

State of Florida



Public Service Commission

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

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

DATE: JANUARY 9, 2003

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK  
ADMINISTRATIVE SERVICES (BAYO)

FROM: DIVISION OF ECONOMIC REGULATION (REVELL, JOYCE, EDWARDS,  
D. DRAPER, MERCHANT) -  
OFFICE OF THE GENERAL COUNSEL (ECHTERNACHT)

RE: DOCKET NO. 020407-WS - APPLICATION FOR RATE INCREASE IN  
POLK COUNTY BY CYPRESS LAKES UTILITIES, INC.  
COUNTY: POLK

AGENDA: 1/21/03 - REGULAR AGENDA - DECISION ON INTERIM RATES -  
PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: 60-DAY SUSPENSION DATE: 1/30/03

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020407.RCM

CASE BACKGROUND

Cypress Lakes Utilities, Inc. (Cypress Lakes or the utility) is a Class B water and wastewater utility in Polk County. As of December 31, 2001, Cypress Lakes provided service to 1133 water and 1097 wastewater customers. Cypress Lakes is a wholly-owned subsidiary of Utilities, Inc. In its 2001 Annual Report, the utility reported operating revenues of \$108,146 and a net operating loss of \$8,403 in its water operations. The utility reported operating revenues of \$231,491 and a net operating income of \$15,760 in its wastewater operations.

In 1998, the Commission approved the transfer of certificates from Cypress Lakes Associates, Ltd. to Cypress Lakes Utilities, Inc. by Order No. PSC-98-0993-FOF-WS, issued July 20, 1998, in Docket No. 971220-WS. In that same docket, by Order No. PSC-00-0264-FOF-WS, issued February 8, 2000, the Commission established

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rate base as of December 31, 1997, and declined to include a negative acquisition adjustment related to the transfer.

On September 30, 2002, the utility filed for approval of final and interim rate increases, pursuant to Sections 367.081 and 367.082, Florida Statutes. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase. Subsequently, on November 26, 2002, the utility satisfied the MFRs and this date was designated as the official filing date, pursuant to Section 367.083, Florida Statutes. The utility has requested that the Commission process this case under the Proposed Agency Action (PAA) procedure.

The test year for interim and final purposes is the historical test year ended December 31, 2001. Cypress Lakes has requested interim water revenues of \$271,412, and interim wastewater revenues of \$357,327. The interim revenue request represents a water increase of \$156,860, or 136.93%, and a wastewater increase of \$122,549, or 52.20%. The utility has requested final water revenues of \$275,490 and wastewater revenues of \$361,255. This represents an increase of \$160,939 (140.49%) for water and \$126,477 (53.87%) for wastewater.

The sixty-day statutory deadline for the Commission to suspend the utility's requested final rates is January 25, 2003. This recommendation addresses the suspension of Cypress Lakes' final rates and staff's recommended interim rate increase. The Commission has jurisdiction pursuant to Sections 367.081, and 367.082, Florida Statutes.

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### DISCUSSION OF ISSUES

**ISSUE 1:** Should the utility's proposed water and wastewater rates be suspended?

**RECOMMENDATION:** Yes. Cypress Lakes' proposed water and wastewater rates should be suspended. The docket should remain open pending the Commission's final action on the utility's requested rate increase. (REVELL)

**STAFF ANALYSIS:** Section 367.081(6), Florida Statutes, provides that the rates proposed by the utility shall become effective within ~~sixty days~~ after filing unless the Commission votes to withhold consent to implementation of the requested rates. Further, Section 367.081(8), Florida Statutes, permits the proposed rates to go into effect (secured and subject to refund) at the expiration of five months if: (1) the Commission has not acted upon the requested rate increase; or (2) if the Commission's PAA action is protested by a party other than the utility.

Staff has reviewed the filing and has considered the proposed rates, the revenues thereby generated, and the information filed in support of the rate application. Staff recommends that it is reasonable and necessary to require further amplification and explanation regarding this data, and to require production of additional and/or corroborative data. This further examination will include on-site investigations by staff accountants and engineers. Based on the foregoing, staff recommends that it is appropriate to suspend the utility's proposed rate increase.

The docket should remain open pending the Commission's final action on the utility's requested rate increase.

**ISSUE 2:** Should an interim revenue increase be approved?

**RECOMMENDATION:** Yes. On an interim basis, the utility should be authorized to collect annual water and wastewater revenues as indicated below: (REVELL)

	<u>Adjusted Test</u> <u>Year Revenues</u>	<u>\$</u> <u>Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$114,552	\$140,644	\$255,196	122.78%
Wastewater	\$234,778	\$104,389	\$339,167	44.46%

**STAFF ANALYSIS:** As stated in its MFRs, Cypress Lakes requests interim rates designed to generate annual revenues of \$271,412 and \$357,327 for water and wastewater respectively. This represents a water revenue increase of \$156,860 (136.93%), and a wastewater revenue increase of \$122,549 (52.20%). The utility has filed rate base, cost of capital, and operating statements to support its requested water and wastewater increases.

Pursuant to Section 367.082(5)(b)1, Florida Statutes, the achieved rate of return for interim purposes shall be calculated by applying adjustments consistent with those used in the utility's most recent rate proceeding. Staff has reviewed the utility's interim request, as well as Order No. PSC-00-0264-FOF-WS, issued February 8, 2000, which established rate base as a result of the certificate transfer. Staff's recommended adjustments are discussed below. We have attached accounting schedules to illustrate staff's recommended rate base, capital structure, and test year operating income amounts. The rate base schedules are labeled as Nos. 1-A and 1-B, with adjustments shown on No. 1-C. The capital structure schedule is No. 2, and the operating income schedules for water and wastewater, respectively, are labeled as Nos. 3-A and 3-B, with the adjustments shown on No. 3-C.

#### **RATE BASE**

The utility has filed simple average water and wastewater rate bases for the calendar year ended December 31, 2001. The utility made several adjustments to its rate base for interim purposes. Based on our analysis, staff believes that the two adjustments discussed below are necessary to the utility's rate base.

Accumulated Amortization of CIAC

In its MFRs, the utility made pro forma adjustments to increase rate base to impute amortization of CIAC not accrued in 1999. Staff believes this adjustment is neither a correction of an error nor consistent with the last rate proceeding. Thus, we believe it is not appropriate for interim purposes. As such, staff has decreased accumulated amortization of CIAC water by \$5,565 and \$12,509 for wastewater to remove these adjustments from rate base.

Working Capital

The utility also made an adjustment to water and wastewater working capital to reflect 1/8 of operation and maintenance (O&M) expenses. Staff is recommending adjustments to O&M expenses later in this issue. Corresponding adjustments should also be made to reduce working capital by \$644 for water and \$618 for wastewater to reflect 1/8 of the staff recommended O&M expense adjustments.

Based on the above adjustments, staff recommends that Cypress Lakes' interim water rate base should be \$835,164. The utility's wastewater rate base should be \$985,430.

COST OF CAPITAL

In its MFRs, Cypress Lakes used a simple average capital structure, which consisted of allocated investor sources of capital from Utilities, Inc. (the parent) and actual customer deposits for Cypress Lakes. Cypress Lakes did not include any balance of deferred income taxes in its capital structure. Since the utility has never had an authorized return on equity (ROE) established, Cypress Lakes used 11.07%, the mid-point of the cost rate calculated using the leverage formula in effect on December 31, 2001. This formula was established by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS. The utility's requested interim cost of capital was 9.22%.

Staff has reviewed the utility's calculation and we believe that two adjustments are appropriate. First, Cypress Lakes does not have an authorized ROE established. Pursuant to Section 367.082, Florida Statutes, the required rate of return for an interim increase for a utility that has never had an authorized ROE shall be calculated using the minimum of the range of the current equity leverage formula. The current leverage formula was approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, and was made final by Consummating Order No. PSC-02-1252-

CO-WS, issued September 11, 2002. Using the 2002 leverage formula and Cypress Lakes' adjusted equity ratio, staff calculated a ROE of 10.93%, with a range of 9.93% to 11.93%. Using the minimum of the range, for interim purposes, staff recommends a cost of equity of 9.93%.

Staff's second adjustment to cost of capital relates to the exclusion of Cypress Lakes' balance of accumulated deferred income taxes in the utility's calculated cost of capital. As reflected in its MFRs, Cypress Lakes has a simple average balance of credit deferred income taxes of \$10,812. Pursuant to Rule 25-30.433(3), Florida Administrative Code, net credit deferred income taxes shall be included in the capital structure. Staff has reflected these amounts in the cost of capital calculation at zero cost.

Based on the above, staff's recommended cost of capital for interim purposes should be 8.65%.

#### NET OPERATING INCOME

##### Operating Revenues

Section 367.082(5)(b)1, Florida Statutes, states that the achieved rate of return is calculated by applying adjustments consistent with the utility's last rate proceeding and annualizing any rate changes occurring during the interim test year. For purposes of the interim application, Cypress Lakes chose the test year ended December 31, 2001. Cypress Lakes implemented a price index rate adjustment on July 1, 2001, and annualized its revenues accordingly. The utility's adjusted test year water and wastewater operating revenues were \$114,552 and \$234,778, respectively. Staff has reviewed the utility's revenues and recommends no adjustments.

##### Operating Expenses

Cypress Lakes made adjustments to decrease salaries for differences between the test year expense and present salaries, increase pensions and benefits, and decrease a common expense allocation. These adjustments are pro forma in nature and are not appropriate on an interim basis and should be disallowed. These adjustments result in a reduction to water O&M expenses of \$5,151 and wastewater O&M expenses of \$4,939. Corresponding decreases should also be made to remove the utility's pro forma adjustment for payroll taxes of \$3,640 for water and \$3,524 for wastewater.

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Net Operating Income

Based on these adjustments, staff recommends that the appropriate test year operating income, before any revenue increase, for water is a loss of \$11,519 and income of \$23,076 for wastewater.

REVENUE REQUIREMENT

Based on the above, staff recommends interim revenue requirements of \$255,196 and \$339,167 for water and wastewater, respectively. This represents an interim increase in annual revenues of \$140,644, or 122.78%, for water and \$104,389, or 44.46% for wastewater. This will allow the utility the opportunity to recover its operating expenses and earn an 8.65% return on its rate base.

**ISSUE 3:** What are the appropriate interim water and wastewater rates?

**RECOMMENDATION:** The service rates for Cypress Lakes in effect as of December 31, 2001, should be increased by 125.89% for water operations and 44.46% for wastewater operations to generate the recommended revenue increases for the interim period. The approved rates should be effective for service rendered as of the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until the required security has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice. (REVELL)

**STAFF ANALYSIS:** Staff recommends that interim service rates for Cypress Lakes be designed to allow the utility the opportunity to generate annual operating revenues of \$255,196 and \$339,167 for water and wastewater operations. This reflects increases of \$140,644 for water and \$104,389 for wastewater, or 122.78% and 44.46%, respectively, before removal of miscellaneous revenues. To determine the appropriate percentage increase to apply to the service rates, miscellaneous service revenues should be removed from the test year revenues. The calculation is as follows:

	<u>Water</u>	<u>Wastewater</u>
1 Total Test Year Revenues	\$114,552	\$234,778
2 Less: Miscellaneous Revenues	<u>2,829</u>	<u>0</u>
3 Test Year Revenues from Service Rates	\$111,723	\$234,778
4 Revenue Increase	<u>\$140,644</u>	<u>\$104,389</u>
5 % Service Rate Increase (Line4/Line3)	<u>125.89%</u>	<u>44.46%</u>

These rate increases of 125.89% and 44.46% should be applied as an across the board increase to the service rates in effect as of December 31, 2001. The interim rates should be implemented for service rendered on or after the stamped approval date on the tariff sheets, provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed notice to the customers is adequate, and that the required security discussed in Issue 4 has been filed. The utility should provide proof of the date notice was given within 10 days after the date of notice.



**ISSUE 4:** What is the appropriate security to guarantee the interim increase?

**RECOMMENDATION:** A corporate undertaking is acceptable contingent upon receipt of the written guarantee of the parent company, Utilities, Inc. (UI), and written confirmation of UI's oral attestation that it does not have any outstanding guarantees on behalf of UI-owned utilities in other states. UI should be required to file a corporate undertaking on behalf of its subsidiaries to guarantee any potential refunds of water and wastewater revenues collected under interim conditions. While the incremental amount subject to refund in this docket is \$164,161, this request will raise UI's total guarantee to a cumulative amount of \$534,776. Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (D. DRAPER, REVELL)

**STAFF ANALYSIS:** Pursuant to Section 367.082(2)(a), Florida Statutes, the excess of interim rates over the previously authorized rates shall be collected under guarantee subject to refund with interest. Staff has reviewed the financial data of the utility and its parent company and recommends approval of a corporate undertaking guaranteed by the parent company. Staff has calculated the potential refund of wastewater revenues and interest collected under interim conditions to be \$164,161. This amount is based on an estimated eight months of revenue being collected from staff's recommended interim rates over the previously authorized rates shown on Schedules Nos. 4-A and 4-B. Staff recommends that the cumulative amount of \$534,776 is acceptable contingent upon receipt of the written guarantee of UI and written confirmation of its oral attestation that UI does not have any outstanding guarantees on behalf of UI-owned utilities in other states.

The corporate undertaking should state that it will be released or terminated upon subsequent order of the Commission addressing any refund requirements. Also, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should provide a report by the 20th of each month indicating the monthly and total revenue collected subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

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

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CYPRESS LAKES UTILITIES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/01				SCHEDULE NO. 1-A DOCKET NO. 020407-WS	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$1,329,460	\$0	\$1,329,460	\$0	\$1,329,460
2 LAND & LAND RIGHTS	\$509	\$0	\$509	\$0	\$509
3 NON-USED & USEFUL COMPONENTS	\$0	\$0	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$288,550)	\$0	(\$288,550)	\$0	(\$288,550)
5 CIAC	(\$246,499)	\$0	(\$246,499)	\$0	(\$246,499)
6 AMORTIZATION OF CIAC	\$28,574	\$5,565	\$34,139	(\$5,565)	\$28,574
7 AQUISITION ADJUSTMENT - NET	(\$267,107)	\$267,107	\$0	\$0	\$0
8 WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$12,313</u>	<u>\$12,313</u>	<u>(\$644)</u>	<u>\$11,670</u>
9 RATE BASE	<u>\$556,387</u>	<u>\$284,985</u>	<u>\$841,372</u>	<u>(\$6,209)</u>	<u>\$835,164</u>

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CYPRESS LAKES UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/01			SCHEDULE NO. 1-B DOCKET NO. 020407-WS		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$2,252,159	\$0	\$2,252,159	\$0	\$2,252,159
2 NON-USED & USEFUL COMPONENTS	\$0	(\$131,593)	(\$131,593)	\$0	(\$131,593)
3 CWIP	\$160,381	(\$160,381)	\$0	\$0	\$0
4 ACCUMULATED DEPRECIATION	(\$502,877)	\$0	(\$502,877)	\$0	(\$502,877)
5 CIAC	(\$711,034)	\$0	(\$711,034)	\$0	(\$711,034)
6 AMORTIZATION OF CIAC	\$58,598	\$12,509	\$71,107	(\$12,509)	\$58,598
7 AQUISITION ADJUSTMENTS	(\$400,032)	\$400,032	\$0	\$0	\$0
8 WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$20,794</u>	<u>\$20,794</u>	<u>(\$618)</u>	<u>\$20,177</u>
9 <b>RATE BASE</b>	<u>\$857,195</u>	<u>\$141,361</u>	<u>\$998,556</u>	<u>(\$13,127)</u>	<u>\$985,430</u>

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CYPRESS LAKES UTILITIES, INC. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/01		SCHEDULE NO. 1-C DOCKET NO. 020407-WS PAGE 1 OF 1	
EXPLANATION		WATER	WASTEWATER
<u>ACCUM. AMORT. OF CIAC</u>			
1	To remove utility's adjustment to impute amort. not accrued in 1999	<u>(\$5,565)</u>	<u>(\$12,509)</u>
<u>WORKING CAPITAL</u>			
2	To reduce to 1/8 O&M expense	<u>(\$644)</u>	<u>(\$618)</u>

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CYPRESS LAKES UTILITIES, INC. CAPITAL STRUCTURE TEST YEAR ENDED 12/31/01						SCHEDULE NO. 2 DOCKET NO. 020407-WS	
DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUST- MENTS (EXPLAIN)	PRO RATA ADJUST- MENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
<b>PER UTILITY</b>							
1 LONG TERM DEBT	\$72,051,803	\$0	(\$71,230,789)	\$821,014	44.62%	8.82%	3.94%
2 SHORT-TERM DEBT	\$15,659,000	\$0	(\$15,480,646)	\$178,354	9.69%	2.54%	0.25%
3 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
4 COMMON EQUITY	\$73,169,033	\$0	(\$72,335,371)	\$833,662	45.31%	11.07%	5.02%
5 CUSTOMER DEPOSITS	\$6,900	\$0	\$0	\$6,900	0.38%	6.00%	0.02%
6 DEFERRED INCOME TAXES	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7 TOTAL CAPITAL	<u>\$160,886,736</u>	<u>\$0</u>	<u>(\$159,046,806)</u>	<u>\$1,839,930</u>	<u>100.00%</u>		<u>9.22%</u>
<b>PER STAFF</b>							
8 LONG TERM DEBT	\$72,051,803	\$0	(\$71,244,363)	\$807,440	44.35%	8.82%	3.91%
9 SHORT-TERM DEBT	\$15,659,000	\$0	(\$15,483,519)	\$175,481	9.64%	2.54%	0.24%
10 PREFERRED STOCK	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
11 COMMON EQUITY	\$73,169,033	\$0	(\$72,349,073)	\$819,960	45.04%	9.93%	4.47%
12 CUSTOMER DEPOSITS	\$6,900	\$0	\$0	\$6,900	0.38%	6.00%	0.02%
13 DEFERRED INCOME TAXES	\$0	\$10,812	\$0	\$10,812	0.59%	0.00%	0.00%
14 TOTAL CAPITAL	<u>\$160,886,736</u>	<u>\$10,812</u>	<u>(\$159,076,955)</u>	<u>\$1,820,593</u>	<u>100.00%</u>		<u>8.65%</u>
					<b>LOW</b>	<b>HIGH</b>	
					9.93%	11.93%	
RETURN ON EQUITY					<u>8.65%</u>	<u>9.55%</u>	
OVERALL RATE OF RETURN							
Staff Adjustment include balance of deferred income taxes in cost of capital							

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CYPRESS LAKES UTILITIES, INC. STATEMENT OF WATER OPERATIONS TEST YEAR ENDED 12/31/01						SCHEDULE NO. 3-A DOCKET NO. 020407-WS	
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$110,204</u>	<u>\$161,208</u>	<u>\$271,412</u>	<u>(\$156,860)</u>	<u>\$114,552</u>	<u>\$140,644</u> 122.78%	<u>\$255,196</u>
OPERATING EXPENSES:							
2 OPERATION & MAINTENANCE	\$93,356	\$5,151	98,507	(5,151)	93,356		93,356
3 DEPRECIATION	\$43,325	\$0	43,325	0	43,325		43,325
4 AMORTIZATION	\$0	\$0	0	0	0		0
5 TAXES OTHER THAN INCOME	\$17,268	\$10,829	28,097	(10,699)	17,398	6,329	23,727
6 INCOME TAXES	<u>(\$28,449)</u>	<u>\$52,387</u>	<u>\$23,938</u>	<u>(\$51,946)</u>	<u>(\$28,008)</u>	<u>\$50,543</u>	<u>\$22,534</u>
7 TOTAL OPERATING EXPENSES	<u>\$125,500</u>	<u>\$68,367</u>	<u>\$193,867</u>	<u>(\$67,796)</u>	<u>\$126,071</u>	<u>\$56,872</u>	<u>\$182,943</u>
8 OPERATING INCOME	<u>(\$15,296)</u>	<u>\$92,841</u>	<u>\$77,545</u>	<u>(\$89,064)</u>	<u>(\$11,519)</u>	<u>\$83,772</u>	<u>\$72,253</u>
9 RATE BASE	<u>\$556,387</u>		<u>\$841,372</u>		<u>\$835,164</u>		<u>\$835,164</u>
10 RATE OF RETURN	<u>-2.75%</u>		<u>9.22%</u>		<u>-1.38%</u>		<u>8.65%</u>

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CYPRESS LAKES UTILITIES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/01					SCHEDULE NO. 3-B DOCKET NO. 020407-WS		
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUST- MENTS	ADJUSTED TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	<u>\$229,432</u>	<u>\$127,895</u>	<u>\$357,327</u>	<u>(\$122,549)</u>	<u>\$234,778</u>	<u>\$104,389</u> 44.46%	<u>\$339,167</u>
OPERATING EXPENSES							
2 OPERATION & MAINTENANCE	\$161,412	\$4,939	\$166,351	(\$4,939)	\$161,412		\$161,412
3 DEPRECIATION	\$35,990	(\$3,293)	\$32,697	\$0	\$32,697		\$32,697
4 AMORTIZATION	\$0	\$0	\$0	\$0	\$0		\$0
5 TAXES OTHER THAN INCOME	\$29,745	\$7,812	\$37,557	(\$9,039)	\$28,518	\$4,698	\$33,216
6 INCOME TAXES	<u>\$780</u>	<u>\$28,690</u>	<u>\$29,470</u>	<u>(\$40,395)</u>	<u>(\$10,925)</u>	<u>\$37,514</u>	<u>\$26,589</u>
7 TOTAL OPERATING EXPENSES	<u>\$227,927</u>	<u>\$38,148</u>	<u>\$266,075</u>	<u>(\$54,373)</u>	<u>\$211,702</u>	<u>\$42,211</u>	<u>\$253,914</u>
8 OPERATING INCOME	<u>\$1,505</u>	<u>\$89,747</u>	<u>\$91,252</u>	<u>(\$68,176)</u>	<u>\$23,076</u>	<u>\$62,178</u>	<u>\$85,253</u>
9 RATE BASE	<u>\$857,195</u>		<u>\$998,556</u>		<u>\$985,430</u>		<u>\$985,430</u>
10 RATE OF RETURN	<u>0.18%</u>		<u>9.14%</u>		<u>2.34%</u>		<u>8.65%</u>



CYPRESS LAKES UTILITIES, INC. ADJUSTMENTS TO OPERATING INCOME TEST YEAR ENDED 12/31/01		SCHEDULE NO. 3-C DOCKET NO. 020407-WS PAGE 1 OF 1	
EXPLANATION		WATER	WASTEWATER
<b><u>OPERATING REVENUES</u></b>			
1	Remove requested interim revenue increase	<u>(\$156,860)</u>	<u>(\$122,549)</u>
<b><u>OPERATION &amp; MAINTENANCE EXPENSE</u></b>			
2	Remove pro forma salary adjustments	\$983	\$952
3	Remove proforma pensions and benefits	(\$6,671)	(\$6,459)
4	Remove proforma common expense allocation	\$537	\$568
	Total	<u>(\$5,151)</u>	<u>(\$4,939)</u>
<b><u>TAXES OTHER THAN INCOME</u></b>			
5	RAFTs on revenue adjustments above	(\$7,059)	(\$5,515)
6	Remove proforma taxes on salary increases	(\$3,640)	(\$3,524)
	Total	<u>(\$10,699)</u>	<u>(\$9,039)</u>
<b><u>INCOME TAXES</u></b>			
7	To adjust to test year income tax expense	<u>(\$51,946)</u>	<u>(\$40,395)</u>

CYPRESS LAKES UTILITIES, INC. WATER MONTHLY SERVICE RATES TEST YEAR ENDED 12/31/01		SCHEDULE NO. 4-A DOCKET NO. 020407-WS		
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<b><u>Residential and Multi-Residential</u></b>				
<b>Base Facility Charge</b>				
All Meter Sizes:	\$3.82	\$9.05	\$9.19	\$8.63
Gallage charge(per 1,000 gallons)				
0-6,000 gallons	\$0.82	\$1.94	\$1.97	\$1.85
6,001-12,000 gallons	\$1.23	\$2.91	\$2.96	\$2.78
over 12,000 gallons	\$1.64	\$3.89	\$3.94	\$3.70
<b><u>General Service</u></b>				
<b>Base Facility Charge:</b>				
Meter Size:				
5/8" x 3/4"	\$3.82	\$9.05	\$9.19	\$8.63
1"	\$9.55	\$22.63	\$22.98	\$21.57
1-1/2"	\$19.10	\$45.25	\$45.95	\$43.14
2"	\$30.56	\$72.41	\$73.52	\$69.03
3"	\$57.30	\$135.76	\$137.85	\$129.43
4"	\$95.50	\$226.26	\$229.75	\$215.72
6"	\$191.00	\$452.54	\$459.50	\$431.44
Gallage Charge, per 1,000 Gallons				
	\$0.82	\$1.94	\$1.97	\$1.85
<b><u>Typical Residential Bills</u></b>				
5/8" x 3/4" Meter Size				
3,000 Gallons	\$6.28	\$14.87	\$15.10	\$14.19
5,000 Gallons	\$7.92	\$18.75	\$19.04	\$17.89
10,000 Gallons	\$12.02	\$28.45	\$28.89	\$27.15

CYPRESS LAKES UTILITIES, INC. WASTEWATER MONTHLY SERVICE RATES TEST YEAR ENDED 12/31/01		SCHEDULE NO. 4-B DOCKET NO. 020407-WS		
	Rates Prior to Filing	Utility Requested Interim	Utility Requested Final	Staff Recomm. Interim
<b><u>Residential and Multi-Residential</u></b>				
Base Facility Charge:				
All meter sizes	\$9.52	\$14.49	\$14.65	\$13.75
Gallage Charge - Per 1,000 gallons (8,000 gallon cap)	\$2.02	\$3.07	\$3.11	\$2.92
<b><u>General Service</u></b>				
Base Facility Charge:				
Meter Size:				
5/8" x 3/4"	\$9.52	\$14.49	\$14.65	\$13.75
1"	\$23.81	\$36.24	\$36.63	\$34.40
1-1/2"	\$47.62	\$72.49	\$73.25	\$68.79
2"	\$76.19	\$115.96	\$117.20	\$110.07
3"	\$142.85	\$217.42	\$219.75	\$206.37
4"	\$238.09	\$362.38	\$366.25	\$343.95
6"	\$476.17	\$724.75	\$732.50	\$687.89
Gallage Charge, per 1,000 Gallons	\$2.02	\$3.07	\$3.11	\$2.92
<b><u>Typical Residential Bills</u></b>				
5/8" x 3/4" meter				
3,000 Gallons	\$15.58	\$23.70	\$23.98	\$22.51
5,000 Gallons	\$19.62	\$29.84	\$30.20	\$28.34
8,000 Gallons	\$25.68	\$39.05	\$39.53	\$37.10
(Wastewater Gallage Cap - 8,000 Gallons)				