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: September 7, 2006

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

FROM: Division of Economic Regulation (Revell, Bulecza-Banks, Edwards, Lingo, Rendell)
Office of the General Counsel (Jaeger)

RE: Docket No. 050563-WU – Application for increase in water rates in Polk County by Park Water Company, Inc.
County: Polk

AGENDA: 09/19/06 – Regular Agenda – Proposed Agency Action except Issues 25 and 26 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Arriaga

CRITICAL DATES: 09/29/06 (5-Month Effective Date-Extended by Utility (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050563.RCM.DOC

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Case Background

Park Water Company, Inc. (Park Water or the utility) is a Class B utility providing water service to approximately 783 customers in Polk County. Water rates were last established for this utility by Order No. PSC-00-1774-PAA-SU, issued September 27, 2000.[1]

On November 21, 2005, Park Water filed its Application for Rate Increase at issue in the instant docket. After reviewing the Minimum Filing Requirements (MFRs), staff determined that the MFRs contained a large number of deficiencies requiring extensive revisions by the utility. These revisions were not received by staff until March 8, 2006. On March 13, 2006, the utility was notified that the official filing date had been established as March 8, 2006. By letter dated May 30, 2006, the utility initially extended the five-month statutory deadline for consideration of its requested final rates until August 15, 2006. By letter dated June 19, 2006, the utility further extended the statutory deadline until September 29, 2006, due to the unanticipated loss of two large General Service customers.

The utility is planning to replace much of its distribution system with the proceeds from a low-cost loan obtained from the Florida Department of Environmental Protection (DEP). The anticipated in-service date is late 2007, and the utility will not be required to begin repayment of this loan until early 2008. For this reason, staff is recommending Phase I rates until the loan repayment begins. At that time, staff is recommending the implementation of Phase II rates.

The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and did not request interim rates. The test year established for final rates is the historical twelve-month period ended December 31, 2004.

The utility requested final rates designed to generate annual water revenues of $745,067. This represents a revenue increase of $474,500 (175.37%).

This recommendation addresses Park Water's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

[1] See Order No. PSC-00-1774-PAA-SU, issued September 27, 2000, in Docket No. 991627-SU, In re: Application for rate increase in Polk County by Park Water Company, Inc. Consummating Order No. PSC-00-1957-CO-WU, issued October 23, 2000, made Order No. PSC-00-1774-PAA-SU final and effective.

Discussion of Issues

Quality of Service

Issue 1: Is the quality of service provided by Park Water Company, Inc. considered satisfactory?

Recommendation: Yes. The utility's overall quality of service is satisfactory. (Edwards)

Staff Analysis: 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 and wastewater operations. These components are the quality of the utility's product; the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with 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 and complaints. Below, staff addresses each of these three components.

Quality of Utility's Product

Staff reviewed the utility's and Polk County Health Department's (PCHD) records. In Polk County, the potable water program is under the regulatory jurisdiction of the PCHD. According to the PCHD, its inspector conducted a plant inspection on December 8, 2005, and the conclusion was the water treatment facility had several deficiencies, at the time. However, the deficiencies were not finished water product related. During June 2006, PCHD conducted a review of the water treatment plant, and the deficiencies had been corrected. Both the plant and the utility's finished water product comply with PCHD standards. Based on the above, it appears the quality of the finished water product is satisfactory.

Operating Condition of the Water Treatment Facilities

Based on the PCHD's inspection and staff's field inspection, the operating condition of the water treatment facility complies with PCHD regulatory standards. Presently, the utility has no outstanding violations, citations, or corrective orders. Therefore, staff believes that the condition of the water treatment facilities is satisfactory.

The utility's distribution system is a network of water mains that has been an ongoing construction and repair project since 1958. The existing mains are approximately 48 years of age. Pursuant to Rule 25-30.140(2)(a)4., F.A.C., the average service life for transmission and distribution plant for class B utilities is 43 years. This distribution system has a very high unaccounted for water level, which is discussed in Issue 5. Therefore, staff believes this system has outlived its service life and should be retired. To replace all of its old mains (main replacement project), the utility requested approval of a low interest rate loan (approximate 2.5 million dollars) from the DEP's Revolving Fund. This item is discussed in detail in Issue 18. The DEP's engineer reviewed the utility's construction plans and the loan was pre-approved. Staff agrees with the DEP review and pre-approval of the loan. The loan will be granted pending the Commission approving a sufficient rate increase. In addition, staff believes replacing the antiquated distribution system will greatly reduce unaccounted for water (which should reduce its

purchased power and chemical expenses). Further, staff believes this is a prudent investment that will benefit the customers and the utility, and aid in the conservation of water.

The Utility's Attempt to Address Customer Satisfaction

In its filing, the utility stated it had received no customer complaints during the test year. However, the Commission's records indicate the utility received one customer complaint during the test year. In addition, the records show five complaints were received (from April 2002 to April 2006). Three of the complaints concerned "improper bills" and the remaining two pertained to "delay in connection." The Commission's records indicate the utility addressed all of the complaints in a prompt manner, and all of the cases are closed. Further, staff reviewed the PCHD's records and found no customer complaints on file.

On May 18, 2006, staff conducted a customer meeting in the utility's service territory in Lake Wales, Florida, at Warner Southern College. Approximately twenty-eight (28) persons attended the evening customer meeting, and twelve (12) people spoke. The customers' primary concerns are addressed below:

Low water pressure - Through a data request, staff asked the utility about the customer's water pressure concerns. The utility's response stated its water system maintains a constant pressure of 60 pounds per square inch (psi) and the customers who complained about pressure problems are on old undersized 2-inch water mains. The utility believes this problem will be resolved with the implementation of the new proposed water main replacement project.

Meter Reading - Staff performed a physical inspection of the customers' meters to see whether the meters were being read. In addition, staff reviewed customers billing records and queried the utility. In its response to a data request, the utility stated all meters are read on a consistent monthly basis. Further, it was stated that usage was rarely estimated; in such occasions, bills are noted with a statement that the meter reading had been estimated.

Unmanned office - The utility, in its response to staff data request, stated its business hours, and acknowledged that the office, on occasion, may be unmanned for short periods when all three employees are in the field or at lunch. In addition, the utility stated that it does provide a 24-hour payment drop box service; further, it states that it has a 24-hour emergency pager number that is available to all customers. On several occasions, staff has gone to the utility's office and it was unmanned.

Project Monitoring - The water main replacement project will be monitored by DEP, who is funding the loan. DEP will provide oversight for the project, and the utility will be required by DEP to provide project updates. In addition, staff is requesting that a copy of all updates be sent to the Commission.

Cost to each customer to connect to the new water main - The utility, in its response to a data request, stated customers will be responsible for connecting its service line to the newly relocated water mains because it is located on the

customers' side of the meter. The utility believes the customers will pay less to connect to the water system than it would cost the utility to connect them. The utility states that DEP is funding the cost of the line replacement, and will not allow Park Water to work on private property; therefore, the utility could not include the cost of connecting its customers to the new water distribution system.

Other concerns - The other concerns of the customers were addressed at the customer meeting or during the field investigation, with the customers.

Summary

Based on staff's analysis of the water and distribution system, it appears that all systems are operating properly and in compliance with PCHD standards. In addition, staff believes that the utility is actively attempting to respond promptly to customers' concerns.

After careful review of the cost for the water mains replacement project, staff acknowledges the high cost involved in the project will greatly impact the utility's customers. However, during the plant investigation, staff viewed a section of rusted 50- year old undersized water mains, patched with a PVC joint and lying above ground. Staff has reviewed the utility's records which indicate the existence of excessive unaccounted for water. The utility cannot reduce its level of unaccounted for water to zero, however, a reduction to 10% or less is obtainable. The reduction of water loss would aid the utility regarding lost revenues, and Florida's eco-system, which is beneficial to all Floridians.

Staff has listened to customers' complaints of low pressure. The replacement of the existing undersized mains with the correct size mains will allow the utility, for the first time, to install fire hydrants and provide fire flow protection to the residential customers. In addition, this should address normal problems associated with low pressure. Staff believes the implementation of the water main replacement project will be beneficial to both the customers and the utility. Staff recommends that the utility's overall quality of service should be considered satisfactory.

Issue 2: Should Park Water's requested increase, if any, be approved in two phases?

Recommendation: Yes. The increase, if any, should be approved in two phases. (Revell)

Staff Analysis: To replace all of its old mains, the utility has been pre-approved for a low interest rate loan from the DEP's Revolving Fund. DEP has indicated to staff that the utility will not be required to begin repaying the loan until six months after the completion of construction. The utility has indicated that construction will not be completed until approximately August, 2007. Thus, loan repayments could begin as late as early 2008.

Staff believes the utility has justified the need for an increase that recognizes increased plant and O&M cost increases since the utility's last rate case in 1999. However, staff believes that any increased rates should not include the effects of pro forma plant or the associated loan repayment obligation until the pro forma plant is in service and repayment of the loan begins.

Therefore, staff recommends that any approved increase be phased in. Phase I rates would not include the rate base or NOI effects of pro forma plant or the loan repayment. Phase II rates would include any rate base and NOI effects of the plant and associated loan repayment. The effective dates of these phases are addressed in Issue 23.

Rate Base

Issue 3: Should the audit rate base adjustments to which the utility agrees be made?

Recommendation: Yes. Based on audit adjustments which the utility agrees with, plant should be increased by $245,698 and accumulated depreciation should be increased by $21,665. In addition, CIAC should be increased by $261,565, and accumulated amortization of CIAC should be increased by $40,708. (Revell)

Staff Analysis: Staff auditors recommended the following adjustments to average rate base:

Audit Adjustments	Plant	Accumulated Depreciation	CIAC	Accumulated Amortization of CIAC
Finding No. 1 Unrecorded additions to Plant –	$261,495	$27,527	261,495	$27,527
Finding No. 2 Adjustments to Meters	($14,840)	(14,558)		
Finding No. 3 Adjustments to Transportation Equipment	$3,514	$10,047		
Finding No. 4 Adjustments to Misc. Plant in Service Accounts	(4,471)	($1,351)		
Finding No. 5 CIAC			$70	$13,181
Adjustment Totals	$245,698	$21,665	$261,565	$40,708

The utility agrees with all of the above audit adjustments. Therefore, staff recommends: that plant be increased by $245,698; that accumulated depreciation be increased by $21,665; that CIAC be increased by $261,565; and accumulated amortization of CIAC be increased by $40,708.

Issue 4: Should other adjustments be made in calculating Phase I rates?

Recommendation: Yes. For the calculation of Phase I rates, staff has removed the requested pro forma plant of $2,496,382. Staff has also removed $75,586 in pro forma depreciation expense and $72,500 in pro forma property tax expense. The requested pro forma plant and expenses included in the calculation of Phase II rates will be addressed in Issue 18. (Revell)

Staff Analysis: Park Water plans to replace the majority of its distribution lines serving existing customers and has requested $2,496,382 in pro forma plant for this purpose. Park Water has been pre-approved by DEP for a low interest loan, but it is contingent upon obtaining an increase in water rates to enable the utility to repay the loan. DEP will not require the utility to begin repayment for up to six months after completion of construction. This may be as late as early 2008. Since the utility will not be required to repay the loan for an extended time, staff believes that Phase I rates should reflect operations that do not include the rate base or operating income impacts of pro forma plant.

Staff is recommending that for the calculation of Phase I rates, $2,496,382 in requested pro forma plant additions be removed. Staff also recommends that $75,586 of pro forma depreciation expense and $72,500 in pro forma property tax expense be removed. The utility did not include accumulated depreciation on pro forma plant in its filing. Staff's recommended treatment of the pro forma plant and the impact on Phase II rates will be addressed in Issue 18.

Issue 5: Should an adjustment be made for excessive unaccounted for water?

Recommendation: Yes. Park Water has 22.30% excessive unaccounted for water for Phase I. Therefore, purchased power and chemicals should be reduced by $3,329. For Phase II, staff recommends zero excessive unaccounted for water data because of an anticipated zero excessive unaccounted for water. (Edwards, Revell)

Staff Analysis: It is Commission practice to allow 10% of total water treated as an acceptable level of unaccounted for water. In most instances, the chemical and electrical costs associated with unaccounted for water in excess of 10% have been reduced by the Commission so that ratepayers do not bear those excessive costs.

Park Water's water treatment plant is equipped with a master meter that registers all treated water leaving the plant. The yearly totals of metered water sold to customers were compared to the total treated water leaving the plant and was found to exceed the 10% standard. A visual inspection of the plant showed no physical evidence of leaks and a repaired line break did not reveal any areas of concern for water loss. However, considering the age of the pipes and the utility's records, staff believes that there is excessive unaccounted for water.

In its application, the utility stated the total gallons of water sold to its customers during the test year (January 1 – December 31, 2004) were 83,553,800 gallons. In addition, the total gallons of water pumped were 96,572,000 a difference of 13,019,000 gallons. After including the amount of "Other Water Used" (783,000 gallons), the utility indicates that it had approximately 12.4% unaccounted for water.

Staff reviewed the records filed by the utility and found several months during the test year where the gallons of water sold were greater than the finished water pumped. Staff believes the utility's data is flawed and therefore unreliable. Staff requested additional information from the utility regarding this matter of selling more water than pumped. The utility, in its response, acknowledged that the data was inaccurate and stated the plant's meter had failed on February 1, 2004, and was running slow. In April 2006, the utility installed a new meter and, while the old meter was still in place, the utility determined that the old meter was under registering by 29%. Subsequently, staff increased all of the test year flow data listed in the Monthly Operator Reports (MOR's) by 29%, and discovered the total gallons of water pumped were 124,577,880 and the gallons of unaccounted for water were 40,241,880. Therefore, it appears the utility's percentage of unaccounted for water is 32.30% (110,252 gallons per day (gpd)), of which 22.30% is excessive. The gallons of the percentage of unaccounted for water is determined by taking 10% of the average daily flow (26,337gpd) minus the total unaccounted for water (110,252 gpd) resulting in 83,915 gpd excessive unaccounted for water.

Staff believes that 22.30% (83,915 gpd) unaccounted for water is extremely excessive and that the utility's plan to replace all of its old lines is prudent. The Commission has consistently encouraged utilities to aggressively seek a goal of 10% or less. Water conservation is becoming increasingly important and staff believes that utilities should make extra effort to track water

sales, record water losses, and be vigilant about reducing excessive amounts of unaccounted for water.[2]

Based on the above, for Phase I, staff recommends 22.30% be considered excessive unaccounted for water, and therefore purchased power and chemical expenses should be reduced by $3,329. For Phase II, staff recommends no adjustment for unaccounted for water because of an anticipated unaccounted for water less than 10%.

[2] See Order No. PSC-03-1440-FOF-WS, 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.

Issue 6: What are the used and useful percentages of the utility's water treatment plant and water distribution system?

Recommendation: The water treatment plant should be considered 39.80% used and useful (U&U), and the water distribution system should be considered 64.26% U&U for the Phase I period. For Phase I, rate base should be reduced by $13,265 to reflect that 60.20% of sources of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. The water treatment plant should be considered 45.85% U&U for the Phase II period which is for the pro forma improvements. For Phase II, rate base should be reduced by $880,970 to reflect that 54.15% of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. Corresponding adjustments should also be made to reduce Phase I depreciation expense and property tax expense by $1,742 and $2,203, respectively. Phase II depreciation expense and property tax expense adjustments will be addressed in Issue 18. (Edwards, Revell)

Staff Analysis: The utility calculated the U&U percentage for the water treatment plant by taking the average of the highest five days from the maximum month demand, adding a fire flow and a growth allowance, and dividing the sum by the firm reliable capacity of the plant. The utility's peak demand (364,000 gpd) is based on the average of the five highest days of the peak month of May during the test year (2004). The required fire flow allowance is 1,500 gallons per minute (gpm) to be maintained for two hours, or 180,000 gpd. The utility stated that its firm reliable capacity for the water plant is 1,381,146 gpd (1,500 gpm x 12 hours day + 305,000 gallons in storage – 3,854 gallons of dead storage). This is based on the assumption that if its larger 2,500 gpm well is taken off-line, its smaller 1,500 gpm well would be used for 12 hours per day. Additionally, the utility included a growth factor of 22,575 gpd in its calculation. The utility's calculation reflected 40.85% U&U.

Staff has reviewed Park Water's calculation, and believes it is not consistent with the Commission's practice of calculating U&U for a water treatment plant which has two wells and storage. The utility used the average of five highest days of the maximum month to determine the peak demand; this method should only be used in the event the maximum day is an anomaly.

Growth

In its filings, the utility's records indicated the average customer growth rate (five-year average) is 18 Equivalent Residential Connections (ERCs) per year. As such, the utility applied this growth rate in its water U&U percentage calculations. During Park Water's last rate case, the utility anticipated a high rate of growth. The anticipated high growth was based on a feasibility study and report on improvements necessary to match growth, which was produced by Knepper and Willard, Inc. (an engineering & consulting company). The report, issued in February, 2000, advised the utility how to achieve "a system of handling flows for expansion and fire flow demand while maintaining a solid operation pressure around 60 pounds per square inch (psi)." As a result of this report, the utility anticipated an average growth of 40 ERCs per year. In addition, staff, in the last rate case, used this growth analysis in its U&U calculations.

However, during the current plant investigation, staff reviewed the facilities and the service territory and found no indications of high growth. Therefore, staff does not believe the utility's anticipated growth (40 ERCs/yr) is appropriate.

Pursuant to Rule 25-30.431(2)(c), F.A.C., staff calculated the appropriate growth allowance by applying a regression analysis using actual customer growth data. This resulted in an anticipated growth of 4.9 ERCs per year which calculates a projection of 14,247 gpd (4.9 ERCs x 5 years x (519,870 gpd / 894 ERCs)) for the statutory 5-year growth period defined in Section 367.081(2)(a)2.b., F.S. Therefore, staff recommends a growth allowance of 4.9 ERCs per year.

Adjusted Data

On June 19, 2006, the utility informed staff there would be two major changes to its customer base which would result in losses of $38,972 in revenue and 6,502,000 gallons in annual usage. These changes are the results of losing a commercial customer and a commercial irrigation customer. Because of the changes and for rate setting purposes, staff adjusted the utility's 2004 flow data to reflect these changes: (water pumped 124,577,880 – 6,502,000 = 118,075,880 gals, gallons sold 83,553,800 – 6,502,000 = 77,051,800 gals, max. day 519,870 – 17,814 = 502,056 gpd, average daily flow 281,185-17,814 = 263,371 gpd and growth changed from 14,247 to 13,883 gals (4.9 ERCs x 5 years x (502,056 gpd / 886 ERCs)).

Staff calculated the U&U percentage by taking the max day demand, plus a growth allowance, fire flow, and subtracting excessive unaccounted for water, and dividing by the capacity of the system. This calculation shows that the water treatment plant is 39.80% U&U. Given the problems with the utility's water flow data, staff adjusted the test year flow data by 29% (as addressed in Issue 5) to calculate the U&U percentage. Staff determined the max day demand of 502,056 gpd (in the max month of May 2004) to be reasonable. According to the utility's MFRs, the required fire flow allowance is 1,000 gpm, which is to be maintained for two hours, or 120,000 gpd. Since the utility's last rate case there has been no additions to plant; therefore, staff believes that the plant's capacity is 1,381,146 gpd, as in the last rate case. The growth allowance is based on linear regression, which shows an annual growth of 4.9 ERCs per year; the annual growth rate (4.9) should be multiplied by five years to obtain the statutory five-year growth allowance of 24.5 ERCs at 566.7 gpd per ERC, or 13,883 gpd, pursuant to Section 367.081(2)(a)2.b., F.S. As discussed earlier in Issue 5, staff determined the utility's total unaccounted for water is 32.30%, of which 22.30% is excessive. As stated above, the result is a 39.80% U&U, in Phase I. (See Attachment A, page 1 of 3)

Used and Useful for Pro Forma Item

As previously stated, the existing water distribution system was initially constructed in 1958 and basically consists of galvanized iron piping. Due to the natural aging process over the past 48 years, the water mains have deteriorated significantly and are currently leaching. This leaching is evident due to the significant amount of unaccounted for water. The high level of corrosion in the piping has resulted in significantly reducing the inside diameter of the piping due to the deposition and accumulation of iron oxides on the inside surfaces of the pipes.

As a means of corrective action, Park Water has initiated a water main replacement project. This project will consist of the installation of an entirely new distribution system (PVC pipes) with residential fire protection, for the first time. The new main will only provide service to the utility's existing customers. The utility proposes to install the new mains, with the old

system intact and functioning. At that time, both the present and the newly constructed systems will be in use. Then, the utility will connect each customer to the new system, which should greatly reduce the period of interruption.

As a means of financing the project, Park Water has acquired a loan from the DEP revolving fund. However, the loan is contingent on the Commission approving the necessary rate increase to insure the utility's ability to pay back the loan.

Staff calculated the U&U percentage, for Phase II, by taking the max day demand (502,056 gpd), plus a growth allowance (13,883 gpd), fire flow (120,000 gpd), and subtracting excessive unaccounted for water (0), and dividing by the capacity of the system (1,381,146). The only difference in the U&U calculation for Phase I and II is that Phase II anticipates no unaccounted for water. This calculation shows that the water treatment plant is 45.85% U&U in Phase II. (See Attachment A, page 2 of 3)

Conclusion

Based on the above, staff recommends the U&U percentage for the water treatment plant be established at 39.80% and 45.85% for Phase I and Phase II, respectively.

Water Transmission and Distribution Systems

In its filing, the utility calculated a 97.52% U&U percentage for its water distribution system. The utility calculated U&U by taking the average number of test year ERCs of 895 and a growth factor of 90 ERCs (18 ERCs x 5 years), for a sum of 985 ERCs. According to Park Water, the present number of lots that have service available is 1,010, resulting in a 97.50% U&U (985/1,010 connections).

Staff has reviewed the utility's calculation and agrees with its methodology; however, staff disagrees with the calculated distribution capacity, the potential growth allowance and the resulting U&U percentage. Staff has reviewed the water distribution system and discovered that it has the potential of serving 1,417 ERCs without the construction of additional distribution mains. The average number of ERCs served during the 2004 (test year) was 894 ERCs; however, because of the utility's anticipated loss of 2 major customers, staff made the necessary adjustment to average the number of ERCs (894 – 8 = 886 ERCs). Staff used an annual growth rate of 4.9 ERCs, not 18 ERCs as used by the utility. This equates to a total of 24.5 (4.9 ERCs x 5 years) ERCs instead of the 90 ERCs used by the utility. By implementing these changes, the result is 64.26% U&U ((886+24.5) / 1,417 = 64.26%). Staff recommends the U&U percentages for the water transmission and distribution systems should be considered 64.26% U&U. (See Attachment A, page 3 of 3).

Overall, Phase I rate base should be reduced by ($13,265) to reflect that 60.20% of sources of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. Phase II rate base should be reduced by ($880,970) to reflect that 54.15% of water treatment plant and 35.74% of transmission and distribution plant should be considered non-used and useful. Corresponding adjustments should also be made to reduce Phase I depreciation expense and property tax expense by $1,742 and $2,203, respectively.

Phase II depreciation expense and property tax expense adjustments will be addressed in Issue 18.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $22,368. (Revell)

Staff Analysis: 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. Staff has recommended adjustments in other issues to the utility's O&M expenses. Due to these adjustments, staff recommends that working capital of $22,368 should be approved. This reflects an increase of $8,585 in the utility's requested working capital allowance.

Issue 8: What is the appropriate Phase I rate base?

Recommendation: The appropriate average rate base for the test year ended December 31, 2004, is $436,776. (Revell)

Staff Analysis: Consistent with other recommended adjustments, the appropriate average Phase I rate base for the test year ended December 31, 2004, is $436,776. Staff's recommended Phase I rate base is shown on Schedule No. 1-A. The adjustments are shown on Schedule No. 1-B.

Capital Structure

Issue 9: Are any adjustments necessary to Park Water's Phase I capital structure?

Recommendation: Yes. The utility's common equity balance should be reduced by $29,500 and set at zero ($0), and short term debt should be increased by $4,145. Additionally, long term debt of $2,496,382 should be removed. Pro forma plant will be addressed in Issue 18. (Revell)

Staff Analysis: In Audit Finding No. 8, the auditors stated that the utility's reported common equity balance of $29,500 should be zero for rate setting purposes because it reflected a negative balance at the end of the test year when netted against the utility's retained earnings of a negative $70,241. Because including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, staff agrees that common equity should be set at zero ($0).

In Audit Finding No. 7, the auditors found that the utility had overstated its total interest expense by $341 and understated its simple average amount of outstanding short-term debt by $4,145. As a result of these errors, the utility's effective short-term interest rate was overstated by 65 basis points.

The utility agrees with Audit Finding Nos. 7 and 8. Therefore, staff recommends that the utility's common equity for rate setting purposes should be set to zero ($0), and that short-term debt be increased by $4,145.

Additionally, staff has removed $2,496,382 in long-term debt from the utility's capital structure. This debt will be acquired to finance the construction of its pro forma plant additions. Staff will address the pro forma plant in Issue 18. Staff's Phase I capital structure is shown on Schedule No. 2.

Issue 10: What is the appropriate return on common equity and weighted average cost of capital for the test year ended December 31, 2004?

Recommendation: The appropriate return on common equity is 11.55%, with an allowed range of plus or minus 100 basis points. Staff also recommends that the appropriate Phase I weighted average cost of capital be set at 5.99%. (Revell)

Staff Analysis: In its MFRs, the utility used a cost rate of 10.1% for its common equity. As discussed in Issue 9, staff is recommending that common equity be set at zero. Using the current leverage formula in effect,[3] the rate of return with a common equity ratio of 40% or less is 11.55%, with a range of 10.55%-12.55%. Staff, therefore, recommends that the return on common equity be set at 11.55%.

Based upon the proper components, amounts and cost rates associated with the Phase I capital structure for the test year ended December 31, 2004, including the adjustments discussed in Issue 9, staff recommends that the weighted average cost of capital be set at 5.99%.

[3] The current rate was approved by 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 rate of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., and made final by Consummating Order No. PSC-06-0554-CO-WS, issued June 27, 2006.

Issue 11: What adjustments, if any, should be made to the utility's test year revenue?

Recommendation: Staff recommends that annual revenues be increased by $6,909 to cover the costs for non-utility billing services, and reduced for pro forma reductions of $38,972 reflecting lost revenues from two customers. Overall, this results in a net reduction of revenues of $32,063. (Revell)

Staff Analysis: Audit Finding No. 9 states that the utility performs billing and collection services for Crooked Lake Park Sewerage Company, Inc. (Crooked Lake), which provides wastewater services to approximately 50% of Park Water's water customers. The service is performed in conjunction with the utility's normal monthly routine for billing and collections of its water service customers. However, the utilities are not related parties. The utility was not able to substantiate the total cost of providing this service, but estimated that the costs incurred by the utility for providing this service equals the revenues received. Normally non–utility revenues and expenses would be removed for rate setting purposes. However, since the utility cannot substantiate the total costs in providing the billing service to Crooked Lake, staff recommends that revenues be increased by $6,909 to offset the costs associated with providing this service. The utility agrees with this adjustment.

During this case, the utility requested a pro forma revision to its 2004 test year revenues, as two of its customers were reducing or terminating service with the utility. Warner Southern College (Warner) is a high volume commercial customer that will no longer use the utility's service for irrigation purposes; it will continue as a potable water customer. Park Water provided usage and billing documentation to staff indicating that it would lose approximately $29,143 in annual revenues from Warner.

In the second instance, the utility was providing temporary service to the City of Lake Wales (City), because a well used by the City to service a mobile home park had run dry. It was understood that the City would again provide service to the park as soon as city service could be restored. The City has notified Park Water that it will take over service by October 2006. Park Water indicates that it will lose approximately $9,829 in annual revenues as a result of this change. The analysis provided by Park Water initially indicated that the gallons used for November 2004 was approximately 263,000 gallons. This was in error and was subsequently corrected to show the revised usage of 163,000 gallons. The revenues for the month were correct and were not revised.

Staff recommends that annual revenues be increased by $6,909 to cover the costs for billing services to Crooked Lake, and pro forma reductions of $38,972 for lost revenues from two large customers. Overall, this results in a net reduction of revenues of $32,063.

Net Operating Income

Issue 12: Should audit NOI adjustments be made?

Recommendation: Yes. O&M expense should be increased by $3,293, depreciation expense should be increased by $3,612, amortization expense should be increased by $2,868, and taxes other than income should be reduced by $6,707. (Revell)

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

Audit Adjustments	O&M Expense	Depreciation Expense	Amortization Expense	Taxes Other Than Income
Finding No. 2				
Adjustments to Meters	$1,211	($873)		
Finding No. 3				
Adjustments to Transportation Equipment		4,638		
Finding No. 4				
Adjustments to Misc. Plant In Service Accounts		($153)		
Finding No. 5				
Adjustments to CIAC			$2,868	
Finding No. 10				
O&M Expense:				
Contractual Service – Eng	($2,465)			
Contractual Service – Acct.	$6,023			
Reg. Commission Exp	($1,476)			
Finding No. 11				
RAF Overstatement				($6,148)
Property Taxes				($559)
Adjustment Totals	$3,293	$3,612	$2,868	($6,707)

The utility agrees on all of the above audit adjustments; therefore, staff recommends that O&M expense should be increased by $3,293, depreciation expense should be increased by $3,612, amortization expense should be increased by $2,868, and taxes other than income should be reduced by $6,707.

Issue 13: Should adjustments be made to employee salaries or pension benefits?

Recommendation: Yes. Employee salaries and pension benefits should be reduced by $28,313. (Revell)

Staff Analysis: In its MFRs, the utility had $120,066 in salary expense and $16,325 in pensions and benefits expense, totaling $136,391. This represents 66.16% of total 2004 test year O&M expense. In its 1999 case, salaries totaled $78,220 with no benefits expense. Staff believes that an increase of 74.37% in salaries and benefits in five years is excessive. Additionally, the utility has shown only slight growth over this period, from 766 customers to 783 customers, an increase of 2.22%.

Staff recommends adjusting the utility's expense based on inflation of 3% and customer growth of 2.22%. Compounding the inflation factor at 3% yearly since 1999, totals 19.41%. The compounded factor for the period, including the customer growth factor, results in a factor of 21.63%.

The recommended salaries expense based on the expense allowed in the last case multiplied by the inflation and customer growth factor of 21.63% equals $95,142. Since the test year expense was $120,066, staff recommends that salary expense be reduced by $24,924, or 20.76%. Additionally, staff recommends that pension and benefits expense also be reduced by the same percentage, or $3,389. Overall, staff recommends that salaries, and pensions and benefits expense be reduced by $28,313.

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense for this docket is $18,175. This expense should be recovered over four years for an annual expense of $4,544. (Revell)

Staff Analysis: The utility included a $12,000 estimate in the MFRs for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility submitted a revised estimated rate case expense of $21,025 reflecting the expense through completion of the PAA process. The components of the utility's estimated rate case expenses are as follows:

	MFR Estimated	Actual	Additional Estimated	Total
Filing Fee	$0	$3,500	$0	$3,500
Legal Fees	0	$3,400	0	3,400
Accounting Fees	$12,000	$13,400	0	13,400
Notices/Misc.	0	725	0	725
Total R/C Expense	$12,000	$21,025	$0	$21,025

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Staff believes that the revised estimate is reasonable with the exception discussed below.

Staff made adjustments to accounting expenses by $2,850 for 19 hours billed to correct MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[4] Accordingly, staff recommends that $2,850 be removed as duplicative and unreasonable rate case expense.

Staff recommends appropriate rate case expense as follows:

[4] See Order No. PSC-01-0326-FOF-SU, issued February 21, 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., at pp.73-75.

	MFR Estimated	Utility Revised and Actual	Staff Adjustments	Total
Filing Fee	$0	$3,500	$0	$3,500
Legal Fees	$0	$3,400	$0	$3,400
Accounting Fees	$12,000	$13,400	($2,850)	$10,550
Notices/Misc	$0	$725	$0	$725
Total R/C Expense	$12,000	$21,025	($2,850)	$18,175
Total Annual Expense	$3,000			$4,544

Pursuant to Section 367.0816, F.S., rate case expense should be amortized over four years. Staff's recommended annual rate case expense should be $4,544.

Issue 15: Should water expenses be adjusted due to repression?

Recommendation: Yes. It is Commission practice to reduce chemicals and purchased power for repression of water gallons. Thus, chemicals and purchased power should be reduced by $409. (Revell)

Staff Analysis: Based on previously recommended adjustments, staff's adjusted purchased power and chemicals are $9,874 and $1,725, respectively. In Phase I, water consumption should be reduced by 2.3%. With this decrease, there will be a corresponding decrease in purchased power expense due to having to pump less water and a decrease in chemical expense due to having to chemically treat less water.

It is Commission practice to reduce chemicals and purchased power due to repression of water and wastewater gallons.[5] Thus, purchased power and chemical expense should be reduced by $409.

[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., at p. 58; Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU, In re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company), at p. 29.

Issue 16: What is the test year water operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year operating loss before any provision for increased revenues is $8,203. (Revell)

Staff Analysis: As shown on attached Schedule No. 3-A, after applying staff's adjustments, the test year net operating loss before any revenue increase is $8,203. Staff's adjustments to operating income and expenses are shown on Schedule No. 3-B.

Revenue Requirement

Issue 17: What is the appropriate Phase I revenue requirement?

Recommendation: The following Phase I revenue requirement should be approved: (Revell)

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Phase I	$238,504	$35,965	$274,469	15.08%

Staff Analysis: Park Water requested final rates designed to generate annual revenues of $745,067. This exceeds test year revenues by $474,500 (175.37%). The originally requested rates also included its requested pro forma plant, which has been removed in this calculation of Park Water's initial revenue requirement. The requested inclusion of pro forma plant and related adjustments, and its effect on Park Water's revenue requirement will be addressed in Issue 18.

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, and exclusion of pro forma-related adjustments, staff recommends approval of rates that are designed to generate a Phase I revenue requirement of $274,469. These revenues exceed staff's adjusted test year revenues by $35,965, or 15.08%, for Phase I. These increases will allow the utility the opportunity to recover its expenses and earn a 5.99% return on its investment in water rate base for Phase I.

Issue 18: Should the Commission approve pro forma plant additions and other related pro forma adjustments for the utility, and if so, what is the appropriate return on equity, overall rate of return, and revenue requirement?

Recommendation: Yes. Pro forma plant should be increased by $15,955, resulting in total recommended pro forma plant additions of $2,512,337. In addition, accumulated depreciation should be increased by $62,402, and depreciation expense on pro forma plant should be decreased by $13,184. Also, plant and accumulated depreciation should be reduced by $147,229, depreciation expense on retired plant should be reduced by $3,430, and loss on retired plant of $21,552 should be amortized over eight years at $2,694 yearly.

In addition, purchased power and chemicals should be reduced by $1,133 for repression. Additionally, depreciation expense should be reduced by $18,782 due to staff's U&U calculation, and property taxes related to the pro forma plant should be reduced by $31,887.

The appropriate rate of return on equity for Phase II should be 11.55%, with a range of plus or minus 100 basis points. The appropriate weighted average cost of capital should be 3.36%. Staff recommends a Phase II revenue requirement of $393,145.

Additionally, Park Water should be required to file with the Commission all progress reports it files with, or receives from, DEP concerning its construction project. (Revell)

Staff Analysis: The utility's distribution system discussed in Issue 1 is approximately 48 years old, and due to its age, approximately 40% of the water pumped is unaccounted for water. The utility has planned to replace a major portion of its distribution system since 1999 but has been unable to do so.

In July, 1999 Park Water submitted a loan application to DEP for funding under the State Revolving Fund's Drinking Water Facilities program. This program provides low cost loans to water and wastewater utilities for expansion or upgrades to existing facilities. After satisfying numerous DEP requirements, the utility was pre-approved for funding. However, this funding was contingent on the utility having sufficient rates in effect to cover the payback of the loan. However, the utility did not go forward with the planning of the construction until late 2005.

The utility has stated it anticipates construction will start as soon as it receives the first draw on the DEP loan proceeds, or approximately 60 days after the Commission's decision on its requested rates. Park Water expects construction to be complete in approximately 270 days, or August, 2007. During construction, DEP will require that Park Water retain a consulting engineer to oversee the project and file a number of progress reports with DEP. DEP has indicated to staff that the utility will not be required to begin repaying the loan for six months after the completion of construction. Thus, loan repayments could begin as late as early 2008; however, interest on the loan will continue to accrue.

Park Water has indicated to staff that all existing customers will be connected to the newly constructed water lines, and all customers will be notified about the proposed construction and timelines for the start and completion dates of the project. The new water mains will provide service to existing customers with the exception of those vacant lots which are located between existing customers. As proposed by the utility, once the project is completed, individual customers will have 60 days to connect to the new distribution system. The utility estimates that

service will be interrupted for approximately 30 minutes for a customer's changeover. During this period of time, Park Water will be utilizing both distribution systems simultaneously.

The utility also has stated that it will be the responsibility of the customers to run the service line from their homes to the new meter, since terms of the loan agreement with DEP prohibit the utility to work on private property. DEP not lend funds to a utility to connect existing customers to the relocated meters.

In many cases, the existing lines run behind customers' homes. The utility plans to install the new lines in the right of way along the streets in front of customers' homes, and approximately 300 customers that presently have lines in the rear of their property will be required to pay for the installation of a service line from the new meter to their home. Customers will be given the option of installing the new service line themselves or hiring a plumber to make the connection. The utility estimates that connecting the new service line will cost about $150, or $50 should customers wish to make the connection themselves.

Rule 25-30.231, F.A.C., which addresses the extent of the systems a utility is required to maintain, states that each utility:

> ... shall operate and maintain in safe, efficient and proper condition all of the facilities and equipment used in connection with the ... distribution, regulation, measurement and delivery of water service to the customer up to and including the point of delivery into the piping owned by the customer. (emphasis added)

Staff is concerned about the utility's requirement that customers must arrange and pay for the service connection to the utility's meter, or do the work themselves; however, the Commission has repeatedly determined that the utility's responsibility for maintenance of lines ends at the outlet side of the meter.[6] Based on this past practice, staff believes that the Commission has refused to require the utility to conduct any construction or pay for any construction on the outlet side of the meter, and should not do so here. Staff believes that by delaying the implementation of Phase II rates until after completion of the project, as discussed in Issue 23, the financial burden may be reduced by allowing additional time for customers to plan for this expense. During this time, the customers will be paying lower Phase I rates.

Pro Forma Plant

In its MFRs, the utility requested $2,496,382 in pro forma plant. Staff has reviewed this request and as discussed previously, believes the pro forma plant additions are prudent.

Section 367.081(2)(a)2., F.S., in pertinent part states:

> . . . the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future,

[6] See Order Nos. PSC-98-0524-FOF-WU, issued April 16, 1998, in Docket No. 971065-SU, In re: Application for rate increase in Pinellas County by Mid-County Services, Inc. , p. 20; PSC-93-0022-FOF-WU, issued January 5, 1993, in Docket No. 920735-WU, In re: Complaint by Sue Warner against Floralino Properties, Inc. in Pasco County regarding removal of trees from utility easement, p. 2; PSC-00-1285-FOF-WS, issued July 14, 2000, in Docket No. 960545-WS, In re: Investigation of utility rates of Aloha Utilities, Inc. in Pasco County, p.22.

not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission, to be used and useful in the public service, if:

a. Such property is needed to serve current customers;

As discussed in the case background, Park Water originally filed for rate relief in November 2005. Due to deficiencies in the MFRs, the official filing date was not established until March 8, 2006. Subsequent to that date, the five-month period to process the utility's rate request was extended on two occasions. As a result, the pro forma plant additions will now go in service in approximately late 2007, or 2 ½ years after the end of the 2004 test year.

As discussed in Issue 1, there are many benefits warranting the inclusion of the pro forma plant, particularly to reduce unaccounted for water (and consequently conserve water), improve the reliability of the system, maintain higher water pressure levels, and provide for the installation of fire hydrants in the service area. Further, as stated earlier, staff believes that all the pro forma projects requested in the utility's filing are prudent and needed to serve its current customers. Thus, staff recommends that the utility be granted a longer period of time beyond the normal 24 months after the end of the 2004 test year to place the pro forma plant additions in service, and that the requested pro forma plant of $2,496,382 be approved.

In addition, staff is recommending that an Allowance for Funds Used During Construction (AFUDC) rate be approved as discussed in Issue 18. The terms of the DEP loan discussed above require Park Water to repay not only monies used for actual construction, but also interest accrued on the loan disbursements prior to the commencement of the repayment of the DEP loan. Currently, the pro forma plant addition include $40,000 of capitalized interest. Staff believes that the utility should recover its interest costs incurred during construction of the project. However, without an approved AFUDC rate, the utility will be required to pay DEP for the interest costs accrued on the loan, but will not be able to recover this expense from its customers in Phase II rates.

Rule 25-30.116(2)(a) F.A.C., states that, "The most recent 12-month average embedded cost of capital ... shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the Company's last rate case."

Staff used financial information contained in Park Water's 2005 Annual Report, and calculated the utility's December 31, 2005 capital structure, including adjustments discussed previously. Using staff's recommended AFUDC rate, staff is recommending that an additional $15,955 be included in the utility's pro forma plant request. This amount exceeds the estimated $40,000 capitalized interest in the DEP loan; however, the additional amount will be recoverable if the utility has an approved AFUDC rate. Staff recommends that the utility recover an AFUDC amount of $55,955, which amounts in total pro forma plant additions of $2,512,337 (2,496,382-40,000 + $55,955).

Accumulated Depreciation

In MFR Schedule No. A-9, the utility did not make an adjustment for accumulated depreciation on its pro forma plant. Staff calculated the appropriate adjustment using a full year for calculating the first year's depreciation expense and determined that accumulated

depreciation should be increased by $62,402, as discussed in the section below. This increase is in addition to the audit adjustment discussed in Issue 3

Depreciation Expense

In MFR Schedule No. B-13, the utility indicated that increased depreciation expense on its proposed pro forma plant totals $75,586. However, the utility used the wrong depreciation rates for Accounts 331, 334, and 335. Staff corrected these errors and determined that the proper expense using the full-year convention should be $62,402. Thus, staff recommends that depreciation expense be reduced by $13,184.

Usually, only half-year depreciation expense is taken in the year that plant goes into service. However, rates are being set prospectively, and applying the half-year convention would impair Park Water's ability to repay the DEP loan. The allowance of only half-year depreciation will not allow Park Water to recover its full depreciation expense on the pro forma plant until its next rate proceeding. Normally, this would not present a hardship for a utility; however, the recommended pro forma plant addition represents an approximate 350% increase in rate base from Phase I to Phase II.

Park Water has very low growth, thus, a large non-used and useful adjustment has been made. The adjustment further hampers its ability to pay the debt service on the DEP loan. For the above reasons, staff recommends that a full-year depreciation expense be allowed for the utility, or $62,402 in depreciation expense.

The utility's response to a staff data request did not address depreciation expense charged during the test year on plant which is being retired. However, because the plant adjustments discussed above affect the test year, staff has removed $3,430 in related depreciation expense. Additionally, depreciation expense should be reduced by $18,782 due to Park Water's revised U&U calculation.

Retirement of Replaced Plant

In its MFRs, the utility did not reflect any retirements of plant replaced by pro forma plant additions. In response to a staff data request, the utility stated that it had identified $147,229 in Account 331, Transmission and Distribution Mains, that should be retired. The utility further stated that it had not identified any associated CIAC that should be retired. After a review of the data response and supporting documentation, staff agrees that $147,229 in Plant and accumulated depreciation should be removed.

Loss on Retirement of Replaced Plant

As discussed earlier, Park Water will be replacing existing transmission lines, and as such, the replaced lines must be retired. Rule 25-30.433(9), F.A.C., specifies that:

> The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-

> construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Using the above formula results in a loss of $21,552, amortized over eight years. Staff does not believe there are any special circumstances surrounding the retirement that would warrant a different amortization period. Thus, staff recommends that the this amount be amortized over eight years, or $2,694 per year.

Repression Adjustment

As discussed in Issue 15, purchased power and chemicals expense should be reduced to reflect the decreased use of water after a rate increase. In Phase II, water consumption should be reduced by 4.2% from pre-repression levels. Thus, based on all previously discussed adjustments, purchased power and chemicals expense should be reduced by $1,133.

Property Taxes

In MFR Schedule No. B-15, the utility indicated that it would incur $72,500 in additional property taxes on the pro forma plant additions. Staff reviewed the utility's responses to data requests, as well as Polk County property records, and calculated that the utility's taxes will increase by $40,613. Thus, staff recommends a reduction to property tax expense of $31,887. Property tax expense should also be reduced an additional $11,578 due to the calculation of the utility's U&U percentage as discussed in Issue 6.

Common Equity and Weighted Average Cost of Capital

The utility's proposed pro forma plant, of $2,512,337, including the AFUDC accrual, is included in capital structure for the calculation of Phase II rates. It carries an interest rate of 2.71% based on the DEP-approved loan rate. Based upon the proper components, amounts and cost rates associated with the Phase II capital structure for the test year ended December 31, 2004, including the two audit adjustments discussed in Issue 9, staff recommends that the weighted average cost of capital be set at 3.36%.

Revenue Requirement

Based upon staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, including pro forma related adjustments, staff recommends approval of rates designed to generate a Phase II revenue requirement of $393,145. These revenues exceed staff's adjusted test year revenues by $154,641, or 64.84%. Staff's recommended increases will allow the utility the opportunity to recover its expenses and earn a 3.36% return on its investment in Phase II water rate base.

Reporting Requirements

As discussed in Issue 1, Park Water will be required to submit periodic construction progress reports to DEP. DEP will perform two on-site inspections at approximately the mid-point and the completion of construction. Staff recommends that the utility be required to submit to the Commission all construction reports or other documents it submits, or receives from, DEP.

The utility should provide staff with the final approval documentation no later than 15 days after the utility receives final approval from DEP. The appropriate Phase I and II rates are discussed in Issue 22.

Overall, staff recommends that Pro forma plant should be increased by $15,955, resulting in total recommended pro forma plant additions of $2,512,337. In addition, accumulated depreciation should be increased by $62,402, and depreciation expense should be decreased by $13,184. Also, plant and accumulated depreciation should be reduced by $147,229, and loss on retired plant of $21,552 should be amortized over eight years at $2,694 yearly.

In addition, purchased power and chemicals should be reduced by $1,133 for repression. Additionally, depreciation expense should be reduced by $18,782 due to staff's U&U calculation, and property taxes related to the pro forma plant should be reduced by $31,887.

The appropriate rate of return on equity for Phase II should be 11.55%, with a range of plus or minus 100 basis points. The appropriate weighted average cost of capital should be 3.36%. Staff recommends a Phase II revenue requirement of $393,145.

Additionally, Park Water should be required to file with the Commission all progress reports it files with, or receives from, DEP concerning its construction project.

Staff's Phase II rate base is shown on Schedule No. 5-A and rate base adjustments are shown on Schedule No. 5-B. Staff's Phase II capital structure is shown on Schedule No. 6, and staff's NOI and adjustments to NOI are shown on Schedule Nos. 7-A and 7-B, respectively.

Issue 19: Should an Allowance for Funds Used During Construction (AFUDC) rate be established, and if so, what is the appropriate rate?

Recommendation: Yes, an annual AFUDC rate of 6.00% should be approved. The discounted monthly rate is 0.499863%. The approved rate shall be applicable for eligible construction projects beginning January 1, 2006. (Revell)

Staff Analysis: AFUDC is an accounting entry designed to permit a utility to recover the cost associated with financing eligible construction activities. Rule 25-30.116(2)(a), F.A.C., provides that an AFUDC rate shall be determined using the utility's most recent 12-month average embedded cost of capital. In the instant case, the most recent 12-month period is the year ending December 31, 2005.

Thus, staff believes that an annual AFUDC rate of 6.00%, with a monthly rate of 0.499863% should be approved. The effective date should be January 1, 2006.

Rates and Rate Structure

Issue 20: What are the appropriate rate structures for the utility's various customer classes for Phase I and Phase II?

Recommendation: In Phase I, the appropriate rate structure for the residential class is a continuation of the current four-tier inclining-block rate structure. The usage blocks should be changed to monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The current usage block rate factors should be changed to 1.0, 1.25, 1.5 and 2.0, respectively. The four-tier inclining-block rate structure currently applicable to both general service and multi-residential customers should be eliminated and replaced with the traditional base facility charge (BFC)/uniform gallonage charge rate structure. The multi-residential BFC charges should be equal to those BFC charges assigned to general service customers of equivalent meter size. The Phase I and Phase II post-repression BFC cost recovery percentage should be set at 35%. There should be no rate structure changes between Phase I and Phase II. (Lingo)

Staff Analysis: The utility's water system rate structure consists of a four-tier inclining block rate structure applicable to all customer classes. The BFC for its 5/8" x 3/4" meter customers is $7.06 per month, with corresponding usage blocks for monthly consumption of: a) 0-6 kgals; b) 6.001-12 kgals; c) 12.001-22 kgals; and d) usage in excess of 22 kgals. The BFC for its 2" meter customers is $56.51, with corresponding usage blocks for monthly consumption of: a) 0 – 48 kgal; b) 48.001 – 96 kgal; c) 96.001 – 176 kgal; and d) usage in excess of 176 kgal. The usage block rate factors are 1.0, 1.5, 2 and 3, respectively.

Staff performed a detailed analysis of the utility's billing data in order to select the usage blocks and usage block rate factors for the recommended residential rate structure. Based on our analysis, staff recommends that the usage blocks be changed to monthly consumption of: a) 0 – 5 kgals; and b) 5.001 – 10 kgals; c) 10.001 – 15 kgals; and d) in excess of 15 kgals. The usage block rate factors should be changed to 1.0, 1.25, 1.5 and 2.0, respectively.

The traditional BFC rate structure with a uniform gallonage charge has been the Commission's rate structure of choice for classes other than the residential service class. 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 and multi-residential gallonage charge in this case. With this methodology, the general service and multi-residential service customers would pay their fair share of the cost of service.

Staff's analysis of this issue is discussed in detail on Attachment B.

Based on the foregoing and staff's analysis contained on Attachment B, the appropriate rate structure in Phase I for the residential class is a continuation of the current four-tier inclining-block rate structure. The usage blocks should be changed to monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The current usage block rate factors should be changed to 1.0, 1.25, 1.5 and 2.0, respectively. The four-tier inclining-block rate structure currently applicable to both general service and multi-residential customers should be eliminated and replaced with the traditional BFC / uniform gallonage charge

rate structure. The multi-residential BFC charges should be equal to those BFC charges assigned to general service customers of equivalent meter size. The Phase I and Phase II post-repression BFC cost recovery percentage should be set at 35%. There should be no rate structure changes between Phase I and Phase II.

Issue 21: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for Phases I and II for this utility?

Recommendation: Yes, repression adjustments are appropriate. For Phase I, residential consumption should be reduced by 3.5%, resulting in a consumption reduction of approximately 1,801.2 kgals. The resulting total water consumption for Phase I ratesetting is 75,351.8 kgals, which represents a 2.3% reduction in overall consumption. For Phase II, residential consumption should be reduced by 6.5%, resulting in a consumption reduction of approximately 3,184.6 kgals. The resulting total water consumption for Phase II ratesetting is 72,167.2 kgals, which represents a 4.2% reduction in overall consumption. In order to monitor the effects of both the changes in revenue and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates for each phase go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: Absent direct, comparable data from our database of other utilities with a four-tier inclining-block rate structure receiving price increases and decreases, staff utilized the proportional equation approach to calculate the recommended repression adjustment, which is consistent with prior Commission decisions.[7]

Staff excluded 18,078.5 kgals from the repression calculation, which equates to monthly usage per customer of approximately 2.5 kgal. Staff used proportional relationships that the Commission has found appropriate in prior cases to solve for the anticipated consumption reductions found on Attachment C.

Based on the foregoing, a repression adjustment in both Phase I and Phase II is appropriate. For Phase I, residential consumption should be reduced by 3.5%, resulting in a consumption reduction of approximately 1,801.2 kgals. The resulting total water consumption for Phase I ratesetting is 75,351.8 kgals, which represents a 2.3% reduction in overall consumption. For Phase II, residential consumption should be reduced by 6.5%, resulting in a consumption reduction of approximately 3,184.6 kgals. The resulting total water consumption for Phase II ratesetting is 72,167.2 kgals, which represents a 4.2% reduction in overall consumption. In order to monitor the effects of both the changes in revenue and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates for each phase go into effect. To the extent the utility makes adjustments to consumption in any month

[7] (See Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc., p. 22; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc., p. 40; 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., pp. 33-36.)

during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 22: What are the appropriate monthly water rates for Phase I and Phase II for this utility?

Recommendation: The appropriate monthly water rates for Phase I and Phase II are shown on Schedule No. 4 and Schedule No. 8, respectively. (Lingo, Revell)

Staff Analysis: The appropriate revenue requirements, excluding miscellaneous service charges, are $264,002 for Phase I and $382,678 for Phase II. As discussed in Issue 20, staff recommends that the appropriate rate structure for the residential class is a four-tier inclining-block rate structure, with usage blocks of: 1) 0 – 5 kgals; 2) 5.001 – 10 kgals; 3) 10.001 – 15 kgals; and 4) usage in excess of 15 kgals, with a post-repression BFC cost recovery percentage of 35%. The recommended usage block rate factors are 1.0, 1.25, 1.5 and 2.0, respectively. As also discussed in Issue 20, staff recommends that the traditional BFC / uniform gallonage charge rate structure be applied to rate classes other than the residential class. As discussed in Issue 21, staff recommends that the appropriate repression adjustments for Phase I and Phase II are 1,801.2 kgals and 3,184.6 kgals, respectively. Approximately 35% of the monthly service revenues (or $93,208 in Phase I and $133,147 in Phase II) are recovered through the base facility charges, while approximately 65% ($170,794 in Phase I and $249,531 in Phase II) represents revenue recovery through the consumption charges.

Based on the foregoing, the appropriate monthly water rates for Phase I and Phase II are shown on Schedule No. 4 and Schedule No. 8, respectively.

Issue 23: What is the appropriate effective dates for Phase I and Phase II rates?

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

The utility should not be allowed to implement Phase II rates until the construction has been completed and approved by DEP, and the completed pro forma additions have been verified by staff. The utility should provide staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility should also filed revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Revell)

Staff Analysis: Phase I rates should 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 should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

The utility should not be allowed to implement Phase II rates until the construction has been completed and approved by DEP, and the completed pro forma additions have been verified by staff. The utility should provide staff with the approval documentation no later than 15 days after the utility receives the final approval from DEP. At that time, the utility should also filed revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Issue 24: Should Park Water's main extension charge be increased, and if so, what is the appropriate charge?

Recommendation: Yes. The Commission should increase the main extension charge per ERC from $423 to $2,370, and the effective date of the increase should apply to all connections after the implementation of Phase II rates. The utility should file the appropriate tariff sheets no later than 15 days after the utility receives notice of final approval from DEP. It should become effective for service rendered on or after staff's approval of the stamped tariff sheet pursuant to Rule 25-30.475(2) F.A.C., provided the customers have received notice and after staff has verified that the proposed customer notice is adequate. The utility should provided proof that the customers have received notice within 10 days after the date of the notice. The revised tariff sheet should be submitted with sufficient time for staff to verify that the tariff is consistent with the Commission's decision. Staff should be permitted to administratively approve the tariff sheet upon verification of the above. (Revell)

Staff Analysis: Staff believes that main extension charges should be increased, as the current charge of $423 is too low for developers or customers to provide a fair share to offset the cost of the new water lines.

Staff is concerned that, due to the U&U adjustment, Phase II rates will not generate the necessary funds for repayment of the DEP loan. Therefore, it is prudent and necessary to increase the main extension charge to help pay back the loan. Increasing this charge will insure that a larger portion of the balance in transmission and distribution will be offset by contributions from future developers and customers.

Park Water's balance in its transmission and distribution (T&D) accounts after adjustments will increase to $3,358,177. As discussed previously, staff has calculated that there are an additional 531 ERCs available prior to build-out. If only new customers paid for the increased main extension charge, based on the balance in Park's T&D accounts, it would increase the charge to approximately $6,324. Not only would this be a burden for future customers, it would be unfair in that existing customers will also use the new lines. Staff believes that the calculation of the new main extension charge should recognize that existing customers will benefit. Therefore, staff calculated the increased charge by dividing the entire main balance after the inclusion of the pro forma additions of $3,358,177 by the total ERCs at build-out of 1,417. This results in a charge of $2,370.

The pro forma plant additions greatly impact the transmission and distribution accounts of the utility, and staff recommends that the main extension charge be increased form $423 to $2,370. Additionally, staff recommends that the effective date for the increased charge should apply to all connections after the implementation of Phase II rates.

The proposed main extension charge should become effective for service rendered on or after staff's approval of the stamped tariff sheet pursuant to Rule 25-30.475(2) F.A.C., provided the customers have received notice and after staff has verified that the proposed customer notice is adequate. The utility should provided proof that the customers have received notice within 10 days after the date of the notice. The revised tariff sheet should be submitted with sufficient time for staff to verify that the tariff is consistent with the Commission's decision. Staff should be permitted to administratively approve the tariff sheet upon verification of the above.

Issue 25: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $4,758 of rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Revell)

Staff Analysis: 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 $4,758. The decreased revenues will result in the rate reduction recommended by staff on Schedule No. 4.

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

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.

Other

Issue 26: Should the utility be required to provide proof, within 90 days, of the date of the Consummating Order finalizing this docket, that it has adjusted its books for all of the applicable NARUC USOA primary accounts associated with the Commission approved Phase I adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Park Water should provide proof, within 90 days of an effective order finalizing this docket, that the Phase I adjustments for all the applicable NARUC USOA primary accounts have been made. (Revell)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Park Water should provide proof, within 90 days of the Consummating Order that the Phase I adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 27: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor completion of the pro forma items and the appropriate implementation of Phase II rates. (Jaeger)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued. However, the docket should remain open to allow staff to monitor completion of the pro forma items and the appropriate implementation of Phase II rates.

Park Water Company, Inc.
Schedule of Water Rate Base
Test Year Ended December 31, 2004

Schedule No. 1-A
Docket No. 050563-WU
Phase I

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$1,066,462	$2,496,382	$3,562,844	($2,250,684)	$1,312,160
2	Land and Land Rights	100	0	100	0	100
3	Non-used and Useful Components	(86,080)	0	(86,080)	(13,265)	(99,345)
4	Accumulated Depreciation	(386,546)	0	(386,546)	(21,665)	(408,211)
5	CIAC	(226,576)	0	(226,576)	(261,565)	(488,141)
6	Amortization of CIAC	57,137	0	57,137	40,708	97,845
7	Working Capital Allowance	13,783	0	13,783	8,585	22,368
8	**Rate Base**	$438,280	$2,496,382	$2,934,662	($2,497,886)	$436,776

Park Water Company, Inc. Adjustments to Rate Base Test Year Ended 12/31/04		Schedule No. 1-B Docket No. 050563-WU Phase I
	Explanation	**Water**
	Plant In Service	
1	To remove pro forma plant	($2,496,382)
2	To reflect donated plant. (AF1)	$261,495
3	To reflect correct meter balance. (AF2)	($14,840)
4	To correct transportation balance. (AF3)	3,514
5	To correct misc. plant in service accounts. (AF4)	(4,471)
	Total	($2,250,684)
	Non-used and Useful	
	To adjust for non-used and useful plant.	($13,265)
	Accumulated Depreciation	
2	To reflect adjustments to donated plant. (AF1)	($27,527)
3	To reflect correct meter balance. (AF2)	14,558
5	To reflect correct transportation balance. AF3)	(10,047)
6	To correct plant in service accounts. (AF4)	1,351
	Total	($21,665)
	CIAC	
1	To reflect donated plant. AF1)	($261,495)
2	To correct CIAC balance. (AF5)	($70)
	Total	($261,565)
	Accumulated Amortization of CIAC	
1	To reflect adjustments to donated plant. (AF1)	$27,527
2	To correct understated balance. (AF5)	$13,181
	Total	$40,708
	Working Capital	
	To reflect 1/8 O&M balance.	$8,585

Park Water Company, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/04

Schedule No. 2
Docket No. 050563-WU
Phase I

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$518,858	$0	$518,858	($35,153)	$483,705	16.48%	6.00%	0.99%
2	Long term Debt (DEP Loan)	0	$2,496,382	$2,496,382	($169,131)	$2,327,251	79.30%	2.71%	2.15%
3	Short-term Debt	86,872	0	$86,872	0	$86,872	2.96%	6.55%	0.19%
4	Preferred Stock	0	0	$0	0	$0	0.00%	0.00%	0.00%
5	Common Equity	29,500	0	$29,500	0	$29,500	1.01%	10.10%	0.10%
6	Customer Deposits	7,334	0	$7,334	0	$7,334	0.25%	6.00%	0.01%
7	Deferred Income Taxes	0	0	$0	0	$0	0.00%	0.00%	0.00%
8	**Total Capital**	$642,564	$2,496,382	$3,138,946	($204,284)	$2,934,662	100.00%		3.45%
Per Staff									
9	Long-term Debt	$518,858	0	$518,858	($153,506)	$365,352	83.65%	6.00%	5.02%
10	Long term Debt (DEP Loan)	$0	0	$0	$0	$0	0.00%	2.71%	0.00%
10	Short-term Debt	86,872	$4,145	$91,017	($26,928)	$64,089	14.67%	5.90%	0.87%
11	Preferred Stock	0	0	$0	$0	$0	0.00%	0.00%	0.00%
12	Common Equity	29,500	($29,500)	$0	$0	$0	0.00%	11.55%	0.00%
13	Customer Deposits	7,334	0	$7,334	0	$7,334	1.68%	6.00%	0.10%
14	Deferred Income Taxes	0	0	$0	0	$0	0.00%	0.00%	0.00%
15	**Total Capital**	$642,564	($25,355)	$617,209	($180,433)	$436,776	100.00%		5.99%

	LOW	HIGH
RETURN ON EQUITY	10.55%	12.55%
OVERALL RATE OF RETURN	5.99%	5.99%

Park Water Company, Inc.
Statement of Water Operations
Test Year Ended 12/31/04

Schedule No. 3-A
Docket No. 050563-WU
Phase I

	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:**	$270,567	$474,500	$745,067	($506,563)	$238,504	$35,965 15.08%	$274,469
	Operating Expenses							
2	Operation & Maintenance	$206,159	$0	206,159	(27,215)	178,944	0	178,944
3	Depreciation	33,226	75,586	108,812	(73,100)	35,712	0	35,712
4	Amortization	0	0	0	0	0	0	0
5	Taxes Other Than Income	42,404	93,853	136,257	(104,205)	32,052	1,618	33,670
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	281,789	169,439	451,228	(204,521)	246,707	1,618	248,326
8	**Operating Income**	($11,222)	$305,061	$293,839	($302,042)	($8,203)	$34,346	$26,143
9	**Rate Base**	$438,280		$2,934,662		$436,776		$436,776
10	**Rate of Return**	-2.56%		10.01%		-1.88%		5.99%

Park Water Company, Inc. Adjustment to Operating Income Test Year Ended 12/31/04	Schedule No. 3-B Docket No. 050563-WU Phase I
Explanation	**Water**
Operating Revenues	
1 Remove requested final revenue increase.	($474,500)
2 To correct understated revenues. (AF9)	$6,909
3 To reduce revenues due to loss of commercial customers.	($38,972)
Total	($506,563)
Operation and Maintenance Expense	
1 To reflect proper M&S balance. AF2)	$1,211
2 Excessive unaccounted for water adjustments.	($3,329)
3 To correct misallocation. (AF10)	($2,465)
4 To correct misallocation. (AF10)	6,023
5 To remove prior rate case expense. (AF10)	(1,476)
6 To adjust salaries and pension expense.	(28,313)
7 To reflect annual rate case amortization.	1,544
8 Repression adj. for purchased power & chemicals.	(409)
Total	($27,215)
Depreciation Expense - Net	
1 To reflect correct meter balance. (AF2)	($873)
2 To correct transportation balance. (AF3)	4,638
3 To correct Plant in Service accounts. (AF4)	(153)
4 To correct understated expense. (AF5)	($2,868)
5 To remove pro forma plant depreciation expense.	(75,586)
7 To add net depreciation on non-U&U adjustment above.	1,742
Total	($73,100)
Taxes Other Than Income	
1 RAFs on revenue adjustments above.	($22,795)
2 To correct RAF overstatement. (AF11)	(6,148)
3 To correct overstatement of prop. taxes for disc. not taken. (AF11)	(559)
4 To remove pro forma plant property taxes.	(72,500)
5 To reflect non used and useful property tax adjustment.	(2,203)
Total	($104,205)

Park Water Company, Inc. Water Monthly Service Rates Test Year Ended 12/31/04				Schedule No. 4 Docket No. 050563-WU Final- Phase I
	Rates Prior to Filing	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
Residential				
Base Facility Charge:				
Individually Metered	$7.06	$17.71	$8.76	$0.15
Gallonage Charge: (per 1,000 gallons)				
0-6,000 Gallons	$1.43	$3.59	-	-
6,001-12,000 Gallons	$2.16	$5.42	-	-
12,001-22,000 Gallons	$2.88	$7.22	-	-
Over 22,000 Gallons	$4.41	$10.81	-	-
0-5,000 gallons	-	-	$1.91	$0.03
5,001-10,000 gallons	-	-	$2.39	$0.04
10,001-15,000 gallons	-	-	$2.87	$0.05
Over 15,000 gallons	-	-	$3.82	$0.07
General Service & Multi-Family				
Base Facility Charge:				
5/8" x 3/4"	$7.06	$17.71	$8.76	$0.15
1"	$17.65	$44.26	$21.90	$0.38
1-1/2"	$35.31	$88.55	$43.80	$0.76
2"	$56.51	$141.72	$70.08	$1.21
3"	$113.02	$283.44	$140.16	$2.54
4"	$176.59	$442.87	$219.00	$3.81
6"	$353.19	$885.76	$438.00	$7.60
Gallonage Charge: (per 1,000 gallons)				
5/8"X 3/4" Meter				
0-6,000 Gallons	$1.43	$3.59	-	-
6,001-12,000 Gallons	$2.16	$5.42	-	-
12,001-22,000 Gallons	$2.88	$7.22	-	-
Over 22,000 Gallons	$4.31	$10.81	-	-
			-	-
1" Meter			-	-
0-15,000 Gallons	$1.43	$3.59	-	-
15,001-30,000 Gallons	$2.16	$5.42	-	-
30,001-55,000 Gallons	$2.88	$7.22	-	-
Over 55,000 Gallons	$4.31	$10.81	-	-
			-	-
1 1/2" Meter			-	-
0-30,000 Gallons	$1.43	$3.59	-	-
30,001-60,000 Gallons	$2.16	$5.42	-	-
60,001-110,000 Gallons	$2.88	$7.22	-	-
Over 110,000 Gallons	$4.31	$10.81	-	-
			-	-
2" Meter			-	-
0-48,000 Gallons	$1.43	$3.59	-	-
48,001-96,000 Gallons	$2.16	$5.42	-	-
96,001-176,000 Gallons	$2.88	$7.22	-	-
Over 176,000 Gallons	$4.31	$10.81	-	-
Gallonage Charge: (per 1,000 gallons)			$2.27	$0.04
	Typical Residential Bill 5/8" x 3/4" Meter			
3,000 Gallons	$11.35	$28.48	$14.49	
5,000 Gallons	$14.21	$35.66	$18.31	
10,000 Gallons	$24.28	$60.93	$30.26	

Park Water Company, Inc.
Schedule of Water Rate Base
Test Year Ended December 31, 2004

Schedule No. 5-A
Docket No. 050563-WU
Phase II

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$1,066,462	$2,496,382	$3,562,844	$114,424	$3,677,268
2	Land and Land Rights	100	0	100	0	100
3	Non-used and Useful Components	(86,080)	0	(86,080)	(880,970)	(967,050)
4	Accumulated Depreciation	(386,546)	0	(386,546)	63,162	(323,384)
5	CIAC	(226,576)	0	(226,576)	(261,565)	(488,141)
6	Amortization of CIAC	57,137	0	57,137	40,708	97,845
7	Working Capital Allowance	13,783	0	13,783	8,495	22,278
8	**Rate Base**	$438,280	$2,496,382	$2,934,662	($915,746)	$2,018,916

Park Water Company, Inc. Adjustments to Rate Base Test Year Ended 12/31/04		Schedule No. 5-B Docket No. 050563-WU Phase II
	Explanation	**Water**
	Plant In Service	
1	To reflect donated plant. (AF1)	$261,495
2	To reflect correct meter balance. (AF2)	($14,840)
3	To reflect AFUDC on pro forma plant.	15,955
4	To remove retired plant.	(147,229)
5	To correct transportation balance. (AF3)	3,514
6	To correct misc. plant in service accounts. (AF4)	(4,471)
	Total	$114,424
	Non-used and Useful	
	To adjust for non-used and useful plant.	($880,970)
	Accumulated Depreciation	
1	To reflect adjustments to donated plant. (AF1)	($27,527)
2	To reflect correct meter balance. (AF2)	14,558
3	To reflect accumulated depreciation on pro forma plant.	(62,402)
4	To remove retired plant.	147,229
5	To reflect correct transportation balance. AF3)	(10,047)
6	To correct plant in service accounts. (AF4)	1,351
	Total	$63,162
	CIAC	
1	To reflect donated plant. AF1)	($261,495)
2	To correct CIAC balance. (AF5)	($70)
	Total	($261,565)
	Accumulated Amortization of CIAC	
1	To reflect adjustments to donated plant. (AF1)	$27,527
2	To correct understated balance. (AF5)	$13,181
	Total	$40,708
	Working Capital	
	To reflect 1/8 O&M balance.	$8,495

Park Water Company, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/04

Schedule No. 6
Docket No. 050563-WU
Phase II

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$518,858	$0	$518,858	($35,153)	$483,705	16.48%	6.00%	0.99%
2	Long term Debt (DEP Loan)	0	$2,496,382	$2,496,382	($169,131)	$2,327,251	79.30%	2.71%	2.15%
3	Short-term Debt	86,872	0	$86,872	0	$86,872	2.96%	6.55%	0.19%
4	Preferred Stock	0	0	$0	0	$0	0.00%	0.00%	0.00%
5	Common Equity	29,500	0	$29,500	0	$29,500	1.01%	10.10 %	0.10%
6	Customer Deposits	7,334	0	$7,334	0	$7,334	0.25%	6.00%	0.01%
7	Deferred Income Taxes	0	0	$0	0	$0	0.00%	0.00%	0.00%
8	**Total Capital**	$642,564	$2,496,382	$3,138,946	($204,284)	$2,934,662	100.00%		3.45%
Per Staff									
9	Long-term Debt	$518,858	0	$518,858	($184,568)	$334,290	16.56%	6.00%	0.99%
10	Long term Debt (DEP Loan)	$2,496,382	15,955	$2,512,337	($893,686)	$1,618,651	80.17%	2.71%	2.17%
10	Short-term Debt	86,872	4,145	$91,017	($32,376)	58,641	2.90%	5.90%	0.17%
11	Preferred Stock	0	0	$0	$0	0	0.00%	0.00%	0.00%
12	Common Equity	29,500	(29,500)	$0	$0	0	0.00%	11.55 %	0.00%
13	Customer Deposits	7,334	0	$7,334	0	7,334	0.36%	6.00%	0.02%
14	Deferred Income Taxes	0	0	$0	0	0	0.00%	0.00%	0.00%
15	**Total Capital**	$3,138,946	(9,400)	$3,129,546	($1,110,630)	$2,018,916	100.00%		3.36%

	LOW	HIGH
RETURN ON EQUITY	10.55%	12.55 %
OVERALL RATE OF RETURN	3.36%	3.36%

Park Water Company, Inc.
Statement of Water Operations
Test Year Ended 12/31/04

Schedule No. 7-A
Docket No. 050563-WU
Phase II

	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:**	$270,567	$474,500	$745,067	($506,563)	$238,504	$154,641 64.84%	$393,145
	Operating Expenses							
2	Operation & Maintenance	$206,159	$0	206,159	(27,939)	178,220	0	178,220
3	Depreciation	33,226	75,586	108,812	(34,652)	74,160	0	74,160
4	Amortization	0	0	0	2,694	2,694	0	2,694
5	Taxes Other Than Income	42,404	93,853	136,257	(72,967)	63,290	6,959	70,249
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	281,789	169,439	451,228	(132,865)	318,363	6,959	325,322
8	**Operating Income**	($11,222)	$305,061	$293,839	($373,698)	($79,859)	$147,682	$67,823
9	**Rate Base**	$438,280		$2,934,662		$2,018,916		$2,018,916
10	**Rate of Return**	-2.56%		10.01%		-3.96%		3.36%

Park Water Company, Inc. Adjustment to Operating Income Test Year Ended 12/31/04		Schedule 7-B Docket No. 050563-WU Phase II
	Explanation	**Water**
	Operating Revenues	
1	Remove requested final revenue increase.	($474,500)
2	To correct understated revenues. (AF9)	$6,909
3	To reduce revenues due to loss of commercial customers.	($38,972)
	Total	($506,563)
	Operation and Maintenance Expense	
1	To reflect proper M&S balance. AF2)	$1,211
2	Excessive unaccounted for water adjustments	($3,329)
3	To correct misallocation. (AF10)	($2,465)
4	To correct misallocation. (AF10)	6,023
5	To remove prior rate case expense. (AF10)	(1,476)
6	To adjust salaries and pension expense.	(28,313)
7	To reflect annual rate case amortization.	1,544
8	Repression adj. for purchased power & chemicals.	(1,133)
	Total	($27,939)
	Depreciation Expense - Net	
1	To reflect correct meter balance. (AF2)	($873)
2	To correct transportation balance. (AF3)	4,638
3	To correct Plant in Service accounts. (AF4)	(153)
4	To correct understated expense. (AF5)	($2,868)
5	To correct pro forma depreciation expense.	(13,184)
6	To correct for retired plant.	(3,430)
7	To remove net depreciation on non-U&U adjustment above.	(18,782)
	Total	($34,652)
	Amortization-Other Expense	
	Amortization of Loss on retired Plant.	$2,694
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($22,795)
2	To correct RAF overstatement. (AF11)	(6,148)
3	To correct overstatement of prop. taxes for disc. not taken. (AF11)	(559)
4	To reflect the correct amount of property taxes.	(31,887)
5	To reflect non used and useful property tax on pro forma plant.	(11,578)
	Total	($72,967)

Park Water Company, Inc. Water Monthly Service Rates Test Year Ended 12/31/04			Schedule No. 8 Docket No. 050563-WU Final-Phase II
	Rates Prior to Filing	Utility Requested Final	Staff Recomm. Final
Residential			
Base Facility Charge:			
Individually Metered	$7.06	$17.71	$12.52
Gallonage Charge: (per 1,000 gallons)			
0-6,000 Gallons	$1.43	$3.59	-
6,001-12,000 Gallons	$2.16	$5.42	-
12,001-22,000 Gallons	$2.88	$7.22	-
Over 22,000 Gallons	$4.41	$10.81	-
0-5,000 gallons	-	-	$2.93
5,001-10,000 gallons	-	-	$3.66
10,001-15,000 gallons	-	-	$4.40
Over 15,000 gallons	-	-	$5.86
General Service & Multi-Family			
Base Facility Charge:			
5/8" x 3/4"	$7.06	$17.71	$12.52
1"	$17.65	$44.26	$31.30
1-1/2"	$35.31	$88.55	$62.60
2"	$56.51	$141.72	$100.16
3"	$113.02	$283.44	$200.32
4"	$176.59	$442.87	$313.00
6"	$353.19	$885.76	$626.00
Gallonage Charge: (per 1,000 gallons)			
5/8"X 3/4" Meter			
0-6,000 Gallons	$1.43	$3.59	-
6,001-12,000 Gallons	$2.16	$5.42	-
12,001-22,000 Gallons	$2.88	$7.22	-
Over 22,000 Gallons	$4.31	$10.81	-
1" Meter			
0-15,000 Gallons	$1.43	$3.59	-
15,001-30,000 Gallons	$2.16	$5.42	-
30,001-55,000 Gallons	$2.88	$7.22	-
Over 55,000 Gallons	$4.31	$10.81	-
1 1/2" Meter			
0-30,000 Gallons	$1.43	$3.59	-
30,001-60,000 Gallons	$2.16	$5.42	-
60,001-110,000 Gallons	$2.88	$7.22	-
Over 110,000 Gallons	$4.31	$10.81	-
2" Meter			
0-48,000 Gallons	$1.43	$3.59	-
48,001-96,000 Gallons	$2.16	$5.42	-
96,001-176,000 Gallons	$2.88	$7.22	-
Over 176,000 Gallons	$4.31	$10.81	-
Gallonage Charge (per 1,000 gallons):		-	$3.46
	Typical Residential Bill 5/8" x 3/4" Meter		
3,000 Gallons	$11.35	$28.48	$21.31
5,000 Gallons	$14.21	$35.66	$27.17
10,000 Gallons	$24.28	$60.93	$45.47

Phase I

Name of Utility: Park Water Company, Inc. Docket No: 050563-WU			**Attachment A, Page 1 of 3 Historical Test Year (2004)**	
1)		Capacity of Plant	1,387,146	gallons per day
2)		Maximum Day	502,056	gallons per day
	a)	Maximum day @ peak		gallons per day
3)		Average Daily Flow	263,371	gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	120,000	gallons per day
5)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: (2004)	886	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	4.9	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\(5a)]	13,883	gallons per day
6)		Excessive Unaccounted for Water (EUW)	83,915	gallons per day
	a)	Percentage of Excessive amount		
	b)	Total Unaccounted for Water	110,252	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	26,337	gallons per day
	d)	Excessive Amount	83,915	gallons per day

USED AND USEFUL FORMULA

[(2) + (4) + (5) – (6)] / (1) = 39.80% Used & Useful

Phase II

Name of Utility: Park Water Company, Inc. Docket No: 050563-WU			**Attachment A, Page 2 of 3 Historical Test Year (2004)**	
1)		Capacity of Plant	1,387,146	gallons per day
2)		Maximum Day	502,056	gallons per day
	a)	Maximum day @ peak		gallons per day
3)		Average Daily Flow	263,371	gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: 500 gallons per minute for 4 hours	120,000	gallons per day
5)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: (2004)	886	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	4.9	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\(5a)]	13,883	gallons per day
6)		Excessive Unaccounted for Water (EUW)	0	gallons per day
	a)	Percentage of Excessive amount		
	b)	Total Unaccounted for Water	0	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	0	gallons per day
	d)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

[(2) + (4) + (5) – (6)] / (1) = 45.85% Used & Useful

Name of Utility Park Water Company, Inc. Docket No: 050563-WU	Attachment A, Page 3 of 3 Historical Test Year (2004)

WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA

1)		Capacity of System (ERCs)	1,417	ERCs
2)		Test Year Connections Average Test Year	886	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	4.9	ERCs/yr
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	24.5	ERCs

USED AND USEFUL FORMLA

[2+3]/(1) = 64.26% Used and Useful

PARK WATER COMPANY, INC. **ATTACHMENT B**
HISTORICAL TEST YEAR ENDED 12/31/04 **PAGE 1 OF 5**

DETERMINATION OF APPROPRIATE RATE STRUCTURES

HISTORY OF CURRENT RATE STRUCTURE AND CURRENT RATES:	**(1)**	The Board of County Commissioners of Polk County adopted a resolution on May 14, 1996, which made the utilities in the county subject to the provisions of Chapter 367, Florida Statutes.
	(2)	The utility was required by the Southwest Florida Water Management District (SWFWMD) to implement an inclining-block rate structure in the utility's 1995 rate case processed when the utility was under the jurisdiction of Polk County. As a result of that proceeding, a four-tier inclining-block rate structure was approved for all classes of service. (See Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, In re: Application for rate increase in Polk County by Park Water Company, Inc., pp. 18, 20)
	(3)	As a result of the utility's most recent rate case, the Florida Public Service Commission (PSC or Commission) approved a continuation of the utility's rate structure. (See Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, In re: Application for rate increase in Polk County by Park Water Company, Inc., p. 20)
	(4)	A Commission-granted price index increase in 2002 brought the rates up to their current levels. The BFC for a 5/8" x 3/4" meter is $7.06 per month, with corresponding usage blocks for monthly consumption of: a) 0-6 kgals; b) 6.001-12 kgals; c) 12.001-22 kgals; and d) usage in excess of 22 kgals. The BFC for a 2" meter is $56.51, with corresponding usage blocks for monthly consumption of: a) 0 – 48 kgal; b) 48.001 – 96 kgal; c) 96.001 – 176 kgal; and d) usage in excess of 176 kgal. The usage block rate factors are 1.0, 1.5, 2 and 3, respectively.
PRIOR ORDERS AND PRACTICES WITH THE WATER MANAGEMENT DISTRICTS:	**(5)**	The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service. (See Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82; Order No. PSC-03-1440-FOF-WS, 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, pp. 143-144.) The Commission complies with this guideline whenever possible. (See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., pp. 23, 28; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc., p. 27; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82.)

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

PRIOR ORDERS AND PRACTICES WITH THE WATER MANAGEMENT DISTRICTS (cont.):	(6)	The BFC/uniform gallonage charge rate structure had been the Commission's rate structure of choice because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. However, over the past several years, based in large part on requests made by the WMDs, the Commission has been implementing the inclining-block rate structure as its rate structure of choice. (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., pp. 31-32; Order No. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, In re: Request for approval of increase in water rates in Nassau County by Florida Public Utilities Company (Fernandina Beach System), p. 37; Order No. PSC-01-0327-PAA-WU, issued February 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc., p. 25; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., pp. 81-82; Order No. PSC-03-1440-FOF-WS, 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, pp. 143-144.)
	(7)	The utility is located in Lake Wales, in both the Highlands Ridge and Southern Water Use Caution Areas. A Water Use Caution Area (WUCA) is defined as an area whose resources will be critically short within the next 20 years. A stated goal of the District's Southern WUCA Recovery Strategy is to restore minimum levels to priority lakes in the Lake Wales Ridge.
THEORY BEHIND INCLININING-BLOCK RATE STRUCTURES:	(8)	The goal of the inclining block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block.
GENERAL AND MULTI-RESIDENTIAL SERVICE RATE STRUCTURES:	(9)	As stated previously, the inclining-block rate structure applies not only to the utility's residential class, but to the general service and multi-residential classes as well.
	(10)	The application of an inclining-block rate structure to general service and multi-residential service classes raises equity concerns because a greater proportion of the usage for some customers will be more nondiscretionary in nature when compared to other customers. Without an evaluation of discretionary versus nondiscretionary usage, rates from the higher usage blocks may increase costs for some nondiscretionary usage due to the total level of water consumption. Second, unlike residential customers, general service customers tend to be more heterogeneous in nature. The application of an inclining-block rate structure without considering the difference in customers' usage patterns is inappropriate.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

GENERAL AND MULTI-RESIDENTIAL SERVICE RATE STRUCTURES (cont):	**(11)**	General service customers are typically businesses, and an increase in water charges represents an increase in the cost of doing business. If general service consumption is such that those customers cannot respond to price increases, the higher costs will simply be passed on to their customers. To the extent the customers of the affected businesses represent residential customers within the service area, this means that those residential customers will pay the inclining-block rates twice: once explicitly through the customer's own water rates, and again implicitly because of the increased cost of business that has been passed on to them.
	(12)	In the instant case, the usage blocks for the general service 2" meter do not appear to have been developed based on a composite evaluation of the usage distributions for those customers. Instead, the usage blocks appear to have been set based on merely factoring up of the number of gallons captured in the residential usage blocks by a factor of eight (which is the meter equivalency factor of a 2" meter compared to a 5/8" x 3/4" meter). Specifically, the upper limit of each residential usage block of 6 kgal, 12 kgal and 22 kgal was multiplied by eight to arrive at the usage blocks for the general service and multi-residential 2" meters of: a) 0 – 48 kgal; b) 48.001 – 96 kgal; c) 96.001 – 176 kgal; and d) usage in excess of 176 kgal.
	(13)	The 5/8" x 3/4" meters associated with the utility's multi-residential service are charged 80% of the normal tariffed rate for a 5/8" x 3/4" meter. Charging each unit only 80% of the normal BFC (or charging the equivalent of 0.8 ERC) is typically found when <u>each</u> unit of a multi-unit building being served is individually metered. However, based on the staff engineer's site visit, each of the three 5/8" x 3/4" meters associated with multi-residential service serves as a small master meter to multi-unit housing. Therefore, staff believes it is inappropriate to continue the discounted rate for 5/8" x 3/4" multi-residential meters.
	(14)	Based on the foregoing, staff recommends that the traditional BFC / uniform gallonage charge rate structure is appropriate for both the general service and multi-residential service classes. The 5/8" x 3/4" meters associated with the utility's multi-residential class should be charged based on the rate of one full ERC.
RESIDENTIAL CLASS RATE STRUCTURE – **DESIGN OF INCLINING BLOCKS**	**(15)**	There are several factors to consider when designing inclining block rates for residential service, including, but not limited to, selection of the appropriate: a) BFC cost recovery percentage and the required conservation adjustment; b) usage blocks; and c) usage block rate factors.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

RESIDENTIAL CLASS RATE STRUCTURE -- **BFC COST RECOVERY, USAGE BLOCKS AND RATE FACTORS:**	**(16)**	Before application of the Phase I revenue increase, approximately 61% of the utility's residential bills and corresponding kgal are captured at 5 kgal or less. The majority of consumption at or below 5 kgal is considered highly nondiscretionary, essential consumption. Therefore, an important rate design goal is to minimize, to the extent possible, the price increases at 5 kgal or less. (See Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In Re: Application for rate increase in Martin County by Hobe Sound Water Company, p. 12; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc., p. 83; Order No. PSC-03-1440-FOF-WS, 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, pp. 143-144.)
	(17)	Staff performed an analysis of the utility's residential billing data in order to select the usage blocks for the recommended rate structure. A summary of our analysis is shown in the table below.

TABLE 1

ANALYSIS OF CURRENT vs. RECOMMENDED USAGE BLOCKS: RESIDENTIAL CLASS

CURRENT RATE STRUCTURE			RECOMMENDED RATE STRUCTURE		
	Cumulative Percentages Captured			Cumulative Percentages Captured	
Usage Block	Bills	Consolidated Factor	Usage Block	Bills	Consolidated Factor
0 – 6 kgal	70%	67%	0 – 5 kgal	61%	61%
6.001 – 12 kgal	92%	87%	5.001 – 10 kgal	88%	83%
12.001 – 22 kgal	98%	95%	10.001 – 15 kgal	95%	91%
22+ kgal	Remaining 2%	Remaining 5%	15+ kgal	Remaining 5%	Remaining 9 %

Source: Park Water Company, Inc., MFR Schedules E-2 and E-14.

	(18)	Staff believes the utility's current residential rate structure is flawed because a greater percentage of bills and consumption should be available to be targeted by increasingly higher rates. For example, the first usage block currently captures 70% of residential bills and 67% of the corresponding consumption. Staff believes this does not allow for sufficient bills and consumption to be targeted with more aggressive rates. Therefore, staff recommends that the first usage block be set for monthly consumption of 0 – 5 kgal.

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

RESIDENTIAL CLASS RATE STRUCTURE – **BFC COST RECOVERY, USAGE BLOCKS AND RATE FACTORS (cont.):**	**(19)**	Currently, the last block of the utility's rate structure targets the highest 2% of bills and 5% of consumption. Staff believes a more aggressive, yet reasonable, goal in this case is to use the last block to capture the highest 10% of consumption. By setting the last usage block for monthly consumption in excess of 15 kgal and the remaining two usage blocks at a) 5.001 kgal to 10 kgal and b) 10.001 to 15 kgal, staff believes those blocks target reasonable percentages of bills and consumption with rates greater than those in the first usage block.
	(20)	Staff also performed analyses regarding the appropriate BFC cost recovery percentage and usage block rate factors. Staff analyzed BFC cost recovery percentages of 40% and 35%; and, based on the analysis, recommend a BFC cost recovery percentage of 35%. The current factors for the four usage blocks are 1.0, 1.5, 2.0 and 3.0, respectively. Staff analyzed four sets of factors: 1) 1.0, 1.25, 1.5 and 2.0; 2) 1.0, 1.25, 1.5 and 2.0; 3) 1.0, 1.25, 1.5 and 2.25; and 4) the current rate factors of 1.0, 1.5, 2.0 and 3.0. Based on our analysis, staff recommends that the appropriate rate factors for the four usage blocks in this case are 1.0, 1.25, 1.5 and 2. Staff recommends no change in rate structure from Phase I to Phase II.
	(21)	The Phase II increase is associated with the replacement of the utility's water lines. Since this increase benefits all customers regardless of consumption, the recommended Phase II rate structure should be such that all classes of service and consumption levels receive relatively equivalent percentage price increases. This is the case when staff's recommended Phase I rate structures are also implemented in Phase II.

STAFF'S RATE STRUCTURE RECOMMENDATIONS:	Based on the foregoing, staff recommends that the traditional BFC / uniform gallonage charge rate structure is appropriate for both the general service and multi-residential service classes. The 5/8" x 3/4" meters associated with the utility's multi-residential class should be charged based on the rate of one full ERC. Staff recommends that the appropriate usage blocks for the residential class are for monthly usage of: a) 0 – 5 kgal; b) 5.001 – 10 kgal; c) 10.001 – 15 kgal; and d) usage in excess of 15 kgal. The recommended corresponding usage block rate factors are 1.0, 1.25, 1.5 and 2.0. The post-repression BFC cost recovery percentage should be 35%.

PARK WATER COMPANY, INC. **ATTACHMENT C**
HISTORICAL TEST YEAR ENDED 12/30/04

RECOMMENDED REPRESSION ADJUSTMENTS

PHASE I:

Usage Block Kgals	Kgals Avg Consump	Average Price Pre-Filing	Prelim Recom	Price Incr %	Anticipated Repression Percent	Kgals
2.5 – 5	4.176	$13.03	$16.57	27.1%	(6.1%)	(779.59)
5 – 6	6.000	$15.64	$20.45	30.7%	(6.9%)	(240.86)
6 – 10	8.269	$20.54	$25.75	25.4%	(5.7%)	(460.41)
10 - 12	11.403	$27.31	$33.73	23.5%	(5.3%)	(105.48)
12 – 15	13.898	$34.07	$40.73	19.6%	(4.4%)	(85.52)
15 – 22	18.411	$47.06	$56.58	20.2%	(4.5%)	(104.61)
22 +	34.935	$113.15	$118.38	4.6%	(1.0%)	(24.73)

Phase I Anticipated Repression: **(1,801.20)**

PHASE II:

Usage Block Kgals	Kgals Avg Consump	Average Price Pre-Filing	Prelim Recom	Price Incr %	Anticipated Repression Percent	Kgals
2.5 – 5	3.834	$16.08	$23.29	44.8%	(10.1%)	(1,209.03)
5 – 6	5.687	$19.95	$28.98	45.3%	(10.2%)	(330.16)
6 – 10	7.983	$25.44	$37.05	45.6%	(10.3%)	(781.04)
10 - 12	11.110	$33.45	$48.81	45.9%	(10.3%)	(195.18)
12 – 15	13.573	$40.52	$59.19	46.1%	(10.4%)	(192.64)
15 – 22	17.584	$54.48	$79.73	46.3%	(10.4%)	(228.86)
22 +	34.800	$120.25	$176.49	46.8%	(10.5%)	(247.67)

Phase II Anticipated Repression: **(3,184.58)**