055)
6 To reflect the appropriate UIF allocated expenses.	\$9	\$8
7 To reflect appropriate pro forma salaries and pension & benefits.	(\$11,222)	(\$10,321)
8 To adjust new rate case expense.	(\$6,655)	(\$6,060)
9 To adjust old rate case expense.	<u>(\$1,842)</u>	<u>(\$1,716)</u>
Total	<u>(\$27,303)</u>	<u>(\$27,985)</u>
<u>Depreciation Expense - Net</u>		
1 Adjustment to UPIS. (AF 1).	\$0	\$11,120
2 Adjustment to depreciation expense (AF 2).	\$3,968	(\$163)
3 To reflect proper transportation expense (AF 6)	(\$3,100)	\$0
4 Adjustment to allocate transportation equipment (AF6).	(\$4,233)	\$4,233
5 To reflect the appropriate net WSC rate base.	\$70	\$64
6 To reflect the appropriate allocated plant from UIF.	(\$914)	\$469
7 Adjustment to pro forma plant.	(\$203)	(\$483)
8 To remove net depreciation on non-U&U adjustment above.	<u>\$0</u>	<u>(\$1,870)</u>
Total	<u>(\$4,412)</u>	<u>\$13,370</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$4,277)	(\$6,550)
2 To the appropriate WSC allocated property taxes.	(\$88)	(\$80)
3 To reflect the appropriate pro forma payroll taxes.	(\$662)	(\$607)
4 To reflect property tax adjustment for non-U&U plant.	<u>\$0</u>	<u>(\$217)</u>
Total	<u>(\$5,027)</u>	<u>(\$7,453)</u>

**Cypress Lakes Utilities, Inc.
 Water Monthly Service Rates
 Test Year Ended 12/31/05**

**Schedule No. 4-A
 Docket No. 060257-WS**

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
<u>Residential</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.49	\$7.11	\$8.73	\$5.37	\$0.21
1"	\$16.22	\$17.78	N/A	\$13.43	\$0.53
1 1/2"	\$32.44	\$35.55	N/A	\$26.85	\$1.05
2"	\$51.89	\$56.87	N/A	\$42.96	\$1.69
3"	\$103.78	\$113.74	N/A	\$85.92	\$3.38
4"	\$162.15	\$177.71	N/A	\$134.25	\$5.27
6"	\$324.32	\$355.43	N/A	\$268.50	\$10.55
Gallonage Charge, per 1,000 Gallons					
0-6,000 gallons	\$2.47	\$2.71	\$3.47	\$3.63	\$0.14
6,001-12,000 gallons	\$3.72	\$4.08	\$5.20	\$5.44	\$0.21
over 12,000 gallons	\$4.95	\$5.43	\$6.93	\$7.26	\$0.29
<u>General Service and General Service Irrigation</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.49	\$7.11	\$8.73	\$5.37	\$0.21
1"	\$16.22	\$17.78	\$21.81	\$13.43	\$0.53
1 1/2"	\$32.44	\$35.55	\$43.63	\$26.85	\$1.05
2"	\$51.89	\$56.87	N/A	\$42.96	\$1.69
3"	\$103.78	\$113.74	N/A	\$85.92	\$3.38
4"	\$162.15	\$177.71	N/A	\$134.25	\$5.27
6"	\$324.31	\$355.43	N/A	\$268.50	\$10.55
Gallonage Charge, per 1,000 Gallons	\$2.69	\$2.95	\$3.81	\$3.85	\$0.15
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$13.90	\$15.24	\$19.14	\$16.26	
5,000 Gallons	\$18.84	\$20.66	\$26.08	\$23.52	
10,000 Gallons	\$36.19	\$39.69	\$50.35	\$48.91	

Cypress Lakes Utilities, Inc.			Schedule No. 4-B		
Wastewater Monthly Service Rates			Docket No. 060257-WS		
Test Year Ended 12/31/05					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	Four-year Rate Reduction
<u>Residential</u>					
Base Facility Charge All Meter Sizes:	\$14.36	\$17.45	\$13.33	\$16.44	\$0.35
Gallage Charge - Per 1,000 gallons (6,000 gallon cap)	\$2.92	\$3.55	\$6.37	\$5.50	\$0.11
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$14.36	\$17.45	\$13.33	\$16.44	\$0.35
1"	\$35.92	\$43.65	\$33.32	\$41.11	\$0.86
1-1/2"	\$71.86	\$87.33	\$66.64	\$82.21	\$1.73
2"	\$114.97	\$139.72	N/A	\$131.54	\$2.77
3"	\$229.93	\$279.42	N/A	\$263.08	\$5.53
4"	\$359.26	\$436.59	N/A	\$411.06	\$8.64
6"	\$718.52	\$873.18	N/A	\$822.12	\$17.28
Gallage Charge, per 1,000 Gallons	\$3.50	\$4.25	\$7.64	\$6.60	\$0.14
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$23.12	\$28.10	\$32.44	\$32.94	
5,000 Gallons	\$28.96	\$35.20	\$45.18	\$43.94	
10,000 Gallons	\$43.56	\$52.95	\$77.03	\$49.44	
(Wastewater Gallage Cap - 6,000 Gallons)					