BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION ORIGINAL

In re: Investigation into possible overcollection of Allowance for Funds Prudently Invested (AFPI) in Lake County, by Lake Utility Services, Inc.	DOCKET NO. 980483-WU FILED: November 20, 1998

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of Marshall Willis was furnished to **Ben Girtman, Esquire**, 1020 E. Lafayette Street, Suite 207, Tallahassee, Florida, 32301-4552; **Ms. Kathy Shutts**, 12906 Anderson Hill Road, Clermont, Florida, 34711; and **Ms. Sandy Baron**, 12838 Anderson Hill Road, Clermont, Florida, 34711, by U.S. Mail, on this 20th day of November, 1998.

Tim Vaccaro

TIM VACCARO, ESQUIRE

FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850
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DIRECT TESTIMONY OF MARSHALL WILLIS

Q. PLEASE STATE YOUR NAME AND ADDRESS?

A. Marshall Willis, 2540 Shumard Oak Blvd., Tallahassee, Florida, 32399-0850.

Q. WHAT IS YOUR OCCUPATION?

A. I am the Bureau Chief of the Bureau of Economic Regulation in the Division of Water and Wastewater of the Florida Public Service Commission.

Q. WHAT ARE YOUR RESPONSIBILITIES AS CHIEF OF THE BUREAU OF ECONOMIC REGULATION?

A. As the Bureau Chief, I am responsible for supervising three supervisors of the three sections of my bureau. I am responsible for supervising a variety of professionals which include certified public accountants, professional engineers, economists and regulatory analysts. My bureau is responsible for the processing of all rate cases, staff assisted rate cases, limited proceedings, tariff filings, service availability cases and other miscellaneous filings through the PAA process and through litigation when necessary. As such I am extremely familiar with all aspects of a rate case.

Q. ARE YOU A CERTIFIED PUBLIC ACCOUNTANT?

A. Yes. I am a certified public accountant licensed by the State of Florida and have been since 1980.

Q. HAVE YOU EVER TESTIFIED AS AN EXPERT?

A. Yes. I have testified in over fifty cases before the Florida Public Service Commission and the Division of Administrative Hearings. I have testified as an expert in the area of accounting, incomes taxes, cost of capital, utility ratemaking and regulation and regulatory policy. In addition to testifying, I have also taught utility ratemaking at the National Association of Regulatory Utility Commissioners Eastern Utility Rate Seminars. I have also taught many internal courses within the FPSC. In addition, I have been a speaker on many occasions on water and wastewater issues at the National Association of Regulatory Utility Commissioners Staff Subcommittee on Accounts meetings in both the open and closed sessions. Also, I was the only non-lawyer invited to speak at the District Court of Appeal - Public Service Commission Seminar in June of 1981, where I presented a basic course in utility ratemaking to the Honorable Judges of the Florida District Courts of Appeal. I am also the author of the Class A, B and C 1996 NARUC Uniform System of Accounts for Water and Wastewater Utilities. I also co-authored the 1984 NARUC Uniform System of Accounts for Water and Wastewater. In addition, I am frequently called by other state regulatory utility commissions, county regulatory authorities as well as utilities both inside and outside the State of Florida to discuss practice or policy issues that they are confronting.

Q. HOW LONG HAVE YOU WORKED FOR THE COMMISSION?

A. Over twenty-one years.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to explain the Allowance for Funds Prudently Invested, commonly referred to as AFPI, what AFPI is designed to accomplish, how the AFPI charges are calculated and, finally, to address the apparent over collection of AFPI charges by Lake Utility Services. Inc. or LUSI.

Q. WHAT IS THE ALLOWANCE FOR FUNDS PRUDENTLY INVESTED?

A. Since 1983. AFPI has been available to provide a means for utilities to recover previously unrecoverable carrying costs associated with non-used and useful plant. AFPI is a mechanism which allows a utility the opportunity to earn a fair rate of return on prudently invested plant which is determined to be non-used and useful and therefore excluded from rate base and recovery through the utility's service rates. AFPI is a one time charge. collected from new connections within a designated service area or system. at the time of each designated customer's initial connection to the utility's system. The charge is calculated to include the accumulated carrying costs on non-used and useful plant up to the point in time that each designated new customer connects to the system.

Q. HOW ARE AFPI CHARGES CALCULATED?

A. Generally. plant related carrying costs associated with non-used and useful plant. that have been determined to be prudent may be included in AFPI charges. Typical components normally included in AFPI charges are:

1. A return on investment in non-used and useful plant:
2. Depreciation expense:
3. The income tax effect on the return on investment:
4. Property taxes associated with non-used and useful plant:

5. Any operation and maintenance expenses determined to be non-used and useful; and

6. The compounded earnings on the accumulated charges for the prior year's return on plant investment.

Once all components have been identified, the first year's AFPI charges are calculated by dividing the sum of individual components by the number of anticipated future customers. The resulting annual charge represents the amount of unreimbursed costs per customer incurred by the utility. One-twelfth of the annual charge will be collected from new customers connecting in the first month of the year. Two-twelfths will be collected if service is begun in the second month of the year, and so forth. The calculation is repeated to include expenses projected through the end of five years or another justified period of time.

Q. WHEN WERE THE AFPI CHARGES IN QUESTION APPROVED FOR LAKE UTILITY SERVICES, INC.?

A. By Order No. 19962, issued September 8, 1988, in Docket No. 871080-WU, the Commission approved AFPI charges for LUSI to be charged in the utility's Crescent Bay Subdivision. I have attached Order No. 19962 as Exhibit MWW-1. The purpose of the AFPI charge was to provide a return on the plant which had been prudently constructed but exceeded the needs of customers in the early years of development. As stated in the order, the AFPI charge was to be in effect until the utility reached the capacity of 106 ERCs, which was forecast to occur in 1991. If you look at Pages 1 through 5 of Schedule 7 of Order No. 19962, you will see that the AFPI charge is calculated on the costs of the Cresent Bay system only.

Q. WHY DID THE COMMISSION PLACE THE 106 ERC RESTRICTION ON THE COLLECTION OF AFPI CHARGES?

A. The AFPI charges were based upon a calculated rate base for the Crescent Bay Subdivision in an original certificate docket. This rate base was based upon projections and was used as a tool for establishing LUSI's original rates for the Crescent Bay Subdivision. The 106 ERC restriction was placed on the collection of AFPI charges because that was the total number of ERCs the utility was designed to eventually serve. To allow the collection of AFPI from more than 106 ERCs would allow a double recovery of a portion of the non-used and useful costs.

Q. WHY WOULD THAT DOUBLE RECOVERY OCCUR?

A. It would occur because once the 106 ERCs are connected. 100% of the utility's costs are then being recovered through service rates. If the Commission were to allow the collection of more AFPI charges than 106 ERCs. the utility would be recovering a portion of the same cost twice. once through service rates and once through the AFPI charge.

Q. WHY WOULDN'T THE AFPI CHARGES DEVELOPED FOR THE CRESENT BAY SUBDIVISION BE APPLICABLE TO OTHER SERVICE AREAS OF LUSI?

A. Because the AFPI rates that were calculated were based only upon the non-used and useful costs associated with the Cresent Bay Subdivision. Costs for service areas can vary greatly especially due to their individual contribution levels. For the AFPI charge to be applicable to any other service area the non-used and useful costs and projections of the other service areas would have to be taken into account in the AFPI calculation.

Q. WHY WERE AFPI CHARGES SET IN THE ORIGINAL CERTIFICATE DOCKET?

A. As stated in Order No. 19962, the AFPI charges were designed to provide for a return on the plant which was prudently constructed, but exceeded the needs of the customers in the early years of development. The order further stated that the charges should be in effect until the utility reaches capacity, which is 106 ERCs. It was estimated that this would occur in December, 1991. This language is also contained in LUSI's approved tariff Sheet No. 25.1-25.1-A which is referred to by tariff Sheet No. 27.3.

Q. WHEN DID LUSI AMEND ITS TERRITORY TO INCLUDE ADDITIONAL SERVICE TERRITORY?

A. By Order No. PSC-92-1369-FOF-WU, issued November 24, 1992, LUSI's territory was amended to include additional territory. The order stated that the rates and charges approved in the utility's tariff for Crescent Bay system would be the same for the additional territory. For service availability purposes, the charges approved were the plant capacity charge of $569 per ERC, the main extension charge of $506 per ERC, and the meter installation charges by meter size including a charge of $100 for a 5/8 x 3/4 inch meter. Staff Witness JoAnn Chase further discusses the original and amendment process, and the specific circumstances surrounding LUSI's certification process and the amendment of LUSI's territory.

Q. WERE THE CHARGES THAT WERE APPROVED IN ORDER NO. PSC-92-1369-FOF-WU ALSO INCLUDED AND APPROVED IN LUSI'S TARIFFS?

A. Yes. In response to the order, the utility filed several tariff sheets for the territory amendment. One of the tariff sheets, Third Revised Sheet No. 26.0 contained the service availability schedule of fees and charges for the additional territory approved by Order No. PSC-92-1369-FOF-WU. This tariff sheet only contained the plant capacity charge, main extension charge, and meter installation charge as inscribed in the order. No where on this schedule of fees and charges tariff sheet for the additional territory were AFPI charges mentioned. However, upon further review of the approved tariff on file with the Commission, my staff discovered that these AFPI charges were addressed on Third Revised Sheet No. 27.3, contained in the utility's policy section. Third Revised Sheet No. 27.3 refers to Sheet Nos. 25.1 - 25.1A for a schedule of applicable AFPI charges. The AFPI charges contained on Sheet Nos. 25.1 - 25.1A are for the Crescent Bay subdivision. Although I believe that this was an oversight during the tariff approval process, the AFPI charges apparently apply to the additional territory nonetheless.

Q. WHAT IS THE RELEVANCE OF THE INCLUSION OF AFPI CHARGES IN THE UTILITY'S APPROVED TARIFFS?

A. Pursuant to Section 367.091(2), Florida Statutes, each utility's rates, charges, and customer service policies must be contained in the tariff approved by and on file with the Commission. Further, Section 367.091(3), Florida Statutes, provides that a utility may only impose and collect those rates and charges approved by the Commission for the particular class of service involved and a change in any rate schedule may not be made without Commission approval.

Q. IF IT IS DETERMINED THAT THE AFPI CHARGES APPROVED FOR THE CRESCENT BAY SUBDIVISION SHOULD ALSO APPLY TO THE NEW AMENDED TERRITORY, SHOULD THE 106 ERC RESTRICTION ALSO APPLY?

A. Yes. If the utility wanted to lift the 106 ERC restriction, LUSI should have come before the Commission and applied for new AFPI charges. To do otherwise would be in violation of Section 367.091(3), Florida Statutes. This recalculation then could have included the additional non-used and useful plant and the additional anticipated future customers. Once that was done, the AFPI charge would then accurately reflect the non-used and useful portion of plant for both service areas combined, as well as the projected growth for the entire territory of both service areas. In my opinion, it appears that the utility wants to pick and choose when a tariff applies and when it doesn't. LUSI wants to rely on the tariffs to show that it can collect AFPI from the additional territory but chooses to ignore the 106 ERC restriction included in the same tariffs.

Q. HOW DID STAFF BECOME AWARE OF THE APPARENT OVER COLLECTION OF AFPI CHARGES BY LUSI?

A. In August of 1996, a complaint was received from a customer of LUSI concerning the fees that she was required to pay in order to receive service. The customer's residence was contained in the additional territory approved in Order No. PSC-92-1369-FOF-WU. In the initial investigation, my staff found that the fees the customer was required to pay were appropriate. However, during the analysis of Docket No. 960444-WU, my staff determined that the collection of AFPI charges from the customers in this territory may have been inappropriate. Therefore, I directed my staff to initiate an informal investigation into the AFPI charges.

Q. BASED UPON YOUR STAFF'S ANALYSIS OF COLLECTION OF AFPI CHARGES BY LUSI, DO YOU BELIEVE THAT THE UTILITY OVER COLLECTED AFPI CHARGES?

A. Yes. Based upon the data provided by the utility, dated July 21, 1997, the utility collected $134,995.98 of AFPI as of December, 1996. If the utility had collected all of the AFPI charges at the highest charge of $608.09, which is highly unlikely, LUSI should have collected no more than $64,457.54. Thus, by dividing the total amount collected by this highest charge, the utility has collected AFPI charges from at least 222 ERCs. This exceeds the maximum 106 ERCs from which LUSI was approved to collect. The collection of the AFPI charge for the 107th ERC and above is not consistent with the Commission approved tariff and Section 367.091(3), Florida Statutes.

Q. IN YOUR OPINION, WHAT SHOULD THE COMMISSION DO ABOUT LUSI'S OVERCOLLECTION OF AFPI?

A In my opinion the Commission should at a minimum require LUSI to refund all collections of AFPI in excess of the 106 ERC restriction.

Q. IS THE UTILITY CURRENTLY CHARGING THE AFPI RATE FOR THE CRESENT BAY SUBDIVISION IN BOTH SERVICE AREAS?

A. No. In June of 1996, LUSI filed an application for a rate increase which was processed under Docket No. 960444-WU. In that docket the

Commission issued Proposed Agency Action Order No. PSC-97-0531-FOF-WU, which set a uniform service rate for all of LUSI's systems and established a new AFPI rate for the company. I have attached the order as Exhibit MWW-2. LUSI, on April 8, 1998, filed a new AFPI tariff pursuant to Proposed Agency Action Order No. PSC-97-0531-FOF-WU. The tariff was approved and became effective on April 15, 1998. The new AFPI charge is a uniform charge and is applicable to all of LUSI's service areas which includes the service areas from which the Cresent Bay AFPI charges were being collected. The new charge developed from the pending rate case was calculated based on the non-used and useful plant and projections from all of LUSI's combined systems included within its service territory. It was purposely calculated as one charge because the Commission, by that same order, was establishing a uniform service rate for all of LUSI's systems.

Q. WOULD THE COMMISSION HAVE ESTABLISHED A UNIFORM AFPI RATE IF THE SERVICE RATES HAD NOT BEEN UNIFORM?

A. No. If the Commission had established separate service rates per system or several uniform rates for grouped systems, the Commission would have calculated the AFPI rates based on the same methodology. In other words, if the service rates had been set for each individual system, then AFPI would have been calculated for each individual system based on the non-used and useful costs and projections for each individual system. If the Commission had arrived at twelve individual system service rates then there would have been twelve individual AFPI rates calculated as well.

Q. DOES THE NEW AFPI CHARGE HAVE AN ERC LIMIT ALSO?

A. Yes. Just like the Cresent Bay AFPI limit of 106 ERCs, there was an ERC limit established in this order. On page 44 of Exhibit MWW-2, the Commission established a limit of 1,080 ERCs for the Treatment Plant AFPI charge and 977 ERCs for the Distribution System AFPI charge. These AFPI charges, like the Cresent Bay Subdivision AFPI charge, cannot be collected after the ERC limit has been reached.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT NO: MWW-1

WITNESS: MARSHALL W. WILLIS

DOCKET NO. 980483-WU

DESCRIPTION: ORDER NO. 19962, NOTICE OF PROPOSED AGENCY ACTION ORDER ESTABLISHING RATES AND CHARGES (PAGES 1-18)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of LAKE UTILITY SERVICES, INC. for an original water certificate in Lake County, Florida.	DOCKET NO. 871080-WU ORDER NO. 19962 ISSUED: 9-8-88

The following Commissioners participated in the disposition of this matter:

KATIE NICHOLS, Chairman
THOMAS M. BEARD
GERALD L. GUNTER
JOHN T. HERNDON
MICHAEL McK. WILSON

NOTICE OF PROPOSED AGENCY ACTION

ORDER ESTABLISHING RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

Background

On October 14, 1987, Lake Utility Services, Inc. (Lake Utility or Utility) filed an application with this Commission for a certificate to operate a water utility in Lake County, Florida. By Order No. 18605, issued December 24, 1987, Lake Utility was granted Certificate No. 496-W. The Certificate was granted prior to the establishment of initial rates and charges so Lake Utility could secure a construction permit from the Department of Environmental Regulation (DER).

Lake Utility proposes to provide water service to 106 single family residences, constituting the Crescent Bay Subdivision in Lake County. The design capacity of the water system is approximately 37,100 gallons per day. The system is expected to reach capacity in approximately four years with the first customer connecting to the system in June, 1988. No future expansion is anticipated.

Rates and Charges

In establishing the rates for this Utility, we are also establishing a return on equity of 11.42%, using the current leverage formula, authorized by Order No. 19718, issued July 26, 1988. The return on equity is being established for all future purposes, such as AFUDC, interim rates and tax savings.

The Utility submitted proforma schedules of rate base, operating income and capital structure. These schedules were used to calculate the revenue requirement and initial rates.

The proforma rate base was adjusted to include the adjustments to the Utility's estimated cost of construction. These adjustments were based on a review of invoices provided by the Utility for work associated with the actual construction of the water system and treatment plant. Accumulated depreciation and accumulated amortization of contributions-in-aid-of-construction (CIAC) were adjusted to conform to the Commission approved depreciation rates for each account. We used the 1/8 of O & M method of calculating working capital because the system is not yet in operation and a balance sheet was not available to calculate working capital using our preferred balance sheet method.

Rate base is not being formally established at this time. The projections are being used only as a tool for establishing initial rates, which is consistent with Commission policy in original certificate applications. Calculation of rate base appears on Schedule No. 1, with our adjustments appearing on Schedule No. 2.

Upon review of the proforma schedule of operations submitted by the Utility, we reduced the salary of the plant operator to conform to the average salary for an operator of a plant of this size, based on data from Commission rate case orders. We also adjusted depreciation expense to reflect the use of Commission approved depreciation rates.

Income taxes and regulatory assessment fees have been calculated at the level of gross revenue found appropriate. The appropriate operating revenue is determined to be $28,502, which allows a net income of $5,797, representing a 11.82% return on rate base. The Schedule of Operations appears on Schedule No. 3, with our adjustments on Schedule No. 4.

The proforma schedule of Capital Structure, as submitted by the Utility, has been adjusted to reflect the correct amount of customer deposits. The only other adjustment was to reconcile the Capital Structure to rate base. The Capital Structure, which reflects an overall rate of return of 11.19%, appears on Schedule No. 5.

The rates set forth below are calculated using the base facility charge rate structure and are based upon the revenue requirement of $28,935 for water service. We find these rates to be appropriate.

WATER

Residential Service
Monthly

Base Facility Charge	Utility Proposed	Commission Approved
5/8" x 3/4"	$ 14.10	$ 12.70
Gallonage Charge (per 1,000 gallons)	$ 1.96	$ 1.43

General Service
Monthly

Base Facility Charge Meter Size	Utility Proposed	Commission Approved
5/8" x 3/4"	$ 14.10	$ 12.70
3/4"	21.15	19.05
1"	35.25	31.75
1 1/2"	70.50	63.50
2"	112.80	101.60
3"	225.60	203.20
4"	352.50	317.50
Gallonage Charge (per 1,000 gallons)	$ 1.96	$ 1.43

The approved rates shall be effective for meter readings on or after thirty days from the effective date of this Order if no protest is timely filed. The Utility must file and have approved an original tariff prior to implementing the new rates and charges. Charges other than monthly service rates shall become effective on the effective date of this Order.

The Utility filed service availability charges consisting of plant capacity, main extension, and meter installation charges. Following are the charges proposed by the Utility and those approved by the Commission:

Type	Utility Proposed	Commission Approved
Plant Capacity Charge per ERC*	$ 134	$ 569
Main Extension Fee per ERC* (Connect to Lines Constructed by the utility)	$ 506	$ 506
Meter Installation Fees:		
5/8" x 3/4"	$ 157	$ 100
1"	215	143
1 1/2"	427	290
2"	464	400
Above 2"	Actual Cost	Actual Cost

*Equivalent Residential Connection

The proposed meter installation fees have been adjusted to remove certain items improperly included. The cost of saddles, which are connected to the main, has been removed and the estimated labor time to install meters has been reduced. The Utility included the cost of two valves on the meter, one on the Utility's side and one on the customer's side of the meter. The costs have been adjusted to allow only one valve on the Utility's side of the meter. No adjustments have been made to the requested main extension charge. The plant capacity charge has been increased so that the CIAC level when the system reaches capacity will be approximately 74%.

The combined CIAC charge per ERC is $1,175. As shown on Schedule No. 6, these charges will result in a CIAC level at design capacity of approximately 73%, which approaches the target level of CIAC contemplated by Rule 25-30.580, Florida Administrative Code.

The Utility requested an Allowance for Funds Prudently Invested (AFPI) to be charged to all customers for service at a new location. The AFPI is a one time charge designed to provide for a return on the plant which is prudently constructed, but exceeds the needs of the customers in the early years of development. The charges should be in effect until the utility reaches capacity, which is 106 ERCs. It is estimated that this will occur in December, 1991. However, the charge should stop escalating when the utility reaches 80% capacity (85 ERCs) because the rates for service are designed to allow the utility to earn a return on investment at that capacity level. It is projected that the Utility will reach 80% of capacity in December, 1990.

The amount of the charge is based on the date future customers connect to the system normally coinciding with the payment of the service availability charges. The charge provides for the full cost of carrying the excess plant to include a fair return on the undepreciated investment and annual depreciation. The collection of carrying charges are reported as revenue and included in the revenue cycle and not capitalized; therefore, regulatory assessment fees are included in the calculation. Our calculation of the Allowance for Funds Prudently Invested is reflected on Schedule No. 7. The monthly charge per ERC is reflected on page 5 of the Schedule.

In conjunction with its service availability policy, the Utility requested a guaranteed revenue charge for water service which would commence when a lot is purchased and continue until structures on the developed property are completed and service is initiated. The charge is designed to recover certain fixed expenses incurred by the utility which will not be recovered from existing ratepayers. This is unlike AFPI in that the guaranteed revenue charge is designed to recover fixed expenses, whereas AFPI is designed to recover a return on prudent investment not needed to serve current customers. As explained previously, we adjusted the Utility's expenses; therefore, the guaranteed revenue charge is lower than requested by the Utility. We find the charge shown below to be appropriate. Also shown is the charge requested by the Utility.

	Utility Proposed	Commission Approved
Water (Per ERC/Month)	$17.80	$14.28

The calculation of the charge per ERC is shown on Schedule No. 8.

Staff Advisory Bulletin (SAB) No. 13, Second Revised, encourage utilities to establish charges to recover its costs for initial connection, normal reconnection, violation reconnection and premises visit in lieu of disconnection. That SAB provides guidance to utilities as to the types of costs typically recovered in each service charge as well as acceptable levels of charges.

The utility's proposed charges were not styled after SAB No. 13. Specifically, the violation reconnection and premises visit charges are higher than those contained in the SAB and the Utility is requesting higher charges for work performed after normal working hours. The Utility has not provided sufficient cost justification to support the proposed charges.

Shown below, along with the charges proposed by the Utility, are the charges found to be appropriate by the Commission:

	Utility Proposed		
TYPE	Normal Working Hours	After Normal Working Hours	Commission Approved
Initial Connection	$10.00	$15.00	$15.00
Normal Reconnection	15.00	20.00	15.00
Violation Reconnection	20 00	25.00	15.00
Premises Visit (in lieu of disconnection)	15.00	20.00	10.00

The utility requested that it be allowed to collect the following initial deposits:

Meter Size	Residential	General Service
5/8" x 3/4"	$ 50.00	$ 50.00
1"	50.00	90.00
1 1/2"	N/A	160.00
2"	N/A	250.00

The requested deposit for the residential customers approximates the expected average charge for water service for two billing periods. We find the above deposit levels to be reasonable and they are, therefore, approved.

It is, therefore,

ORDERED by the Florida Public Service Commission that Lake Utility Services, Inc., Post Office Box 786, Clermont, Florida 32711, is hereby authorized to charge the rates and charges set forth in the body of this Order. The monthly service rates shall be effective for meter readings on or after thirty days from the effective date of this Order. It is further

ORDERED that the charges, other than monthly service rates, approved herein shall become effective on the effective date of this Order. It is further

ORDERED that the customer deposits set forth in the body of this Order are hereby approved and shall become effective on the effective date of this Order. It is further

ORDERED that the Utility shall file and have approved an original tariff prior to implementing the rates and charges approved herein. It is further

ORDERED that the return on equity of 11.42%, established herein, shall be used for all future purposes, such as AFUDC, interim rates and tax savings. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final unless an appropriate petition in the form prescribed in Rule 25-22.036, Florida Administrative Code, is received by the Director of the Division of Records and Reporting, at his office located at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 29, 1988. It is further

ORDERED that if no timely petition is filed objecting to the proposed agency action provisions of this Order, Docket No. 871080-WU shall be closed.

By ORDER of the Florida Public Service Commission, this 8th day of SEPTEMBER, 1988.

Steve Tribble
Steve Tribble, Director
Division of Records and Reporting

(S E A L)

ALC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes (1985), as amended by Chapter 87-345, Section 6, Laws of Florida (1987), to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 29, 1988. In the absence of such a petition, this order shall become effective September 30, 1988, as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

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

If this order becomes final and effective on September 30, 1988, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Lake Utility Services, Inc.
Schedule of Water Rate Base
At 80% of Design Capacity

Docket No. 871080-WU
Schedule No. 1

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission
Utility Plant in Service	129,000	0	129,000	13,212 (1)	142,212
Land	11,500	0	11,500	0	11,500
Accumulated Depreciation	(16,056)	0	(16,056)	7,263 (2)	(8,793)
Contributions-in-aid-of-Construction	(67,745)	0	(67,745)	(32,130)(3)	(99,875)
Accumulated Amortization of C.I.A.C.	5,042	0	5,042	(494)(4)	4,548
Working Capital Allowance	2,646	0	2,646	(438)(5)	2,208
TOTAL	64,387	0	64,387	(12,587)	51,800

DOCKET NO. 871080-WU
SCHEDULE NO. 2

LAKE UTILITY SERVICES, INC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE

Description	Adjustment
Utility Plant In Service	
1) To reflect staff's adjusted plant cost and adjustments to 80% of design capacity.	$ 13,212
Accumulated Depreciation	
2) To reflect the effect of the adjustment made to the cost of Utility Plant in Service and application of Commission approved depreciation rates.	$ 7,263
Contributions-in-aid-of-construction	
3) To reflect staff's recommended adjustment to the utility requested service availability charges.	$(32,130)
Accumulated Amortization of CIAC	
4) To reflect the application of Commission approved depreciation rates.	$ (494)
Working Capital Allowance	
5) To reflect the calculation of working capital using the 1/8 of O&M method.	$ (438)

Lake Utility Services, Inc.
Schedule of Water Operations
At 80% of Design Capacity

Docket No. 871080-WU
Schedule No. 3

Description	Balance Per Utility	Commission Adjust.	Balance Per Commission	Commission Adjust. Required Revenue	Required Revenue Per Commission
Operating Revenues	35,666	0	35,666	(6,731)(4)	28,935
Operating and Maintenance	21,165	(3,500)(1)	17,665	0	17,665
Depreciation Expense	3,035	(1,569)(2)	1,466	0	1,466
Taxes Other Than Income	2,691	(0)	2,691	(168)(5)	2,523
Income Taxes	1,485	964 (3)	2,449	(1,291)(6)	1,158
Total Operating Expenses	28,376	(4,105)	24,271	(1,459)	22,812
Net Operating Income	7,290	4,105	11,395	(5,272)	6,123
Rate Base	64,387		51,800		51,800
Rate of Return	11.32%		22.00%		11.82%

DOCKET NO. 871080-WU
SCHEDULE NO. 4

LAKE UTILITY SERVICES, INC.
ADJUSTMENTS TO SCHEDULE OF OPERATIONS

Description	Adjustment
Operating and Maintenance	
1) To adjust Salaries and Wages to a level considered more reasonable by staff.	$ (3,500)
Depreciation Expense	
2) To reflect the use of Commission approved depreciation rates.	$ (1,569)
Income Taxes	
3) To reflect staff's calculation of state and federal income taxes at the requested revenue level.	$ 951
Operating Revenues	
4) To adjust the requested operating income tax to a level which will allow the utility the opportunity to earn a 11.19% overall rate of return.	$ (7,164)
Taxes Other Than Income	
5) To reflect the decrease of regulatory assessment fees related to the decrease in operating revenues.	$ (179)
Income Taxes	
6) To reflect staff's calculation of state and federal income taxes at the recomended operating revenue level	$ (1,374)

Lake Utility Services, Inc.
Schedule of Capital Structure
At 80% of Design Capacity

Docket No. 871080-WU
Schedule No. 5

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Commission Adjust.	Balance Per Commission	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	59,686		59,686		59,686	(11,329)	48,357	93.35%	12.24%	11.42%
Long and Short-Term Debt			0		0	0	0	0.00%	0.00%	0.00%
Customer Deposits	2,555		2,555	1,695	4,250	(807)	3,443	6.65%	6.00%	0.40%
Advances from Associated Companies			0		0	0	0	0.00%	0.00%	0.00%
Other			0		0	0	0	0.00%	0.00%	0.00%
	62,241	0	62,241	1,695	63,936	(12,136)	51,800	100.00%		11.82%

Range of Reasonableness:	High	Low
Common Equity	13.24%	11.24%
Overall Rate of Return	12.75%	10.89%

Schedule No. 6

Lake Utility Services, Inc.
Schedule of Net Plant to Net C.I.A.C.
At 100% of Design Capacity

Account Number	Account Description	Water
101	Utility Plant in Service	172,728
104	Accumulated Depreciation	(13,398)
	Net Plant	159,330
271	C.I.A.C.	124,550
272	Accum. Amortization of C.I.A.C.	(7,981)
	Net C.I.A.C.	116,569
	Net C.I.A.C. / Net Plant	73.16%
	Gross to Gross Minimum Contribution Level	33.82%
	Staff Recommended Charge	1,175
	Total ERC's	106

Schedule 7
Page 1 of 5

LAKE UTILITY SERVICES, INC.
871080-WU

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC

Information Needed

1. Cost of Qualifying Assets	$	123,582
2. Capacity of Qualifying Assets		37,100 GPD
3. Number of Future Customers		106 ERC
4. Annual Depreciation Expense	$	443
5. Rate of Return		11.82%
6. Weighted Cost of Equity		11.42%
7. Federal Income Tax Rate		15.00%
TURN TO PREVIOUS SCHEDULE		
8. State Income Tax Rate		5.50%
9. Annual Property Tax	$	0
10. Other Costs	$	0
11. Depreciation Rate of Assets		3.06%
12. Test Year		1988

Schedule No. 7
Page 2 of 5

LAKE UTILITY SERVICES, INC.
871080-WU

Allowance for Funds Prudently Invested
Calculation of Carrying Costs for Each ERC:

Cost of Qualifying Assets:	$ 123,582	Annual Depreciation Expense:	$ 665
Divided By Future ERC:	106	Future ERC's:	106
Cost/ERC:	$ 1,165.87	Annual Depr. Cost per ERC:	$ 6.27
Multiply By Rate of Return:	11.82%		
Annual Return Per ERC:	$ 137.81	Annual Property Tax Expense:	$ 0
		Future ERC's:	106
Annual Reduction in Return: (Annual Depreciation Expense per ERC Times Rate of Return)	$ 0.74	Annual Prop. Tax per ERC:	$ 0.00
Federal Tax Rate:	15.00%	Weighted Cost of Equity:	11.42%
Effective State Tax Rate:	4.60%	Divided by Rate of Return:	11.82%
Total Tax Rate:	19.60%	% of Equity in Return:	96.62%
Effective Tax on Return: (Equity % Times Tax Rate)	19.01%	Other Costs:	$ 0
		Future ERC's:	106
Provision for Tax: (Tax on Return/(1-Total Tax Rate))	23.67%	Cost per ERC:	$ 0.00

LAKE UTILITY SERVICES INC.
871080-WU

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Year:

	1988	1989	1990	1991	1992	1993	1994	1995
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.0.
Unfunded Annual Depreciation:	6.27	6.27	6.27	6.27	6.27	6.27	6.27	6.27
Unfunded Property Tax:	0.00	0.0u	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal Unfunded Annual Expense:	$ 6.27	$ 6.27	$ 6.27	$ 6.27	$ 6.27	$ 6.27	$ 6.27	$ 6.27
Unfunded Expenses Prior Year:	0.00	6.27	12.55	18.82	25.09	31.37	37.64	43.92
Total Unfunded Expenses:	$ 6.27	$ 12.55	$ 18.82	$ 25.09	$ 31.37	$ 37.64	$ 43.92	$ 50.19
Return on Expenses Current Year:	0.74	0.74	0.74	0.74	0.74	0.74	0.74	0.74
Return on Expenses Prior Year:	0.00	0.74	1.48	2.22	2.97	3.71	4.45	5.19
Return on Plant Current Year:	137.81	137.06	136.32	135.58	134.84	134.10	133.36	132.61
Earnings Prior Year:	0.00	137.81	291.90	464.21	656.88	872.33	1,113.25	1,382.64
Compound Earnings from Prior Year:	0.00	16.29	34.50	54.87	77.64	103.11	131.59	163.43
Total Compounded Earnings:	$ 137.81	$ 291.90	$ 464.21	$ 656.88	$ 872.33	$1,113.25	$1,382.64	$ 1,683.87
Earnings Expansion Factor for Tax:	1.24	1.24	1.24	1.24	1.24	1.24	1.24	1.24
Revenue Required to Fund Earnings:	$ 170.42	$ 360.98	$ 574.06	$ 812.34	$1,078.77	$1,376.70	$1,709.84	$ 2,082.37
Revenue Required to Fund Expenses:	6.27	12.55	18.82	25.09	31.37	37.64	43.92	50.19
Subtotal:	$ 176.69	$ 373.53	$ 592.89	$ 837.43	$1,110.14	$1,414.34	$1,753.76	$ 2,132.55
Divided by Factor for Gross Receipts Tax:	0.975	0.975	0.975	0.975	0.975	0.975	0.975	0.975
ERC Carrying Cost for 1 Year:	$ 181.22	$ 383.10	$ 608.09	$ 858.90	$1,138.61	$1,450.61	$1,798.73	$ 2,187.24

Schedule No. 7
Page 4 of 5

LAKE UTILITY SERVICES, INC.
871080-WU

Allowance for Funds Prudently Invested
Calculation of Carrying Cost Per ERC Per Month:

	1988	1989	1990	1991	1992	1993	1994	1995
January	15.10	198.05	401.85	628.99	882.21	1,164.61	1,479.62	1,831.10
February	30.20	214.87	420.60	649.89	905.52	1,190.61	1,508.63	1,863.48
March	45.31	231.69	439.35	670.79	928.83	1,216.61	1,537.64	1,895.85
April	60.41	248.52	458.10	691.69	952.14	1,242.61	1,566.65	1,928.23
May	75.51	265.34	476.85	712.59	975.45	1,268.61	1,595.66	1,960.61
June	90.61	282.16	495.60	733.50	998.75	1,294.61	1,624.67	1,992.98
July	105.71	298.99	514.34	754.40	1,022.06	1,320.61	1,653.68	2,025.36
August	120.81	315.81	533.09	775.30	1,045.37	1,346.61	1,682.69	2,057.73
September	135.92	332.63	551.84	796.20	1,068.68	1,372.61	1,711.70	2,090.11
October	151.02	349.46	570.59	817.10	1,091.99	1,398.61	1,740.71	2,122.48
November	166.12	366.28	589.34	838.00	1,115.30	1,424.61	1,769.72	2,154.86
December	181.22	383.10	608.09	858.90	1,138.61	1,450.61	1,798.73	2,187.24

LAKE UTILITY SERVICES, INC.
871080-WU

Allowance for Funds Prudently Invested
Schedule of Charges:

	1988	1989	1990	1991
January	15.10	198.05	401.85	608.09
February	30.20	214.87	420.60	608.09
March	45.31	231.69	439.35	608.09
April	60.41	248.52	458.10	608.09
May	75.51	265.34	476.85	608.09
June	90.61	282.16	495.60	608.09
July	105.71	298.99	514.34	608.09
August	120.81	315.81	533.09	608.09
September	135.92	332.63	551.84	608.09
October	151.02	349.46	570.59	608.09
November	166.12	366.28	589.34	608.09
December	181.22	383.10	608.09	608.09

DOCKET NO. 871080-WU
SCHEDULE NO. 8

LAKE UTILITY SERVICES, INC.
CALCULATION OF
GUARANTEED REVENUE CHARGE

Salaries and Wages - Employees	$ 4,500
Salaries and Wages - Other	3,000
Contractual Services	3,950
Rents	600
Transportation Expenses	350
Insurance Expense	1,500
Miscellaneous Expense	300
Total Expenses	$14,200
Divide By	-.975
Total Including Gross Receipts Tax	$14,564
Total ERCs Plant Will Serve	106
Capacity Used to Determine Rates	80%
Total ERCs to be Reserved	85
Annual Cost Per ERC	$ 171.34
Monthly Cost Per ERC	$ 14.28

EXHIBIT NO: MWW-2

WITNESS: MARSHALL W. WILLIS

DOCKET NO. 980483-WU

DESCRIPTION: ORDER NO. PSC-97-0531-FOF-WU, NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING, IN PART, AND DENYING, IN PART, INCREASED RATES AND CHARGES.
(PAGES 1-72)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc.	DOCKET NO. 960444-WU ORDER NO. PSC-97-0531-FOF-WU ISSUED: MAY 9, 1997

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
JOE GARCIA
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING, IN PART, AND DENYING, IN PART, INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Lake Utility Services, Inc., (LUSI or utility) is a Class B utility located in Lake County. LUSI is a wholly-owned subsidiary of Utilities, Inc. and provides no wastewater service. The service area is composed of eighteen subdivisions, which are served by twelve water plants. All of the plants are basically pump and chlorinate with hydropneumatic tanks. There are ten plants in the South Clermont Region. In this region there are groups of two (Oranges-Vistas), three (Clermont I-Amber Hill-Lake Ridge Club) and four (Highland Point-Crescent Bay-Crescent West-Lake Crescent Hills) interconnected plants with one stand-alone plant (Clermont II). The other two plants (Lake Saunders and Four Lakes) are outside this area. The minimum filing requirements (MFRs) filed in this docket indicate that the service area contained a total of 915 this docket indicate that the service area contained a total of 915 customers at the end of 1995. According to the St. Johns River Water Management District (SJRWMD), LUSI is in a water conservation area.

On December 24, 1987, LUSI was granted Original Certificate No. 496-W by Order No. 18605 in Docket No. 871080. On February 20, 1991, by Order No. 24139, in Docket No. 900906-WU, we transferred all Utilities, Inc. of Florida systems in Lake County to LUSI.

By Proposed Agency Action (PAA) Order No. PSC-95-1228-FOF-WU, issued on October 5, 1995, in Docket No. 950232-WU, we approved a limited proceeding to restructure rates and ordered the utility to supply necessary information regarding its service availability policy within 90 days. However, on October 26, 1995, LUSI protested the order. On March 4, 1996, LUSI filed an offer of settlement.

By Order No. PSC-96-0504-AS-WU, we accepted the settlement proposal. In the settlement, LUSI agreed to file this current rate case (Docket No. 960444-WU) and propose uniform rates and uniform service availability charges for all of its operations in Lake County, except for Four Lakes and Lake Saunders Acres. As part of the settlement, the utility stipulated to the use of "Staff's Proposed Rate Structure (Revised)" in Docket No. 950232-WU, for the purpose of calculating interim rates. Therefore, the rates included in "Staff Proposed Rate Structure (Revised)", pursuant to Order No. PSC-96-0504-AS-WU, became LUSI's current approved rates immediately prior to any interim adjustment in this rate case.

The utility reported adjusted test year operating revenues of $313,946 for its water operations for 1995. The utility has never had a full rate case; therefore, there is no previously established rate of return on equity.

The utility filed this application for a rate increase on June 3, 1996. We notified the utility of several deficiencies in the filing. Those deficiencies were corrected and the official filing date was established as July 9, 1996. The utility's requested test year for both interim and final rates is the historical period ended December 31, 1995. Also, the utility requested that this case be processed using the PAA procedure pursuant to Section 367.081(8), Florida Statutes.

QUALITY OF SERVICE

Our evaluation of the overall quality of service provided by the utility is derived from three separate components of water and wastewater operations: quality of the utility's product; operating conditions of the utility's plants and facilities; and customer satisfaction. We also consider sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and County Health Department over the preceding three year period. DEP and health department officials' input as well as customer comments are also considered.

LUSI's water treatment facilities consist of twelve plants. The plants are all the same type (pump and chlorinate with hydropneumatic tanks) with the exception of the Oranges, Clermont II and Lake Saunders which also add polyphosphate.

Quality of the Product

At the customer meeting held on September 4, 1996 in Jenkins Auditorium, approximately 120 customers attended. A large percentage of these customers indicated that the water quality varied, and health concerns were expressed. Although the product has met standards, we concur with DEP engineering that due to the layout of the distribution system both high and low chlorine levels are occurring in the system.

After reviewing the MFR complaint logs, we requested more current complaint logs. We reviewed the system maps and surveyed a number of customers, as a result we also requested the service area flushing schedule. LUSI indicated there was no regular flushing, and it was done as needed. Although the product as tested met standards, DEP engineering agreed with us that a scheduled flushing program was needed to insure the water quality.

The utility submitted a flushing program to us on November 20, 1996. We agree with DEP engineers that this program should result in a higher quality and more consistent product.

Operating Conditions

We conducted a field inspection of all LUSI facilities on September 3 and 4, 1996. In addition, DEP inspected the facilities on October 22 and November 7 of 1996. A number of minor deficiencies were noted. We believe that utility changes in management and maintenance practices will eliminate these deficiencies and minimize such occurrences in the future.

Customer Satisfaction

It is obvious from testimony given at the customer service hearing and numerous customer phone calls throughout the system that customer satisfaction is lacking. Of the customers at the service hearing, twenty testified during the course of the three hour meeting. Customers indicated problems with chlorine content (low and high), sediment and service problems. A number of customers spoke to staff engineers during the recess and after the meeting, expressing product and service problems. In addition we polled approximately forty customers with a large majority expressing product and/or service problems.

We suggested a number of actions to improve this area: utility presentations for home owner associations, if requested; utility monitoring of new construction in the service area; and utility initiation of a proactive system flushing program.

Summary

We find that the quality of the product is marginal at best, the operating conditions of the plants have no major deficiencies, and the customer satisfaction is poor. However, we note that the utility has totally cooperated with us in seeking workable solutions to all the aforementioned problems. Changes made by the utility should improve all of these areas. Commission staff shall monitor the utility's performance over the remainder of 1997.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1-A, and our adjustments are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Plant in Service

The utility's MFRs indicate average utility plant in service, average accumulated depreciation and depreciation expense for the test year are $1,946,058 $131,754 and $62,453, respectively. In Audit Exception No. 3 of the Commission Staff Audit Report, the staff auditor proposed numerous adjustments to reduce LUSI's utility plant in service for lack of documentation support, misclassified organization costs and capitalized expenses. For the purposes of discussion, we shall address these topics separately.

Lack of Supporting Documentation

The utility recorded capitalized time of $273 for wells and springs for Preston Cove Water Plant and capitalized time of $898 for wells and treatment equipment for South Clermont Water Plant. The staff auditor found that there were no such physical assets in these two water plants. Therefore, we have reduced utility plant in service by $1,171.

The utility recorded a total of $16,923 to several plant accounts for Highland Point Water Plant without providing any supporting documentation. The utility also did not record plant equipment and meters for $9,920. Therefore, we reduced utility plant in service by $7,003.

The utility recorded a total of $50,000 to its plant accounts for Orange Water Plant, but it only has support for $42,254 of that amount. Therefore, we reduced utility plant in service by $7,746.

The utility recorded a total of $4,918 to its plant accounts for Amber Hill Water Plant without providing any supporting documentation. Plant equipment which had an original cost of $12,614 was recorded at $9,903. The staff auditor discovered that plant assets of $1,720 were not recorded on the utility's books. Therefore, we reduced utility plant in service by $487.

The utility recorded a total of $86,406 to its plant accounts for the Lake Saunders Acres Water Plant. However, only $58,463 was supported by the original documentation. Therefore, we removed $27,943 from utility plant in service.

The Four Lakes Water Plant was originally certificated under the name of L. Neal Smith Utilities and then sold to LUSI in 1990. By Order No. 23839, issued on December 7, 1990, in Docket No.

900645-WU, we approved the transfer of facilities. In the Order, we stated that rate base could not be established at the time of sale because there was not sufficient information and no original cost study was conducted. Further, we indicated that an original cost study was necessary when LUSI's rate base was established in an up-coming rate case. The current docket is LUSI's first rate case, and the utility did not perform an original cost study for this case. Furthermore, LUSI has no records to establish the original cost of the Four Lakes Water System as of April of 1990. By Order No. 10994, issued on July 14, 1982, in Docket No. 810063-WS, we granted a certificate, set rate base and approved rates and service availability charge for L. Neal Smith Utilities. The staff auditor determined that plant in service for Four Lakes Water Plant should be the same as it was in December 31, 1981, when L. Neal Smith Utilities' rate base was established by the Commission in Order No. 10994. Based on the foregoing, we increased utility plant in service by $48,732.

Accounting Instruction 2(A), Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners (NARUC) states that it is the utility's responsibility to furnish its accounting records in such a manner to allow ready identification, analysis and verification of all facts relevant thereto. We find it appropriate to make the foregoing adjustments to disallow the unsupported amount of utility plant in service and to recognize $48,732 in Four Lakes' plant in service. Accordingly, accumulated depreciation and test year depreciation expense shall be adjusted. These adjustments are discussed in detail later in this Order.

Misclassified Organization Costs

The utility recorded a total of $12,171 as organization costs from 1989 to 1991. These expenses included legal fees of $1,573 for the sale and transfer of LUSI's stock to Utilities, Inc., legal fees of $9,453 for the subsequent consolidation of Utilities Inc. of Florida and LUSI's operation in Lake County and capitalized executive time of $1,144 for the consolidation.

In its response to the Audit Report, the utility argued that the $12,171 associated with the sale of stock and the transfer of certificate was the cost of forming the corporation, namely, LUSI, which was approved by us in Order No. 24139. We issued two orders related to the sale of stock and transfer of certificate.

By Order No. 21304, issued on June 1, 1989, in Docket No. 890334-WU, we approved the sale and transfer of majority stock ownership of LUSI to Utilities, Inc. In the Order, we stated that the sale of common stock to Utilities, Inc. would not alter LUSI's assets and liability accounts, and the rate base balance.

By Order No. 24139, issued on February 20, 1991, in Docket No. 900906-WU, we did not approve, but acknowledged the corporate reorganization of LUSI's operations in Lake County. Our decision was based on the fact that the reorganization would not affect either the rates and charges, or the management, operations or customer service provided by the utilities.

In accordance with NARUC Uniform System of Accounts, the organization account shall include all fees paid to federal or state government for the privilege of incorporation and expenditures incident to organizing the corporation and putting it into readiness to do business. Note A to the Organization Account clearly states that this account shall not include expenses in connection with the authorization, issuance and sale of capital stock. Note B to the Organization Account further indicates that where charges are made to this account for expenses incurred in mergers, consolidations or reorganizations, the amounts previously included herein or in similar accounts in the books of the companies concerned shall be excluded from this account.

The expenses discussed above shall not be recorded as organization costs for these reasons: (1) it was not appropriate to treat these expenses as organization cost, because LUSI was already incorporated and in business when the sale of stock took place; (2) no expenses previously included in LUSI's organization account have been removed; and (3) the expenses should be borne by the stockholders of LUSI's parent utility because the purchase of LUSI through the transfer of stock is not the ratepayers' decision, nor has LUSI demonstrated how the customers have benefited from this transaction. Because these expenses are directly associated with the change of ownership of LUSI to Utilities, Inc., they should be recorded on Utilities, Inc.'s books rather than on LUSI's books.

When LUSI applied for an amendment to extend its certificated territory in February, 1992, an objection to the application was filed by the City of Clermont based on the city's belief that the requested extension of territory was in conflict with the City's approved comprehensive plan. In September, 1992, the City of Clermont informed us that its City Council had voted to withdraw its objection to LUSI's application. The total legal fees and regulatory commission expenses incurred by the utility to defend its position during 1992 amounted to $57,369. The utility recorded these expenses in the organization account as they were incurred. Although these expenses are non-recurring, it is clear that they were not incurred for organizing the corporation and putting it into readiness to do business. Therefore, these expenses shall be appropriately accounted for as regulatory commission expense and amortized over five years starting December of 1992. Accordingly, utility plant in service shall be reduced by $57,369 and test year operation and maintenance expense shall be increased by $11,474. The related adjustment to accumulated depreciation is addressed later in this Order.

The utility recorded capitalized executive time of $7,007 to the organization account in 1994. Because LUSI was already incorporated and in business prior to 1994, and there was no on-going construction for which the utility could capitalize executive time, we reduced organization cost by $7,007.

The utility made a payment of $1,000 to a developer in 1988, and transferred this amount to the organization account in 1995. The utility did not provide documentation to support recording this payment as organization cost; therefore, we removed this payment.

The utility received a $5,000 advance from Utilities, Inc. of Florida in 1988 and recorded it as Undistributed Water Plant in the same year. In 1995, this balance was transferred to the organization account. Because the utility did not provide any support as to why this amount should be booked as organization cost, we removed it.

Adjustments totaling $82,547 shall be made to utility plant in service due to the utility's misclassification of expenses as organization cost. Accordingly, accumulated depreciation and test year depreciation expense shall be adjusted. These adjustments are discussed in detail later in this Order.

Capitalized Operation and Maintenance (O&M) Expenses

The utility capitalized an expense of $1,170 associated with repairing a starter for its pumping equipment in 1988. The utility also capitalized total expenses of $1,786 associated with repairing a generator in 1992. The repair costs neither increased the efficiency nor extended the useful life of the generator.

Because these expenses were normal and recurring, they shall be expensed as incurred. Therefore, we reduced utility plant in service by $2,956.

In 1987, the utility capitalized total expenses of $4,995 to the plant accounts of its Crescent Bay Water Plant. This included $341 for repairing a pump gear drive, $4,200 for the construction of an irrigation system located at the entrance of the Crescent Bay Subdivision, and $454 (10 percent of $341 and $4,200) charged by Mr. R. E. Oswalt, the developer of the Crescent Bay Subdivision, for his supervision of these two projects. The repair cost of the gear drive and Mr. Oswalt's labor cost were normal recurring maintenance expenses to LUSI, and, therefore, should be expensed as incurred. The Crescent Bay Subdivision's irrigation system was not part of the utility's water system and, therefore, any costs related to the construction shall be appropriately treated as non-utility expenses. Based on the foregoing, we reduced the utility's plant in service by $4,995.

The utility capitalized total expenses of $2,198 incurred by its employee, Mr. Harry Zimmer, for a Florida trip in 1989. There was no indication as to what this trip was related, and the utility did not provide any support to justify the capitalization of this amount. Therefore, we reduced the utility's plant in service by $2,198.

As such, the foregoing adjustments totaling $10,148 shall be made to utility plant in service due to the utility's incorrect capitalization of O&M expenses. Accordingly, accumulated depreciation and test year depreciation expense shall be adjusted, as discussed later in this Order.

Conclusion on Plant in Service

Based on the reasons discussed above, the average utility plant in service shall be reduced by $103,440 for water due to misclassification and lack of supporting documentation. The related adjustments to accumulated depreciation and depreciation are discussed later in this Order.

Utility Land

LUSI's MFRs show land and land rights of $3,730. In Audit Exception No. 2, the staff auditor revealed that the utility recorded land for only one of its twelve water treatment plants.

The staff auditor obtained from the Lake County Courthouse the original warranty deed for each system at the time the land was first devoted to utility service. Based on the documentary stamp tax on each deed as filed with the Lake County Property Appraiser's Office, the staff auditor calculated the original costs for all utility land to be $4,087. Accounting Instruction No. 13A of the NARUC Uniform System of Accounts requires that all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.

Based on the foregoing, we find that the total cost of utility land when first devoted to public use was $4,078 and, therefore, the utility's land and land rights shall be increased by $357.

Margin Reserve

In reviewing the schedules filed by the utility, it was noted that all margin reserve requests were exactly 20 percent of existing plant (240,000 gallons per day (GPD)), and there was no documentation to support these values. When we requested work papers, the utility submitted a new margin reserve request for 70,264 GPD with supporting documentation.

We notified the utility of the reduction in the distribution system from the requested 100 percent used and useful. The utility did not request margin reserve for the distribution system. However, the calculation shown in schedule F-9 of the MFRs supports a margin reserve value of 101 ERCs estimated yearly growth.

Excessive Unaccounted for Water

Unaccounted for water is the difference between water pumped and treated and the amount of water sold (revenue producing). Some unaccounted for water is acceptable for line flushing and plant use. Ten percent of total water pumped is an acceptable level of unaccounted for water. Any amount of unaccounted for water above ten percent is considered excessive. This standard was applied to each system or interconnected system on a case by case basis (three stand alone plants and three interconnected groups). One plant (Clermont I) and one Group (Clermont I-Amber Hill-Lake Ridge Club) had no unaccounted for water. The excessive amounts of unaccounted for water by system are: Oranges-Vistas/ 2,057 GPD; Highland Point-Crescent Bay-Crescent West-Lake Crescent Hills/ 16,744 GPD; Lake Saunders/ 782 GPD; and Four Lakes/ 3,795 GPD. When the total amount, 23,378 GPD, is divided by the average daily consumption, 361,981 GPD, the resultant is an adjustment factor of 0.06458 or 6.458 percent, which results in adjustments of $2,587 and $461 for purchased power expense and chemical expense, respectively.

Used and Useful

We found the following errors in the original used and useful values provided in the MFRs: (1) the flow data used to calculate the maximum daily flow for interconnected plants was not from the same day; (2) the fire flow allowances for interconnected plants were incorrect; (3) the margin reserve value was not supported; (4) the excessive unaccounted for water was not in the calculation; and (5) there was no lot count information for the distribution system.

The utility requested an extension of time in order to provide more accurate flow data, a more detailed set of maps and support for the margin reserve values. During this extension and a second that followed, the utility was told that the transmission mains which served to interconnect plants would be considered 100 percent used and useful if the dollar value with supporting documents were provided. This was never done.

At the end of the second extension, the utility submitted revised plant used and useful calculations. These calculations contained changes in plant capacities. At that point we contacted DEP for the plant permit capacities. The following plant used and useful calculations were made using those DEP permitted capacities along with all other corrected data.

Water plant

Based on our calculations, the appropriate used and useful percentages for LUSI's water plants are: 67.83 percent (Clermont I, Amber Hill, Lake Ridge Club); 100 percent (Clermont II); 37.97 percent (Oranges, Vistas); 54.76 percent (Highland Point, Crescent Bay, Crescent West, Lake Crescent Hills); 36.48 percent (Four Lakes); and 41.03 percent (Lake Saunders).

Storage

The hydro tanks are the smallest possible tanks for adequate performance and, therefore, are 100 percent used and useful.

Distribution System

The distribution system calculation was derived from actual lot counts of the entire service area. Based on our calculations, the appropriate used and useful percentages for LUSI's distribution system are: 0.73 percent (Clermont I, Amber Hill, Lake Ridge Club); 0.58 percent (Clermont II); 0.37 percent (Orange, Vistas); 0.41 percent (Highland Point, Crescent Bay, Crescent West, Lake Crescent Hills); 0.91 percent (Lake Saunders); and 0.86 percent (Four Lakes).

Imputation of Contributions in Aid of Construction (CIAC) for Water Supply and Storage System

In 1987, the utility entered into a water system construction agreement with the developer of the Vistas Subdivision. The term of this agreement stated that Utilities, Inc. of Florida agreed to "an initial cash payment of $16,500 at such time as the water supply and storage system as described herein is complete and operational and providing service thereby". The utility recorded $16,500 as Undistributed Water Plant in 1987 and transferred this amount to Transmission and Distribution Mains in 1995. In Audit Exception No. 3, the staff auditor indicated that no proof of payment by the utility was provided to support this entry on the utility's books. The utility, in its response to the Audit Report, argued that the purchase agreement, which acted as an invoice, stated that LUSI was purchasing the water supply and storage system for $16,500. Although the purchase agreement specifies the duties and obligations of the two parties, it cannot be solely relied upon as proof of payment without other collaborating evidence. From merely looking at the purchase agreement, we cannot determine the date of payment or even if a payment was made. Nonetheless, we find that $16,500 was a reasonable price for the water supply and storage system which is currently in use.

In conclusion, we do not find that the utility has provided documentation sufficient to determine the price, if any, the utility paid for this system in 1987. Based on the foregoing, we have imputed CIAC for the agreement price of $16,500 for the Vistas' water supply and storage system. Accordingly, we have increased accumulated amortization of CIAC and CIAC amortization expenses by $3,506 and $413, respectively.

Additional Adjustments to CIAC

The utility's MFRs show a CIAC balance of $881,203, based on a simple average. Audit Exception No. 12 of the Audit Report revealed that the utility's books contained numerous recording errors due to misclassifications and unrecorded advances made by developers. The staff auditor's review of the utility's general ledgers, CIAC ledgers, Developer/Purchase Agreements and Billing Registers for CIAC additions, indicated that the proper balance of CIAC should be $1,049,652 based on a simple average.

In its response to the Audit Report, the utility did not disagree with the method and procedures used to reestablish the CIAC balance for the utility. However, the utility provided two arguments regarding the adjustments to CIAC. LUSI's first argument was that if an adjustment is made to increase CIAC by $48,363 for Lake Saunders water plant, the utility's plant acquisition adjustment should be removed to avoid double accounting. We will address this argument when discussing the accounting treatment for the negative acquisition adjustment later in this Order.

LUSI's second disagreement with the CIAC adjustment is that it is improper to increase CIAC by $65,050 for the Crescent West water plant based on Order No. 22303, issued on December 12, 1989, in Docket No. 890335-WU. In order to fully discuss this, the following additional background information regarding the purchase of the Crescent West facilities is necessary.

On January 25, 1989, Utilities, Inc. of Florida (UIF), (LUSI's predecessor), filed an application with us for amendment of Certificate No. 383-W to include 70 acres of territory in the Crescent West Subdivision (CWS), which was a new subdivision in Lake County. We issued Order No. 21555 on June 17, 1989, in Docket No. 890335-WU, granting UIF's amendment of certificate and requiring the uniform application of rates and charges previously authorized in UIF's Lake County tariff.

UIF filed a Motion for Reconsideration of Order No. 21555. UIF stated, in its motion, that Order No. 21555 incorrectly stated the money transactions between UIF and CWS. In Order No. 22303, issued on December 12, 1989, we corrected the dollar amount of the transactions and established the original cost of the water facilities purchased by UIF from the developer of CWS at $109,300.

The order also reflected the purchase price paid by UIF to the developer as $44,250, and CIAC as $65,050. UIF did not appeal that Order.

In this current case, LUSI argued that the CIAC reported in Order No. 22303 may not have been attributed to the plant in question. Further, the utility should not be penalized for the CIAC collected by another entity that previously owned similar assets. The utility concluded that an adjustment to CIAC for Order No. 22303 is not proper.

The utility has not indicated which entity, it believes, collected the CIAC before UIF purchased the Crescent West water plant. Further, the utility has not provided any evidence which shows that we erred in our prior order. Regardless, the time for any such appeal of that order has long since expired.

The language regarding the amount of CIAC in Order No. 22303 is clear and unambiguous. As such, our adjustment for the Crescent West facilities is appropriate. Further, we find that other adjustments proposed by the staff auditor to CIAC are appropriate and reasonable. Accordingly, we have increased CIAC by $168,449 based on a simple average. The related adjustments to accumulated amortization of CIAC and CIAC amortization expense are discussed later in this Order.

Imputation of CIAC on Margin Reserve

Our determination of used and useful plant includes a margin reserve for anticipated customer growth patterns. This margin reserve represents the number of customer ERCs expected to be connected during the eighteen months following the test year. It has been our practice to only recognize the utility's net investment in the margin reserve in rate base and to impute CIAC for the additional ERCs included in the margin reserve.

However, by Order No. PSC-96-1320-FOF-WS (the Southern States Utilities, Inc. final rate case order in Docket No. 950495-WS, issued on October 30, 1996), we decided to impute only 50 percent of the amount of CIAC attributed to the margin reserve. We found that the total amount imputed would not be collected at the beginning of the margin reserve period, rather that it would be averaged over the life of such period. We find that for the current case, it is appropriate to make the adjustment for 50 percent of the imputed amount. This is consistent with our other recent decisions. (See also Order No. PSC-96-1338-FOF-WS, issued on November 7, 1996, in Docket No. 931036-WS, and Order No. PSC-97-0223-FOF-WS, issued on February 25, 1997, in Docket No. 951258-WS.)

For the water treatment plant, the number of ERCs included in margin reserve is 131. For the water distribution system, the number of ERCs is 101 as discussed earlier in this Order. In this case, the utility is proposing to change its plant capacity charges; therefore, we have applied the new capacity charges in calculating the imputation. As discussed later in this Order, we have approved plant capacity and main extension fees of zero and $223, respectively. As such, an imputation of CIAC on the margin reserve is only necessary for the distribution system.

Based on 50 percent of the imputed CIAC on the margin reserve, we have increased CIAC and accumulated amortization of CIAC by $12,480 and $168, respectively, for water. Additionally, we have increased test year amortization expense by $334 for water.

Accumulated Depreciation and Amortization of CIAC

In its MFRs, the utility indicated that accumulated depreciation and depreciation expense were $131,754 and $62,453, respectively. According to Audit Exception No. 1, accumulated depreciation at December 31, 1994, as shown in Schedule A-9 of the MFRs, was not in agreement with the general ledger. The utility also stated, in its MFRs, that depreciation expense and accumulated depreciation were calculated on a consolidated basis. Schedule A-9 of the MFRs did not show accumulated depreciation for utility plant by primary account.

Our review of the utility's depreciation schedules indicated that depreciation was not recorded correctly. The schedules showed that during some years, the annual amount of depreciation expense would decrease even when net plant increased. Also, there were years in which more accumulated depreciation was removed than the original book cost of the plant retired. We find that the depreciation methodology was not systematic and did not follow any clear pattern, including a consistent application of depreciation rates. These inconsistencies indicated that the balance of accumulated depreciation in the MFRs or the general ledger balances were not reliable and that determining accumulated depreciation associated with unsupported or misclassified plant was impossible based on the utility's books.

Therefore, the only option available was to completely recalculate accumulated depreciation by primary account based on the auditor's adjusted plant balances for all the years prior to and including the test year. We used a composite rate of 2.50 percent for depreciation prior to the test year, which was commonly used before the guideline rates took effect in 1984. For the test year, we applied the guideline rates according to Rule 25-30.140, Florida Administrative Code. Since we were unable to determine exactly what rates the utility used and rate base has not been previously established, we find it reasonable to apply these depreciation rates in this situation. The utility shall, however, use the guideline depreciation rates on a going-forward basis.

Based on the foregoing, the appropriate balance of accumulated depreciation, on a simple average basis, is $187,877. This results in an increase of $56,123 to the utility's balance as shown in the MFRs. Accordingly, the proper depreciation expense is $50,325, which results in a reduction of $12,128 to the utility's requested amount.

As discussed earlier in this Order, we have also recalculated total CIAC based on the original purchase/developer agreements. Consistent with the methodology used to determine accumulated depreciation, we recalculated accumulated amortization of CIAC using a 2.5 percent rate prior to the test year and a composite guideline rate of 2.7 percent for the test year. The utility, in its MFRs, used a composite rate of 3.10 percent to amortize CIAC. The appropriate balance of accumulated amortization of CIAC is $124,739, based on a simple average. Therefore, we have increased accumulated amortization of CIAC by $15,309. Test year amortization of CIAC expense is $28,341 using the same guideline rates for depreciation expense. Even though our adjustments to CIAC and accumulated amortization are both increases, the test year balance of amortization results in a decrease. This is a combined result of an increase in CIAC with a decrease in the amortization rate. Therefore, we have decreased CIAC amortization expense by $6,258.

The utility also attached to its response to the Audit Report a computer generated schedule which shows the original cost of $24,786 and accumulated depreciation of $17,474 associated with business use for the utility automobiles. Although depreciation expenses for these automobiles were included in the test year expenses in its MFRs, the original cost and the accumulated depreciation were neither recorded by the utility on its books nor reflected in its MFRs. It is the utility's duty to furnish its accounting records in such a manner to allow our ready identification, analysis and verification of all facts relevant thereto. Lacking any original documentation from the utility, we find that it is inappropriate to adjust the balances of utility plant in service and accumulated depreciation.

Negative Acquisition Adjustment

The utility's MFRs contain a negative acquisition adjustment of $70,169 in connection with the utility's acquisition of Lake Saunders' water facilities in 1991. In that transaction, the utility paid $10,000 for all water facilities which had a plant cost of $86,406 and recorded the difference between the book value and the purchase price as a negative acquisition adjustment. When questioned by the staff auditor regarding the justification of recording this adjustment, the utility responded to Staff Data Request No. 13, indicating that we have not approved a negative acquisition adjustment and no extraordinary circumstances exist to necessitate such an adjustment. Based on his review of the utility's general ledger, CIAC ledger and the Purchase Agreement, the staff auditor believed that the difference between the purchase price and the cost of the water facilities should be properly recorded as CIAC. However, the utility only has support for $58,463 out of a total $86,406 of plant assets. Based on the foregoing, we find that the proper amount of CIAC is $48,463.

In its response to the Audit Report, the utility agreed with the increase to CIAC by $48,463 as long as the negative acquisition adjustment would be removed to avoid double accounting. As such, we have made an adjustment of $70,169 to remove the incorrectly recorded negative acquisition adjustment. We have made corresponding adjustments of $7,095 and $2,175, respectively, to remove the accumulated amortization of acquisition adjustment and test year amortization expense. We have previously reflected the adjustment to increase CIAC by $48,463 earlier in this Order.

Advances for Construction

The utility's MFRs show a zero balance for advances for construction. Audit Exception No. 12 of the Audit Report revealed that the utility's books contained numerous recording errors due to misclassifications and unrecorded advances made by developers. Based on our review of the utility's general ledgers, CIAC ledgers, developer/purchase agreements and billing registers for CIAC additions, we have made an adjustment to reflect a balance of $376,255 for advances for construction. The utility indicated, in its response to the Audit Report, that the balance of deferred income taxes should be adjusted in accordance with the proposed adjustment to advances. Our adjustment to deferred income taxes is discussed in detail as follows in this Order.

Deferred Income Taxes

As discussed previously, the utility failed to record any advances for construction due to the numerous recording errors. When we reviewed the utility's balance of debit deferred income taxes, it was apparent that the utility did not calculate this number appropriately. Although we disagree with the utility's method of calculating the deferred income taxes, we find that the amount of accumulated deferred income taxes reported in the MFRs is close to the correct balance based on our adjustments to CIAC. However, the CIAC balance, did not include the income tax effect of our adjustment to advances for construction. As such, we increased debit deferred income taxes by $127,927.

Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires Class B utilities to use the formula method (1/8 of operation and maintenance expenses) for calculating the working capital allowance. The utility has calculated its working capital allowance pursuant to this rule. We have made adjustments to operation and maintenance expenses as discussed later in this Order. Based on the adjusted balance of operation and maintenance expenses, we find that the appropriate working capital allowance for the utility is $26,575.

Test Year Rate Base Summary

Based on our adjustments and the use of a simple average method, we find that the average rate base is $61,913 for water.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

Based on the components of the adjusted capital structure, as shown on Schedule No. 2, the equity ratio for the utility is 44.10 percent. Using the current leverage formula established by Order No. PSC-96-0729-FOF-WS in Docket No. 960006-WS, issued on May 31, 1996, the appropriate return on common equity is 11.61 percent. The appropriate range for the return on common equity is 10.61 percent to 12.61 percent.

Cost of Capital

The overall rate of return is based upon application of our practice and is derived as shown on Schedule No. 2. Based upon adjustments made herein, we find the overall cost of capital to be 9.26 percent, with a range of 8.92 percent to 9.59 percent.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3-A, and our adjustments are itemized on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Operating Revenues

The first adjustment to operating revenue relates to Audit Exception No. 10. According to Audit Exception No. 10, the utility recorded allowance for funds prudently invested (AFPI) as a portion of its miscellaneous revenues. AFPI is considered below the line revenue and should not be recorded in revenue for ratemaking purposes. Therefore, we have decreased test year operating revenues by $32,912.

The second adjustment to operating revenue relates to Audit Exception No. 12. In this exception, the staff auditor revealed that the utility erroneously included $35,000 of advances for construction in the test year miscellaneous revenue. As such, we have reduced the test year operating revenue by $35,000.

The third adjustment to operating revenue relates to Schedule E-2 (Revenue at Present and Proposed Rates). The utility did not include bills for its Lake Saunders Acres subdivision in its

Schedule E-2 and, also, the schedule contained a formula error. As a result, revenue at present rates was understated. The utility sent a revised Schedule E-2 in a data request dated September 19, 1996. However, Schedule B-1 (Schedule of Water Net Operating Income) was not revised to reflect the corrections. Therefore, we have increased test year operating revenue by $10,765.

Based on the billing audit of LUSI's operating revenues, we find that the appropriate calculated meter water revenue is $252,749. We applied the utility's existing tariff rates to the billing determinants per the billing audit. We find that the appropriate billing determinants are 9,350 customer bills and 215,002 million gallons for consumption. Based on the utility's revised Schedule E-2, its metered water revenue was $251,104. Therefore, we made a final adjustment of $1,645 to increase operating revenue. We also find that the appropriate miscellaneous revenues are $5,580 for new customer charge, $75 for Non-Sufficient Funds check charge, and $60 for cut-off charge.

Based on the foregoing, we have made a net adjustment of $55,502 to reduce operating revenues. The individual adjustments are shown on Schedule 3-B.

Operation and Maintenance (O&M) Expenses

The Audit Report revealed that adjustments are necessary to reduce the utility's test year O&M expenses. These adjustments are in the following areas:

Non-utility Insurance Premiums

As revealed in Audit Exception No. 6, the utility recorded $7,651 as allocated insurance expenses for general liability for the twelve months ended December 31, 1995. According to the utility, life insurance policies were purchased for various employees and officers of its parent utility. The utility, in its response to Staff Data Request No. 31, stated that the beneficiary of all the policies is Water Service Corporation (WSC), a non-profit entity which distributes all costs and income to each Utilities, Inc. subsidiary. The utility further stated that the proceeds would flow to the ratepayers and offset any detrimental effect of the unexpected absence of key personnel. WSC also purchased fiduciary liability insurance policies for its directors and pension fund. The utility, in its response to the Audit Report, argued that this expense should be recovered as an ongoing business expense because most corporations carry similar insurance, which is a cost of attaining talented individuals for these positions.

Pursuant to the NARUC Uniform System of Accounts for Class B utilities, premiums for life insurance on officers and employees where the utility is beneficiary are non-utility expenses. Therefore, these expenses are recorded "below the line" as non-utility expenses in Account No. 426 - Miscellaneous Non-utility Expenses. Since WSC, a subsidiary of Utilities, Inc., is the beneficiary of these life insurance policies, the cost of these policies shall be recorded to Account No. 426. The fiduciary liability insurance policies for directors and pension fund were purchased to protect the members of the board of directors and management in the event that mismanagement takes place. Although the utility might have purchased these liability policies for attaining key personnel, it failed to show how costs for these types of insurance are justified in regulated industries and what direct benefits these types of insurance provide to the ratepayers. It is the utility's burden to prove that these expenses are justified and reasonable. As such, we find that costs for management liability insurance are not appropriate expenses to be recovered through customer rates.

<u>Refundable Security Deposit</u>

Audit Exception No. 8 indicates that the utility recorded \$275 for a refundable membership fee for electric service as miscellaneous O & M expenses for the year ended December 31, 1995. We find that a refundable deposit is not an expense, and that it will be returned to the utility at some time in the future. As such, we have reduced test year O & M expenses by \$275.

<u>Non-Test Year Expenses</u>

Audit Exception No. 9 indicates that the utility recorded a total of \$705 in purchased power expense and \$46 in materials and supplies expense for the test year without providing any supporting documentation. The utility argued, in its response to the audit, that recording these expenses was an error that occurred in the accrual process, and did not result from a lack of supporting documentation. According to Rule 25-30.450, Florida Administrative Code, the utility is required to maintain its accounting records in such a manner to allow ready identification, analysis and verification of all facts relevant thereto. Regardless of the utility's argument that it is an accrual error as opposed to an unsupported entry, we believe that the supporting documentation for this amount should have been provided to the staff auditor. As such, we have reduced O&M expenses by $751.

Conclusion on O&M Expenses

Based on the foregoing, we have reduced O&M expenses by $1,767 to disallow non-utility insurance, a refundable security deposit, and unsupported operating expenses.

Purchased Power and Chemicals

The appropriate repression amount as discussed later in this Order is 17,030,454 gallons. When this amount is divided by the test year consumption and multiplied by 100 percent, the result is an adjustment figure of 7.37 percent. Based on the foregoing, we made adjustments of $2,762 and $492 to purchased power and chemicals, respectively.

Rate Case Expense

The utility's requested provision for rate case charges includes three components: a provision to recover current rate case costs through Commission hearing ($94,000); a provision to recover rate case charges from a prior limited proceeding ($15,843); and a provision to recover corporate formation expenses ($1,223). This results in a total requested amount of $111,066 to be amortized over 4 years, or $27,767 in annual rate case expense amortization.

We requested that the utility supply us with the current rate case expense amount, supporting documentation, and an estimate to complete the PAA proceeding. That information was provided along with the utility's revised actual rate case expense and supporting documentation for the limited proceeding. In our review of this documentation, we found several areas where adjustments or corrections of error are necessary. Each of the three provisions are discussed separately below.

Docket No. 960444-WU (Current Rate Case)

The utility initially requested $94,000 in rate case expense for the current rate case but modified its request to $39,725. We find it appropriate to approve $39,645 in rate case expense, as discussed below.

Filing Fee: The utility's revised request for total rate case expense omitted $2,000 of the $3,000 rate case filing fee originally paid to us. The $3,000 fee included $2,000 for the rate case and $1,000 for the service availability portion of the filing. It appears that the utility was confused as to which amount related to the rate case. In addition to the filing fee for the rate case ($3,000), the utility paid $1,000 for the filing fee for the limited proceeding. The appropriate filing fee for the rate case as stated above is $3,000, with an additional $1,000 for the limited proceeding.

Water Service Corporation (WSC)'s Accounting Fees: The utility originally estimated its accounting fees to be $22,000. In its revised request, the utility reported that $24,735 was actually incurred and $2,900 remained to process the case through the PAA process, for a total of $27,635. These charges relate to WSC, which is also a wholly-owned subsidiary of Utilities, Inc., LUSI's parent utility. The accounting fees of $24,735 were incurred by the WSC employees to process this rate case. The utility provided time sheets to support $22,707 incurred by Mr. Mark Kramer, but did not provide time sheets for $2,028 incurred by Mr. Carl Wenz. Upon our request, the utility agreed to provide Mr. Wenz's time sheets. We did not receive this documentation. It is fully the utility's burden to justify its requested costs, with no exceptions made for rate case expense. Florida Power Corp v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Therefore, we have reduced accounting fees by $2,028.

We reviewed supporting documentation for all other rate case expenses actually incurred as of November 8, 1996 and the utility's estimate to complete this case through PAA. The utility originally estimated its legal fees to be $60,000 in its MFRs. In its revised request, the utility reported that $3,459 was actually incurred and $3,950 remained to process the case through the PAA process, for a total of $7,409. In its MFRs, the utility originally estimated its miscellaneous expenses to be $10,000. In its revised request, the utility reported that $2,801 was actually incurred and $880 remained to process the case through the PAA process, for a total of $3,681. We find these expenses and estimates are reasonable. However, we do not believe it is reasonable to estimate expense through Commission hearing, because such a decision is premature at this time. Based on the foregoing, we find that the appropriate amount of rate case expense to process this case through PAA is $39,645.

Docket No. 950232-WU (Prior Limited Proceeding)

By PAA Order No. PSC-96-1228-FOF-WU in Docket No. 950232-WU, issued on October 5, 1995, we approved LUSI's application for limited proceeding and restructuring water rates. In the order, we stated that the utility would have the opportunity in this current docket to request recovery of the rate case expense incurred in the limited proceeding. We further stated that it would be appropriate to approve only those costs incurred up to the issuance of the PAA order, because the recovery of additional expense for a possible hearing would be revisited. Although that order was protested by LUSI and a settlement was ultimately approved by us in Order No. PSC-96-0504-AS-WU, it still addressed our intent to allow recovery of those costs in this current docket. To the extent that the utility has supported those costs in this proceeding, it is appropriate to consider them.

The utility originally requested the recovery of total rate case expense of $15,843 in its MFRs for the limited proceeding. In its revised request, the utility reported that $21,134 was actually incurred. The utility's request included all expenses to complete PAA and subsequent expenses in connection with the protest of the PAA order.

Water Service Corporation (WSC)'s Accounting Fees: In its revised request, the utility included accounting fees of $11,272 incurred by WSC employees to process the limited proceeding. Ms. Patty Cuddie charged $1,428 for her service of thirty-four hours. Our review of Ms. Cuddie's time sheets for 1995 indicated that none of these hours were related to this proceeding. Eighteen of a total of thirty-four hours were allocated to LUSI for an AFUDC proceeding and the rest of the hours were allocated for her time responding to a Commission information request not associated with this proceeding. These costs are normal recurring operating expenses, and we find it inappropriate to recover these expenses through this docket. Therefore, we have reduced accounting rate case fees by $1,428.

We have reviewed supporting documentation for all other rate case expenses actually incurred for this limited proceeding. These expenses included $6,410 of legal fees and $452 of miscellaneous expenses. We also included the appropriate filing fee of $1,000 for the limited proceeding, as discussed above. We believe these expenses are reasonable and appropriate. Based on the foregoing, we find that the appropriate rate case expense for this limited proceeding is $17,706.

Corporate Formation (Undocketed)

In its MFRs and revised request, the utility included $1,223 of unamortized rate case expenses associated with the corporate formation of LUSI. During our field audit, the utility provided a summary sheet which listed the names of the three WSC employees that worked on this corporate change, and the corresponding hours they spent and the hourly rates they charged. However, the summary sheet neither indicated to what rate case these expenses were associated nor stated why these expenses should be recovered through this instant rate case.

In a data request dated October 15, 1996, we asked the utility to provide more detailed information regarding its request for the recovery of these expenses, but the utility never responded to these questions. However, the utility did include time sheets for two of the three employees when it submitted time sheets to support accounting fees for the instant rate case. These time sheets did not provide additional information.

We find that the time sheets, with no further description of work performed, do not justify these expenses as rate case or other regulatory commission expense. Further, it is impossible for us to analyze the reasonableness of the expense without knowing to what the expense is attributed. Based on the foregoing, we have removed $1,223 from rate case expense for the requested corporate formation costs.

Summary

Based on the foregoing, we find that the appropriate amount of rate case expense is $57,351. This results in an annual expense of $14,330. Therefore, we have reduced the amount requested in the MFRs for rate case amortization by $13,429.

Payroll and Property Taxes

Audit Exception No. 7 indicates that the utility capitalized operator salaries of $18,955 without removing payroll taxes associated with these salaries from test year other than income tax expenses. The auditor calculated payroll taxes associated with the capitalized salaries to be $1,532 and proposed reducing test year payroll taxes by this amount. In its response to the audit, the utility argued that salaries were capitalized properly using a capitalized rate for operators. This rate includes salary, payroll taxes and benefits.

The staff auditor calculated total payroll taxes for the utility's employees by using actual salaries and appropriate payroll tax rates. According to the auditor's calculation, the $8,988 included in the MFRs for payroll taxes is based on total salaries including the capitalized portion for operators. Because capitalized costs have already been added to the plant, no further adjustment to plant is necessary. To eliminate double-recovery of this amount, we have reduced payroll taxes by $1,532.

In addition, Audit Exception No. 5 indicates that the utility recorded real estate property taxes which were assessed on non-utility real estate property. The legal description of this property on the tax bill does not match the legal description of any real estate property owned by the utility. The utility did not provide any other evidence to substantiate the recording of this amount on its books. It is the utility's burden to support all entries made on its books; therefore, we reduced real estate property taxes by $1,481.

Taxes Other Than Income

The utility included total personal property and real estate taxes of $14,211 in its MFRs. However, the utility did not allocate any property taxes to non-used and useful plant. The utility requested that the total $14,211 in taxes other than income taxes be considered used and useful. Rule 25-30.433(5), Florida Administrative Code, states that property tax expense on non-used and useful plant shall not be allowed. In its response to a an Audit Data Request, the utility provided a schedule which showed its calculation of non-used and useful personal property and real estate taxes. We reviewed this schedule and agreed with the utility that real estate taxes on the utility land are 100 percent used and useful. However, we find it appropriate to calculate non-used and useful personal property taxes using the recommended balances for non-used and useful plant, organizational cost and land and land rights contained in the staff audit. As discussed previously in this Order, the proper amount of test year personal property and real estate taxes is $12,750. We recalculated the non-used and useful personal property taxes, reaching a total of $3,038. Therefore, we reduced test year taxes other than income by $3,038.

Test Year Operating Income

Based on the adjustments made herein, the test year operating income before any provision for increased revenues is negative $8,103 for water. This represents a negative achieved rate of return of 13.09 percent for water.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is $281,670. This revenue requirement represents an annual increase in revenue of $23,226 (8.99 percent). This revenue requirement will allow the utility to recover its operating expenses and will allow it the opportunity to earn a 9.26 percent return on its investment.

RATES AND RATE STRUCTURE

A comparison of the utility's original rates, interim rates, requested rates, and final approved rates is shown on Schedules Nos. 4-A through 4-D. Our specific findings as to the utility's rates and charges are set forth below.

Uniform Rate Structure

LUSI is currently comprised of twelve facilities located throughout Lake County. In this docket, LUSI has requested a uniform rate structure for all of these facilities.

As a result of how this utility was formed over time, LUSI currently applies three different rate structures to its service areas in Lake County. (See Attachment A) An explanation of the background of this utility's growth will help explain how this situation evolved.

Background of Rates and Charges

Several of the facilities that are now a part of LUSI were originally owned by Utilities Inc. of Florida (UIF). In 1982, Utilities, Inc. of Florida purchased Three Seasons Development Corporation. By Order No. 11459, issued December 27, 1982, in Docket No. 820281-W, we granted UIF Certificate No. 383-W and authorized UIF to begin charging the rates in effect for Three Seasons Development Corporation to the Clermont I area. In 1987, in three separate amendment dockets (Docket Nos. 870057-W, 870998-WU and 870999-WU), UIF's requests to include the Amber Hills Subdivision and Highland Point Subdivisions, the Oranges Subdivision and the Lake Ridge Club Subdivision within its certificated territory were granted. When these requests were granted, UIF was given the authority to charge the same rates as those authorized in UIF's Lake County tariff. (See Orders Nos. 18469, issued November, 24, 1987; and 18508, issued December 8, 1987).

We amended UIF's certificate again in 1988 and in 1989. By Order No. 19482, issued June 10, 1988, in Docket No. 880549-WU, UIF was granted its request to include Clermont II, the Vistas I and the Vistas II. By Order No. 21555, issued July 17, 1989, in Docket No. 890335-WU, we granted UIF's request to provide service to the Crescent West Subdivision. Similar to UIF's previous amendment requests, UIF was granted the authority to charge the customers in the new territory the rates authorized in UIF's Lake County tariff.

In 1987, by Order No. 18605, issued December 24, 1987, in Docket No. 871080-WU, we granted LUSI its original certificate (Certificate No. 496-W) for the Crescent Bay Subdivision, a new development. Consistent with the way original rates are established, the original rates and charges for LUSI were based on projected data at 80 percent of buildout. These rates were approved in Order No. 19962, issued September 8, 1988.

We amended LUSI's certificate in 1990. By Order No. 23839, issued December 7, 1990, in Docket No. 900645-WU, we approved a transfer of facilities from the Four Lakes system to LUSI. In this docket, LUSI was given the authority to continue charging the existing rates approved for Four Lakes.

On February 20, 1991, LUSI and UIF were combined in a corporate reorganization. By Order No. 24139, issued February 20, 1991, in Docket No. 900906-WU, UIF's certificate was canceled and LUSI's certificate was amended to include the territory previously authorized for UIF. After the reorganization, we granted LUSI two more amendments. The first, approved by Order No. 24957, issued August 21, 1991, in Docket No. 900989-WU, incorporated the Lake Crescent Hills Subdivision. In this docket, LUSI was given the authority to charge the rates and charges that applied to the facilities once owned by UIF. The second, approved by Order No. PSC-92-1369-FOF-WU, issued November 24, 1992, in Docket No. 920174-WU, granted additional territory (the South Clermont Region) and allowed the utility to charge the rates in effect for the Crescent Bay Subdivision, which are the same rates that were originally approved for LUSI in Order No. 19962.

LUSI's last acquisition occurred in 1991. By Order No. 25286, issued November 1, 1991, we approved the transfer of Lake Saunders Acres to LUSI. We granted LUSI the authority to charge the rates in effect for the Crescent Bay Subdivision by Order No. PSC-93-1092-FOF-WU, issued July 27, 1993, in Docket No. 910760-WU.

Functional Relationship

In determining LUSI's rate structure we must first determine whether LUSI's land and facilities are functionally related. Section 367.021(11), Florida Statutes, states that the definition of a utility system "may include a combination of functionally related facilities and land." Specifically, Florida courts have held that:

> Florida law ... allows uniform rates for only a utility system that is composed of facilities and land functionally related in the providing of water and wastewater service to the public

Citrus County v. Southern States Utilities, Inc., 656 So. 2d 1307, 1309 (Fla. 1st DCA 1995)

In Citrus County, the court determined that the evidence did not support uniform rates absent a showing that the utility's facilities "were operationally integrated, or functionally related, in any aspect of utility service other than fiscal management." Id. at 1310. Consistent with the decision in Citrus County, we have evaluated the operational relationship between LUSI's facilities in Lake County in making a determination of whether uniform rates are appropriate.

LUSI's representatives maintain that ten of the 12 facilities owned by LUSI will ultimately be interconnected. Nine of the 10 facilities are currently connected in three groups. The utility is planning to interconnect Clermont II with Clermont I, which is in Group I, and eventually interconnect all ten facilities. Due to their location, there are no plans to interconnect Four Lakes and Lake Saunders.

In addition, the facilities owned by LUSI are similar in size. The capacities of the facilities range in size from .0504 MGD to .72 MGD. The average capacity is .393 MGD, and eight of the facilities have a capacity near this size. Further, they all have the same type of treatment - pump and chlorinate.

Although LUSI's operators have primary assignments to particular plants, all of LUSI's operators are shared on a routine basis to replace other operators within the facilities in cases of illness, vacations and emergencies. After hours, a single operator is on call for all facilities, including those in Seminole and Orange Counties. LUSI's meter readers rotate between the various service areas on a monthly basis. As a result, the readers are familiar with the entire system. This allows the utility to temporarily replace meter readers in cases of illness, vacations and emergencies as well as when a meter reader terminates his or her employment. Equipment is routinely shared between the facilities, including grounds maintenance equipment, dump trucks, trailers, pumps used in main breaks, trenchers, back hoes and a trailer-mounted portable generator.

Based on the foregoing, we find that LUSI's facilities and land are functionally related and constitute a single system. Therefore, consistent with the Citrus County decision, we find that a uniform rate can be implemented for this utility. This finding, however, does not necessitate the implementation of a uniform rate structure. The following discusses why we find that a uniform rate is appropriate for LUSI.

Appropriate Rate Structure

The rate restructuring docket that preceded the instant docket resulted from concerns of the utility and this Commission that neighboring ratepayers that are interconnected have different water rates. The transcripts from the customer service hearings in the rate restructuring docket and the instant docket indicate that the customers have likewise been concerned about the disparity in the rates and service availability charges. We find that uniform rates are the best solution for mitigating the disparity.

Because LUSI is comprised of facilities once owned by two different utilities, a review of the tariff shows no consistency in rates since the reorganization. As discussed in the background section, rates have historically been assigned to new acquisitions on an arbitrary basis based on either existing rates of the acquired subdivision or the rates in effect for some other area served by LUSI. This is the first case wherein we are attempting to set cost based rates for this utility. Attachment A sets forth the rates of each facility and indicates which facilities are currently interconnected. As shown in this attachment, different rates are applicable even within service areas that have been interconnected. It is evident that the current rate groupings make no logical sense and necessitate a change.

Several advantages of uniform rates have been recognized by experts in water and wastewater utility regulation. Uniform rates lower administrative and regulatory costs, improve rate and revenue stability and ensure affordability for customers of very small water systems. As shown in Attachment A, most of LUSI's service areas have fewer than 75 customers. Though uniform rates may not provide significant economies of scale by themselves, they encourage regionalization of utilities, which eventually leads to economies of scale. In addition, uniform rates allow the utility to provide economical service to all customers, regardless of the customer's location. Uniform rates also prevent rate shock, reduce rate case expense, and help promote water conservation.

As shown in Attachment A, the majority of the service areas were billed under the same rate structure prior to this case. As a result of the interim rate increase in this docket, uniform rates have been in place for all systems except for Lake Saunders Acres and Four Lakes. Accordingly, with the exception of these facilities, customers are already under a uniform rate structure. Also, as discussed earlier, the long range plans of this utility include an interconnection of ten of the twelve facilities. The fact that Lake Saunders Acres and Four Lakes facilities will not be interconnected to the remaining facilities should not preclude these facilities from receiving the benefit of uniform rates.

In addition, LUSI is operated by WSC. As the employer of all personnel for every Utilities, Inc. subsidiary, WSC provides LUSI access to a large group of human resources. This group includes experts in construction, engineering, accounting, data processing, billing, regulation and customer service, allowing LUSI to secure expertise and experience in a cost effective manner.

Further, Utilities, Inc. has national purchasing power and negotiates prices that result in lower costs to the ratepayers. Examples of national contracts include insurance, vehicles, chemicals, and meters. Insurance policies for Utilities, Inc. provide coverage for all facilities in Florida. The reduced premiums that result from the consolidated policies benefit the customers since these premiums would be greater on a stand alone basis.

Utilities, Inc. is also responsible for raising all capital for its subsidiaries, including LUSI. LUSI adopts the Utilities, Inc. capital structure to determine the overall cost of capital. The primary benefit to the customers of such a structure is the reduced cost of debt. If LUSI were a stand alone utility, it would not be able to secure debt at the lower rates it enjoys as a result of being a part of a larger, combined entity.

The way LUSI is arranged from an operational and financial standpoint supports the notion that customers of all subdivisions benefit from the consolidation of these efforts. A uniform rate properly reflects the way the utility is operated and managed. Therefore, we find that a uniform rate structure is appropriate.

Repression Adjustment

In its original filing, the utility requested an overall consumption reduction (repression) adjustment of 96,900,000 gallons; however, no support was provided for the adjustment. In a data request dated September 20, 1996, we asked the utility to provide, for each service area in which it provides service, the amount of the projected consumption reduction, separated by customer class and meter size, and provided in increments of 1,000 gallons. We also asked the utility to provide the documentation, workpapers, studies and analyses used to derive the requested repression adjustment.

In a response dated October 18, 1996, the utility cited its experience in the utility business and the high average consumption in one of their systems as the impetus for requesting the repression adjustment. Specifically, the utility stated in part:

> We are basing our consumption reduction on our experience in the utility business of over thirty years and a recent study performed by the National Regulatory Research Institute released in September of 1994....No where else in our company is consumption at the level that exists in Clermont I & II, Amber Hill, Highland Point, The Oranges, Lake Ridge Club, The Vistas, Crescent West and Lake Crescent Hills. The average residential customer uses in excess of 29,000 gallons per month....The average residential customer in Crescent Bay, Lake Saunders Acres, Preston Cove and South Clermont Region average monthly consumption of under 10,700 gallons....these areas are quite similar in character....The only significant difference between the two areas is the current level of rates....

We note that the above-referenced response discusses average consumption per month. However, the utility bills bi-monthly, so the above-referenced average consumption figures actually represent two months of consumption. The utility further states:

> In fact, according to a study of the Southwest Florida Management (sic) District, price elasticity was found to exist as high as -0.9. In Charles Howe and E. Earl Whitlatch, "User-Specific Water Demand Elasticities," ... found the price elasticity for residential domestic irrigation demand to be -1.57 in the eastern United States....The proposed rates represent approximately a 171% increase in rates to those subdivisions in group one referred to above. With an elasticity of -0.9 consumption would be expected to decline by over 100%. Obviously this is impossible, so a floor must be ascertained when the rates become

> inelastic. One could argue that the "floor" is the consumption in group two, or 10,700 gallons per month. However, to provide a conserva~ive estimate, we used 12,000 gallons.

Based on our review of the SWFWMD study's results, we note that residential price elasticity values ranged from -.01 to -.57, rather than the -.01 to -0.9 as stated in the utility's response. The utility included in its response a revised MFR Schedule E-2 (Revenue Schedule at Present and Proposed Rates), wherein the repression adjustment was revised to 94,868,436 gallons. However, the utility did not provide the requested workpapers or other documentation to support its proposed adjustment. In response to our follow-up request dated November 1, 1996, the utility provided copies of MFR Schedule E-14 (Billing Analysis Schedule) that had been modified to reflect projected (repression-adjusted) bills and consumption in 1,000 gallon increments.

By comparing the data contained in the above-referenced response to that which was contained in the utility's filing, we where able to construct workpapers that indicated at which consumption levels the utility expects repression to occur. This analysis is consistent with how the utility provided the information. For example, each rate group is comprised of service areas charging the same rates within that group. The utility's net overall consumption adjustment totaled negative 94,868,000 gallons. In making its adjustments, the utility assumed that only one of its rate groups will experience repressed consumption, while the other two rate groups will experience increased consumption. In addition, the utility stated that it assumed repression would occur in the residential class only.

This case represents only the second instance in which a water utility has requested that we grant a repression adjustment. Therefore, in order to present a thorough analysis of the utility's request, a discussion of the merits of repression adjustments in general is warranted, as well as discussions of the utility's request and our adjustment.

<u>General Discussion Regarding Repression and Price Elasticity</u>

The term "price elasticity" refers to the relationship between water use and water price. Price elasticity measures the percentage change in the quantity demanded resulting from a one percent change in price, all other factors held constant. For example, if a water price increase of one percent leads to a 0.2 percent reduction in water use, price elasticity would be negative 0.2. In other words, there is an inverse relationship between price and the quantity demanded. This is the first law of demand. The term "repression" refers to the expected reduction in quantity demanded resulting from an increase in price. Conversely, the term "stimulation" refers to the expected increase in quantity demanded resulting from a decrease in price. Ignoring price elasticity in rate design analysis creates the potential for both revenue instability and revenue shortfalls. Furthermore, if rate structure is substantially modified or if a large rate increase is implemented, revenue shortfalls can be especially problematic. Therefore, we find it appropriate to consider the utility's requested repression adjustment in this proceeding.

<u>The Utility's Requested Repression Adjustment</u>

We have several areas of disagreement with both the utility's methodology and its support for calculating its requested repression adjustment. First, regarding the specifics of LUSI's requested adjustment, the average bi-monthly consumption in rate group one is approximately 29,000 gallons. The utility assumed that in this rate group, 1,236 bills out of 2,921 total residential bills will repress their usage by 115,606,000 gallons as a result of the rate change. Curiously, LUSI's proposed billing analysis indicates that the 1,236 bills and the related consumption of 115,606,000 gallons would be spread to usage increments of 26,000 gallons or less, but that there would be no repression in the range from 27,000 gallons to 39,000 gallons. We question the rationale of making the adjustment in this manner.

We also question the utility's assumption that stimulation will occur in the other two rate groups. The utility's proposed final rates for rate groups two and three are greater than the corresponding rates prior to the approval of interim rates. Therefore, LUSI's assumption that a price increase will lead to an increase in the quantity demanded results in a positive relationship, which violates the first law of demand. In fact, the utility also recognizes the implausibility of the occurrence of stimulation in this case:

> Our consumption adjustment attempted to be conservative and suggest an average consumption of 12,000 gallons throughout the

> region. Obviously this would require usage to increase with increased rates ... which is highly unlikely. (Response to Data Request Dated September 20, 1996, No. 2)

Although repression is a valid concept for consideration in this case, we find that the utility's methodology of calculating its requested repression adjustment is flawed and unsupported. However, the utility's flawed methodology does not preclude us from approving an adjustment.

Approved Repression Adjustment

In an attempt to quantify the relationship between revenue increases and consumption impacts, our staff created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 through 1995. Several utilities were excluded from the analysis, typically due to the lack of consumption data. Data from the remaining 67 utilities forms the basis for the following analysis.

The estimated average increase in annual bills for rate group one ranges from $20 to $82. We then isolated those utilities in the database which underwent the same type of rate structure change as proposed in this case; that is eliminating gallons included in the base charge. There are ten utilities in this category. Next, those of the ten utilities that had a revenue requirement increase per meter equivalent between $20 and $82 were further isolated, narrowing the number of utilities to examine down to five.

The average monthly consumption per meter equivalent for these five utilities was calculated for both the year prior to that utility's rate change and the year subsequent to the rate change. The change in average monthly consumption per meter equivalent during that time period for these five utilities was then calculated; the resulting percentage changes are 0 percent, negative 9 percent, negative 13 percent, negative 15 percent and negative 17 percent for the five utilities whose parameters match those of LUSI. The utility with 0 percent change in average consumption appears to be anomalous, as the other four utilities all exhibited fairly significant consumption reductions caused by the revenue requirement increases. Based on the remaining values, we find that a conservative prediction of LUSI's anticipated consumption reduction in this rate group is negative 10 percent.

As discussed earlier, this case represents only the second instance in which a water utility has requested that we grant a repression adjustment; and, as such, there is no established, previously-approved methodology to calculate an appropriate adjustment. Until there are approved methodologies in place, we believe it is appropriate to err on the side of caution when considering the magnitude of our adjustments. Therefore, consistent with adjustments made to the billing audit, we have increased the test year consumption in rate group one by 669,541 gallons, resulting in total test year consumption for that rate group of 170,030,454. Therefore, we find that the appropriate repression adjustment is 17,030,454.

Because of the rate increase, repression may be expected in the remaining two rate groups as well. However, there are three considerations that persuade us not to consider repression adjustments for these two rate groups. First, the average consumption per bi-monthly bill for rate groups two and three are 10,696 gallons and 9,924 gallons, respectively. The average consumption levels for each of these two rate groups are less than 40 percent of the corresponding average bi-monthly consumption in the first rate group, and indicate a higher percentage of nondiscretionary use compared to the bi-monthly average consumption in rate group one of 29,000 gallons. Second, nondiscretionary usage tends to be relatively inelastic, indicating less of a propensity for customers to repress consumption.

Finally, the total consumption in rate groups two and three represents only 17 percent of total residential consumption, so a repression adjustment in these groups would not be significant with regard to mitigating potential revenue instability or revenue shortfall concerns. In addition, as discussed above, we find it appropriate at this time to err on the side of caution when calculating our adjustment. Consequently, we find that no repression adjustment is appropriate for rate groups two and three.

Unfortunately, there is little information regarding how commercial/general service customers respond to water price. In addition, because these customers make up such a heterogeneous group, it is difficult to quantify what the group's price elasticity is. In the instant case, consumption by general service customers represents a very small percentage (approximately five percent) of historical test period consumption, and the corresponding repression adjustment would not have a significant impact on revenue instability or revenue shortfall concerns. Therefore, consistent with the utility's methodology, we excluded the general service class from our repression adjustment calculation.

Finally, in order to monitor the effect of the approved revenue increase on customers' consumption, the utility shall compile bi-monthly reports containing the number of customer bills, the gallons billed and the revenues billed. This information should be provided by service area, customer class and meter size. These bi-monthly reports shall be filed every four months, for a period of two years, commencing on the first billing cycle in which the revised rates go into effect.

Appropriate Rates

The permanent rates requested by the utility are designed to produce annual revenues of $447,182 for water. The requested revenues represent an increase of $133,236 or 42.44 percent for water service. The final rates approved for the utility are designed to produce annual operating water revenues of $275,955 which is an increase of $23,226 or 9.19 percent. This increase excludes miscellaneous service revenues.

When determining the appropriate rates, we must first determine the allocation of the components included in the approved revenue requirement. These components are allocated based upon the relation to fixed and variable costs. Costs directly related to gallonage are allocated 100 percent to the gallonage charge. This is also true for the fixed costs. A majority of the components must be split or allocated between the base facility and the gallonage charges. LUSI did not provide any documentation or justification in its filing to determine its proposed allocation of revenue requirement.

Therefore, we relied upon our past practices and allocations. We first allocated all variable costs directly to the gallonage charges. When the remaining components were allocated based upon standard allocations, the results did not make sense. We then applied the principles of conservation and revenue stability. The goal was to achieve a gallonage charge as close to one dollar as possible. To achieve this, we allocated the remaining revenue requirement components on a 35/65 split between the base facility and gallonage charges. When this split was applied, the approved charges for a 5/8 x 3/4 inch meter are $8.06 for the base facility charge and $0.99 for the gallonage charge. These charges encourage water conservation, as well as, promotes revenue stability.

The approved rates shall be effective for service rendered on or after the stamped approval date of the tariff pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The utility shall file and have staff's approval of revised tariff sheets. The utility shall also file and have approval of a proposed customer notice, pursuant to Rule 25-22.0407(10), Florida Administrative Code, prior to implementing the new rates. The utility shall provide proof of the date notice was given within 10 days after the date of notice.

Statutory Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of rate case expense previously authorized in the rates. The reduction shall reflect the removal of revenues associated with the amortization of rate case expense grossed-up for regulatory assessment fees, which is $15,014. The removal of rate case expense results in the reduction of rates as indicated on Schedule No. 5.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data 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.

Refund of Interim Rates

By Order No. PSC-96-1187-FOF-WU, issued on September 23, 1996, the utility's proposed rates were suspended and interim water rates were approved subject to refund, pursuant to Sections 367.082, Florida Statutes. The water interim revenue was based upon revenues of $399,013, resulting in an increase of $85,067, or 27.10 percent.

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Examples of these adjustments include an attrition allowance and rate case expense, which are recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates was the historical twelve months ended December 31, 1995. The approved interim rates did not include any provisions for consideration of our adjustments in operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. The approved interim rates included miscellaneous service revenues of $73,607 which should have been removed. As discussed earlier in this Order, $67,912 of the miscellaneous service revenues were misclassified. The utility's interim increase excluding miscellaneous service revenue should have been $85,067, a 35.39 percent increase. Since the miscellaneous service revenues were not removed, we only granted the utility an interim increase of $65,132, a 27.10 percent increase. Based on the foregoing, we only granted interim revenues of $311,186.

To establish the proper refund amount, we calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded, because it was not an actual expense during the interim collection period. Using the principles discussed above, the interim revenue requirement for the interim collection period is $266,406 for water. This revenue level is less than the interim revenue which was granted in Order No. PSC-96-1187-FOF-WU. Also, this revenue level is less than the revenue actually granted. Therefore, the appropriate refund of interim rates is 14.66 percent.

The utility shall refund 14.66 percent of water revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code.

Service Availability Charges

The rates for LUSI have historically been assigned to new acquisitions on an arbitrary basis based on either existing rates of the acquired subdivision or the rates in effect for some other area served by LUSI. As a result, the utility has a disparity in service availability charges. There currently exist two different service availability charges for the subdivisions of this utility. The service availability charges differ within an interconnected group. For example, Crescent Bay is interconnected with Highland Point, Crescent West and Lake Crescent Hills; however, Crescent Bay's service availability charges differ from the other three with in the interconnected group. Since the group is interconnected, they are essentially one system. Therefore, we find it inappropriate for customers to pay different service availability charges for the same service. For this reason and also for the reasons outlined in our discussion of LUSI's appropriate rate structure, we find uniform service availability charges appropriate.

Pursuant to the settlement agreement approved in Order No. PSC-96-0504-AS-WU, the utility agreed to propose uniform service availability charges. In the MFRs, the utility proposed, for all of its territory, a plant capacity charge of $600 per ERC and also a $600 main extension charge per ERC. The utility's charges were calculated based on it efficiently serving 1,250 ERCs, it currently serving 937 ERCs, and its having 313 ERCs to build-out. The utility indicated that the number of ERCs that it can efficiently serve was taken from its most recent annual report (year ending December 1995).

Based upon our calculations using the utility's combined plant capacities less fire flows and maximum-day demand (MDD) provided in the MFRs, we determined that the utility can serve 2,681 ERCs at designed capacity. Due to the large discrepancy in the number of ERCs the utility can efficiently serve, we requested revised calculation of ERCs at design capacity.

On February 20, 1997, the utility provided revised calculations of its service availability charges using our methodology for the calculation of ERCs at design capacity. In these revisions, the utility changed the plant capacities of three of its systems. The utility provided documentation for the changes. However, at least one DEP permit had expired on December 31, 1991. At this point, we contacted DEP for the permitted plant capacities. Our calculations of the ERCs at design capacity are based on the plant capacity data provided in our analysis of used and useful and are shown on Attachment C. Also in its revised calculations for service availability charges, the utility removed a $460,000 grant received from the State of Florida Department of Environmental Protection to extend mains to citizens with ethylene dibromide contaminants in their private wells. The utility stated that acceptance of money was necessary to complete the project, which it did not anticipate undertaking in the foreseeable future. Further, the utility stated that the decision to extend the mains should not hamper the utility's ability to calculate a reasonable service availability charge based on the investment and contributions to serve customers within the utility's service territory. We disagree with the removal of the grant. By removing the grant, the service availability charges calculated would yield a contribution level higher than the 75 percent maximum required by Rule 25-30.580 (1)(a), Florida Administrative Code.

The utility revised its service availability schedule but did not revise its application or request. The utility's revised service availability charge was $540 per ERC. However, we were unable to determine the allocation for the plant capacity charge and the main extension charge. We contacted the utility on or about March 5, 1997 in order to determine the allocation of the charges. The utility indicated its revised plant capacity charge was $270 per ERC and the main extension was $270 per ERC.

Pursuant to Rule 25-30.580(1)(b), Florida Administrative Code, the minimum amount of CIAC should not be less than the percentage of such facilities and plant represented by the water transmission and distribution and sewage collection systems. We find that the utility's minimum contribution level is 62.87 percent. The utility's combined water systems are 57.12 percent contributed (net CIAC to net plant) which is below the minimum contribution level required by statute. In order to bring the utility to its minimum contribution level by statute, we have calculated a charge of $76 per ERC. However, pursuant to Rule 25-30.580 (1)(a), the maximum amount of contributions in aid of construction, net of amortization, should not exceed 75 percent of the total original cost, net of accumulated depreciation, of the utility facilities and plant when the facilities and plant are at their designed capacity. Based upon our calculation in Schedule No. 6-C, in order for the utility to achieve a 75 percent contribution level, its maximum charge should be $223. Therefore, we find that $223 shall be allocated to the main extension charge and there shall be no plant capacity charge, since by Rule 25-30.580(1)(b), Florida Administrative Code, the minimum amount of contributions in aid of construction should not be less than the percentage of such facilities and plant represented by the water transmission and distribution and sewage collection systems.

The utility's proposed uniform meter installation charges are the same as the meter installation currently approved for Amber Hill, Clermont I and II, Crescent West, Highland Point, Lake Ridge Club, The Oranges, The Vistas I and II, and Lake Crescent Hills. In order to remain consistent with uniform rates for this utility, we find that the charges are just and reasonable for all of the utility's territory.

LUSI's approved service availability charges are shown on Schedules Nos. 6-A and 6-B. Therefore, the tariffs filed on June 3, 1996 for service availability charges shall be denied as filed. The utility's current service availability tariff sheets, which are Fifth Revised Sheet No. 25.0, Original Sheet No. 25.1, First Revised Sheet No. 25.1-A, Original Sheet No. 25.2, and Third Revised Sheet No. 26.0 shall be canceled within thirty days of our vote. All other tariff sheets that reference the charges on those sheets shall be amended accordingly. The utility shall file revised tariff sheets within thirty days of the effective date of this Order, which are consistent with our vote. Staff shall have administrative authority to approve the revised tariff sheets upon expiration of the protest period and staff's verification that the tariffs are consistent with our decision herein. If revised tariff sheets are filed and approved, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

Allowance for Funds Prudently Invested (AFPI)

As previously discussed in this Order, we made material adjustments to remove the portion of the utility plant which is not serving current customers. We find that the utility shall be allowed to recover a reasonable rate of return on its investment in the non-used and useful plant through AFPI charges. As stated in Rule 25-30.434(1), Florida Administrative Code, an AFPI charge is designed to allow a utility the opportunity to recover a fair rate of return on the portion of the plant facilities which were prudently constructed, but exceed the amount necessary to serve current customers. The AFPI charge includes a rate of return, depreciation, property taxes and regulatory assessment fees on this additional plant capacity.

We have calculated AFPI charges in accordance with Rule 25-30.434, Florida Administrative Code. The cost of qualifying assets are the amounts of non-used and useful investment less accumulated depreciation. The net investment is divided by the number of ERCs remaining until build-out. The per ERC allowances for rate of return, income taxes, property taxes, and depreciation expense are calculated to arrive at a per ERC carrying cost for the non-used and useful investment. We have calculated separate AFPI charges for the water treatment plant and the water distribution system. In this case, the amount of qualifying assets is the fall-out of our non-used and useful calculation. Based on the adjusted non-used and useful percentages, we have calculated the amount of qualifying assets and expenses associated with these assets. The qualifying assets for the water treatment plant and the water distribution system are $145,276 and $392,698, respectively. Based upon our calculation, the future ERCs for the water treatment plant and distribution system are 1,080 and 977, respectively.

Our calculation provides an AFPI charge for a five year period beginning January, 1996, and ending December, 2000. After December, 2000, the utility shall be entitled to collect AFPI for the designated amount of ERCs, but the charge shall remain fixed at the December, 2000 amount. When 1,080 and 977 ERCs for the water treatment plant and distribution system, respectively, are collected, the AFPI charges shall cease. The utility shall bear the additional cost of carrying the excess plant after that date.
Schedule 7 attached to this Order provides the specific charges and the detail calculations behind each approved charge. A separate schedule is attached for both the water treatment plant and the distribution system.

Rule 25-30.434(4), Florida Administrative Code, states that the beginning date for accruing the AFPI charge shall agree with the month following the end of test year that was used to establish the amount of non-used and useful plant. Since the test year for this docket is the year ended December 31, 1995, the utility's beginning date for accruing the AFPI charge is January 1, 1996. Further, that section states that if any connections are made between the beginning date and the effective date of the charge, no

AFPI will be collected from those connections. However, LUSI currently has an AFPI tariff in effect. Those prior charges shall remain effective until they are canceled or the designed number of ERCs have paid the charges.

The utility shall file revised tariff sheets within thirty days of the effective date of the order issued in this case, which are consistent with our vote herein. Upon timely receipt and staff's verification that the tariffs are consistent with the our decision, staff shall have administrative authority to approve the revised tariff sheets. If no protest is filed and the revised tariffs are approved, the charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25 30.475(2), Florida Administrative Code. Further, all of LUSI's prior tariff charges for AFPI shall be canceled on the same date as the approved AFPI tariffs become effective. If the utility fails to file or incorrectly files the tariffs, we shall readdress this matter in the future.

We have recently become aware that LUSI may have incorrectly collected AFPI charges for some of its customers. However, at this time we do not have sufficient information to determine if this in fact has occurred, and if so, in what amount. We shall investigate this further and readdress this matter in the future if we find that a problem does exist.

OTHER ISSUES

Utility Books and Records

Commission rules are very specific regarding utilities' books and records and provisions relating to the burden of proof for audit purposes. Rule 25-30.115, Florida Administrative Code, states that water and wastewater utilities shall maintain their accounts and records in conformity with the 1994 NARUC Uniform Systems of Accounts. Rule 25-30.450, Florida Administrative Code, requires that the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. This rule further indicates that documents supporting a rate filing must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time.

The Audit Report shows that LUSI's books and records are not in compliance with the above mentioned rules. Audit Exception No. 1 reveals that the utility's books, records and MFRs did not enable Commission personnel to verify the schedules in an expedient manner and with the minimum amount of time. The following violations of the foregoing rules occurred: accumulated depreciation at December 31, 1994, as shown in Schedule A-9 of the MFRs, is not in agreement with the general ledger; many additions to plant in service were not supported by proper documentation, invoices and canceled checks; plant in service was misclassified on several different occasions; the utility did not record its CIAC and advances for construction properly; and there were developer/purchase agreements but no ledgers for advances for construction; and revenues were misstated in the MFRs due to misclassifications.

These violations affected the balances of all major rate base components and the utility's test year operating income. For this reason, the information and schedules in the utility's MFRs also lacked integrity. Because the utility's books and records were maintained in such poor condition, it was extremely time-consuming and difficult to calculate rate base and the revenue requirement. Given the statutory time requirement for a rate case, the staff auditors had to make tremendous efforts to review prior Commission orders, review the original documentation and examine the ledgers to recalculate and recreate the correct balances for the above areas. Specifically, the auditors recalculated plant in service and accumulated depreciation for all thirteen water plants. CIAC, accumulated amortization of CIAC and advances for construction were also recalculated for all thirteen water plants. In addition, a significant amount of time was spent recalculating non-used and useful plant and accumulated depreciation for the six groups of interconnected water plants.

Based on the foregoing, we find that the utility's inability and lack of responsibility to maintain its books and records in a manner required by this Commission has not only demanded an unreasonable amount of Commission resources to process this case, but would have also prevented us from completing this case within the statutory five-month timeframe, had the utility not granted two extensions. The excessive use of limited Commission resources to support a utility's bookkeeping responsibilities is not fair and reasonable to other utilities paying regulatory assessment fees and maintaining their books and records as required by our rules.

Utilities, Inc., the parent utility of LUSI, owns a number of water and wastewater utilities under our jurisdiction, in addition to those in other states. WSC maintains the books and records for all of Utilities, Inc.'s subsidiaries. In the two most recent rate cases filed by Utilities, Inc.'s subsidiaries in Florida, Lake Placid Utilities, Inc. and Utilities, Inc. of Florida, we found that the books and records were not in compliance with the NARUC Uniform System of Accounts. (See Order No. PSC-95-0574-FOF-WS, issued on May 9, 1995 in Docket No. 951027-WS and Order No. PSC-96-0910-FOF-WS, issued on July 15, 1996 in Docket No. 940917-WS, respectively). At this time, we are performing compliance audits on Lake Placid Utilities, Inc., Utilities, Inc. of Florida, and Mid-County Services, Inc. These audits are scheduled to be completed as of July 31, 1997.

Compliance with the NARUC Uniform System of Accounts and the above stated Commission rule continues to be a problem for many of Utilities, Inc.'s subsidiaries. Since we are in the process of performing compliance audits for the above mentioned utilities, we will wait until the results of those audits to determine if show cause proceedings are necessary. If so, subsequent dockets will be opened to address our concerns regarding those utilities.

We believe that the magnitude and pervasiveness of the problems that exist with LUSI's books and records and the reasons discussed above could warrant a show cause at this time. However, since this is the first case where we fully reviewed LUSI's records, we believe that it is reasonable to allow the utility the opportunity to bring its books into compliance before we initiate enforcement proceedings. We believe that it reasonable for LUSI to bring its records into compliance by January 31, 1998. Further, Utilities, Inc. is hereby placed on notice that all of its Florida utilities owned and/or purchased in the future that are under our jurisdiction shall become in compliance and/or continue to maintain their books and records in compliance with our rules and the NARUC Uniform Systems of Accounts. Other than the companies previously cited for non-compliance, the remaining Utilities, Inc. Commission regulated utilities shall be given until January 31, 1998 to bring their books and records into compliance with the NARUC Uniform System of Accounts and Rule 25-30.450, Florida Administrative Code. The additional Florida subsidiaries are Alafaya Utilities, Inc., Miles Grant Water and Sewer Co., Tierre Verde Utilities, Inc., and Utilities Inc. of Longwood.

If, at the end of aforementioned period, any of these Commission regulated subsidiaries fail to be in substantial compliance, we shall immediately initiate proceedings requiring the utility to show cause why a fine should not be imposed. To ensure that all the Utilities, Inc. subsidiaries are placed on notice, each shall be provided a copy of this Order. Further, if the parent utility purchases any additional companies under our jurisdiction, the parent utility shall timely notify us if the purchased utility's books are not in compliance with NARUC. The utility shall then request a reasonable amount of time necessary to bring the books and records into compliance.

If a protest is not received within the 21 day protest period, this Order shall become final. This docket shall be closed at the conclusion of the protest period, if no protest is filed, and upon staff's approval of the revised tariff sheets.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application by Lake Utility Services, Inc. for increased rates and charges for water service is hereby approved, in part, and denied, in part, as set forth in the body of this Order. It is further

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

ORDERED that all matters contained in the schedules and attachments attached hereto are by reference incorporated herein. It is further

ORDERED that in order to monitor the effect on customer consumption of the revenue increase resulting from the repression adjustment approved herein, Lake Utility Services, Inc. shall file bi-monthly reports every four months, as set forth in the body of this Order. It is further

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code, provided the customers have received notice. It is further

ORDERED that prior to its implementation of the rates approved herein, Lake Utility Services, Inc. shall submit and have approved a proposed customer notice to its customers of the rates and reasons therefore. The notice will be approved upon staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates approved herein, Lake Utility Services, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein and that the proposed customer notice is adequate. It is further

ORDERED that Lake Utility Services, Inc. shall provide proof that the customers have received notice within 10 days of the date of the notice. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Lake Utility Services, Inc. shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that Lake Utility Services, Inc. shall refund with interest, calculated pursuant to Rule 25-30.360, Florida Administrative Code, the additional water revenues collected subject to refund as set forth in the body of this Order. It is further

ORDERED that Lake Utility Services, Inc. shall make the refund to customers of record as of the date of this Order pursuant to Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that Lake Utility Services, Inc. shall treat any unclaimed refunds as contributions in aid of construction pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that Lake Utility Services, Inc.'s tariffs filed on June 3, 1996 for service availability charges are hereby denied. Lake Utility Services, Inc.'s current service availability charge tariffs shall be canceled within thirty days of our decision herein, and all other tariffs sheets which reference the charges on

Lake Utility Services, Inc's service availability charge tariffs shall be amended accordingly. It is further

ORDERED that the service availability and allowance for funds prudently invested charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475, Florida Administrative Code. It is further

ORDERED that prior to its implementation of the service availability and allowance for funds prudently invested charges approved herein, Lake Utility Services, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein. It is further

ORDERED that all of Lake Utility Services, Inc.'s prior tariff charges for allowance for funds prudently invested shall be canceled on the same dates that the approved allowance for funds prudently invested tariffs become effective. It is further

ORDERED that Lake Utility Services, Inc. and Utilities, Inc.'s current and future Commission regulated subsidiaries shall maintain their books and records in compliance with the NARUC Uniform System of Accounts and Commission rules, as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission, this 9th day of May, 1997.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on May 30, 1997.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The

LAKE UTILITY SERVICES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-A
DOCKET NO. 960444-WU

COMPONENT		TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS		ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	$	1,946,058	0	$	1,946,058	(103,440)	1,842,618
2 LAND		3,730	0		3,730	357	4,06[illegible]
3 NON-USED & USEFUL COMPONENTS		(49,361)	0		(49,361)	(488,618)	(537,979)
4 ACCUMULATED DEPRECIATION		(131,754)	0		(131,754)	(56,123)	(187,877)
5 CIAC		(881,203)	0		(881,203)	(197,429)	(1,078,632)
6 AMORTIZATION OF CIAC		109,430	0		109,430	15,477	124,907
7 ACQUISITION ADJUSTMENT		(70,169)	0		(70,169)	70,169	0
8 ACCUM. AMORT. OF ACQ. ADJUS.		7,095	0		7,095	(7,095)	0
9 ADVANCES FOR CONSTRUCTION		0	0		0	(376,255)	(376,255)
10 DEBIT ACCU. DEF. INCOME TAXES		116,542	0		116,542	127,927	244,469
11 WORKING CAPITAL ALLOWANCE		27,828	0		27,828	(1,253)	26,575
12 OTHER		0	0		0	0	0
RATE BASE	$	1,078,196	0	$	1,078,196	(1,016,283)	61,913

LAKE UTILITY SERVICES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 1-B
DOCKET NO. 960444-WU

EXPLANATION		WATER
UTILITY PLANT IN SERVICE		
To adjust utility plant in service	$	(103,440)
LAND		
To reflect unrecorded land cost	$	357
NON-USED AND USEFUL PLANT		
To reflect net non-used & useful adjustment	$	(488,618)
ACCUMULATED DEPRECIATION		
To remove acc. depre. related to UPIS adjustments	$	(56,123)
CIAC		
a) To reflect adjustment per Audit Exception No. 12	$	(168,449)
b) To impute CIAC on Vistas's water system	$	(16,500)
c) To impute CIAC to offset margin reserve	$	(12,480)
		(197,429)
ACCUMULATED AMORTIZATION OF CIAC		
a) To reflect adjustment per Audit Exception No. 12	$	11,803
b) To reflect the effect of imputation of CIAC on Vistas's water plant	$	3,506
c) To reflect the effect of imputation of CIAC on margin reserve	$	168
	$	15,477
ACQUISITION ADJUSTMENT AMORTIZATION		
To remove incorrectly recorded acquisition adjustment	$	70,169
ACCUMULATED AMORT. OF ACQUISITION ADJUSTMENT		
To reflect the effect of removal of acquisition adjustment	$	(7,095)
DEFERRED INCOME TAXES		
To reflect income tax on advance for construction	$	127,927
ADVANCE FOR CONSTRUCTION		
To reflect adjustment per Audit Exception No. 12	$	(376,255)
WORKING CAPITAL		
To reflect adjustments on operating expenses	$	(1,253)

LAKE UTILITY SERVICES, INC.
CAPITAL STRUCTURE
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 2
DOCKET NO. 960444-WU

DESCRIPTION	TOTAL CAPITAL	SPECIFIC ADJUSTMENTS (EXPLAIN)	PRO RATA ADJUSTMENTS	CAPITAL RECONCILED TO RATE BASE	RATIO	COST RATE	WEIGHTED COST
PER UTILITY							
1 LONG TERM DEBT	40,625,000	0	(40,121,805) $	503,195	46.67%	9.19%	4.29%
2 SHORT-TERM DEBT	7,381,250	0	(7,289,823)	91,427	8.48%	9.12%	0.77%
3 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
4 COMMON EQUITY	37,868,798	0	(37,399,742)	469,056	43.50%	11.65%	5.07%
5 CUSTOMER DEPOSITS	14,518	0	0	14,518	1.35%	8.00%	0.11%
6 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
7 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
8 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
9 TOTAL CAPITAL	85,889,566	0	(84,811,370) $	1,078,196	100.00%		10.24%
PER COMMISSION							
10 LONG TERM DEBT	40,625,000	0	(40,602,579) $	22,421	36.21%	9.19%	3.33%
11 SHORT-TERM DEBT	7,381,250	0	(7,377,176)	4,074	6.58%	9.12%	0.60%
12 PREFERRED STOCK	0	0	0	0	0.00%	0.00%	0.00%
13 COMMON EQUITY	37,868,798	0	(37,847,898)	20,900	33.76%	11.61%	3.92%
14 CUSTOMER DEPOSITS	14,518	0	0	14,518	23.45%	6.00%	1.41%
15 DEFERRED ITC'S-ZERO COST	0	0	0	0	0.00%	0.00%	0.00%
15 DEFERRED ITC'S-WTD COST	0	0	0	0	0.00%	0.00%	0.00%
16 DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
17 TOTAL CAPITAL	85,889,566	0	(85,827,653) $	61,913	100.00%		9.26%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.61%	12.61%
OVERALL RATE OF RETURN	8.92%	9.50%

LAKE UTILITY SERVICES, INC.
STATEMENT OF WATER OPERATIONS
TEST YEAR ENDED 12/31/95

SCHEDULE NO. 3-A
DOCKET NO. 960444-WU

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	339,294	107,888	447,187	(188,738)	258,444	23,226	281,670
OPERATING EXPENSES:						8.99%	
2 OPERATION AND MAINTENANCE	218,965	27,767	246,732	(10,024)	236,708 $		236,708
3 DEPRECIATION (NET OFF CIAC AMOR.)	29,578	(1,724)	27,854	(21,169)	6,685		6,685
4 ACQ. ADJ. AMORTIZATION	(2,175)	0	(2,175)	2,175	0		0
5 TAXES OTHER THAN INCOME	35,332	8,252	43,584	(13,548)	30,036	1,045	31,082
6 INCOME TAXES	9,066	11,708	20,774	(27,656)	(6,882)	8,347	1,465
7 TOTAL OPERATING EXPENSES	290,766	46,003	336,769	(70,222)	266,547	9,392	275,939
8 OPERATING INCOME	48,528	61,885	110,413	(118,516)	(8,103)	13,834	5,731
9 RATE BASE	1,078,196		1,078,196		61,913		61,913
RATE OF RETURN	4.50%		10.24%		-13.09%		9.26%

LAKE UTILITY SERVICES, INC.
ADJUSTMENTS TO OPERATING STATEMENTS
TEST YEAR ENDED 12/31/96

SCHEDULE NO. 3-B
DOCKET NO. 960444-WU

EXPLANATION		WATER
OPERATING REVENUES		
a) To reverse utility's proposed revenue increase	$	(133,236)
b) To remove AFPI charges (Audit Exception No. 10)	$	(32,912)
c) To remove Advances booked as revenue (Audit Exception No. 12)	$	(35,000)
d) Calculation of correction for the MFRs	$	10,765
e) To reflect billing adjustment	$	1,645
	$	(188,738)
O & M EXPENSES		
a)To reduce expenses of power and chemical for unaccounted for water	$	(3,048)
b)To reflect repression adjustment	$	(3,254)
c)To reflect annual amortization of legal fees, LUSI vs Clermont	$	11,474
d)To reflect adjustment to rate case expense	$	(13,429)
e)To remove non-utility insurance premium per Audit Exception No. 6	$	(741)
f)To remove refundable security deposit per audit Exception No. 8	$	(275)
g)To reduce unsupported expenses per Audit Exception No.9	$	(751)
	$	(10,024)
DEPRECIATION EXPENSE NET OFF CIAC AMORTIZATION		
a) To reflect the effect of adjustment to plant in service	$	(12,128)
b) To adjust depr. exp. for non-u&u	$	(14,552)
c) To reflect adjustment to CIAC per Audit Exception No. 12	$	6,258
d) To amortize imputation of CIAC on margin reserve	$	(334)
e) To reflect the effect of imputation of CIAC on Vistas's water plant	$	(413)
	$	(21,169)
AMORTIZATION OF ACQUISITION ADJUSTMENT		
To remove amort. exp. associated with incorrectly recorded acq. adj.	$	2,175
TAXES OTHER THAN INCOME TAXES		
a) To remove RAFs related to revenue adjustments	$	(7,497)
b) To remove tax bill unrelated to utility property per Audit Exception No. 5	$	(1,481)
c) To remove property taxes for non-used & useful plant	$	(3,038)
d) To remove payroll taxes associated with capitalized salaries	$	(1,532)
	$	(13,548)
INCOME TAXES		
Income taxes associated with adjusted test year income	$	(27,656)
OPERATING REVENUES		
To reflect recommended revenue requirement	$	23,226
TAXES OTHER THAN INCOME TAXES		
To reflect adjustment to RAFs due to revenue change	$	1,046
INCOME TAXES		
Income tax related to revenue requirement	$	8,347

LAKE UTILITY SERVICES, INC — **SCHEDULE NO. 4-A**
COUNTY: LAKE — **DOCKET NO. 960444-WU**
RATE SCHEDULE - MONTHLY WATER RATES ***(BI-MONTHLY BILLING CYCLE)***
TEST YEAR ENDING: DECEMBER 31, 1995

CRESCENT BAY, PRESTON COVE, SOUTH CLERMONT REGION AND ALL FUTURE AREAS SERVED

Residential	Rates Prior to Filing	Rates Approved In Settlement	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$16.52	$6.80	$8.64	$18.00	$8.06
3/4"	--	--	$0.00	--	$12.09
1"	--	$17.00	$21.61	$27.00	$20.14
1 1/2"	--	$34.00	$43.21	$45.00	$40.28
2"	--	$54.40	$69.14	$90.00	$64.46
3"	--	--	$0.00	$144.00	$128.91
4"	--	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$0.84	$1.07	$2.195	$0.99
General Service					
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$16.52	$6.80	$8.64	$18.00	$8.06
3/4"	$24.74	--	$0.00	--	$12.09
1"	$41.24	$17.00	$21.61	$27.00	$20.14
1 1/2"	$82.49	$34.00	$43.21	$45.00	$40.28
2"	$131.97	$54.40	$69.14	$90.00	$64.46
3"	$263.94	--	$0.00	$144.00	$128.91
4"	$412.41	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$0.84	$1.07	$2.195	$0.99
5/8" x 3/4" meter			Typical Residential Bill		
3,000 Gallons	$22.10	$9.32	$11.85	$24.59	$11.03
5,000 Gallons	$25.82	$11.00	$13.98	$28.98	$13.01
10,000 Gallons	$35.12	$15.20	$19.32	$39.95	$17.96

LAKE UTILITY SERVICES, INC **SCHEDULE NO. 4-B**
COUNTY: LAKE **DOCKET NO. 960444-WU**
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

CLERMONT I & II, AMBER HILL, HIGHLAND POINT, THE ORANGES, LAKE RIDGE CLUB, CRESCENT WEST, LAKE CRESCENT HILLS, THE VISTAS I & II

Residential and General Service	Rates Prior to Filing	Rates Approved In Settlement	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:					
Meter Size:					
5/8 x 3/4"	$7.035	$6.80	$8.64	$18.00	$8.06
3/4"	--		$0.00	--	$12.09
1"	--	$17.00	$21.61	$27.00	$20.14
1 1/2"	--	$34.00	$43.21	$45.00	$40.28
2"	--	$54.40	$69.14	$90.00	$64.46
3"	--	--	$0.00	$144.00	$128.91
4"	--	--	$0.00	$288.00	$201.42
6"	--	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$0.69	$0.84	$1.07	$2.195	$0.99

5/8" x 3/4" meter	Typical Residential Bill				
3,000 Gallons	$7.04	$9.32	$11.85	$24.59	$11.03
5,000 Gallons	$7.04	$11.00	$13.98	$28.98	$13.01
10,000 Gallons	$10.49	$15.20	$19.32	$39.95	$17.96

(A) Includes 5,000 gallons per month

LAKE UTILITY SERVICES, INC
COUNTY: LAKE
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

SCHEDULE NO. 4-C
DOCKET NO. 960444-WU

HARBOR OAKS AND FOUR LAKES SUBDIVISIONS

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$5.54 (A)	$7.04	$18.00	$8.06
3/4"	--	$0.00	--	$12.09
1"	--	$0.00	$27.00	$20.14
1 1/2"	--	$0.00	$45.00	$40.28
2"	--	$0.00	$90.00	$64.46
3"	--	$0.00	$144.00	$128.91
4"	--	$0.00	$288.00	$201.42
6"	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$0.81	$1.03	$2.195	$0.99
5/8" x 3/4" meter		Typical Residential Bill		
3,000 Gallons	$5.54	$10.13	$24.59	$11.03
5,000 Gallons	$7.16	$12.19	$28.98	$13.01
10,000 Gallons	$11.21	$17.34	$39.95	$17.96

(A) Includes 3,000 gallons per month

LAKE UTILITY SERVICES, INC
COUNTY: LAKE
RATE SCHEDULE - MONTHLY WATER RATES ***(BI-MONTHLY BILLING CYCLE)***
TEST YEAR ENDING: DECEMBER 31, 1995

SCHEDULE NO. 4-D
DOCKET NO. 960444-WU

LAKE SAUNDERS ACRES

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$16.52	$21.00	$18.00	$8.06
3/4"	--	$0.00	--	$12.09
1"	--	$0.00	$27.00	$20.14
1 1/2"	--	$0.00	$45.00	$40.28
2"	--	$0.00	$90.00	$64.46
3"	--	$0.00	$144.00	$128.91
4"	--	$0.00	$288.00	$201.42
6"	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$2.36	$2.195	$0.99
5/8" x 3/4" meter		**Typical Residential Bill**		
3,000 Gallons	$22.10	$28.09	$24.59	$11.03
5,000 Gallons	$25.82	$32.82	$28.98	$13.01
10,000 Gallons	$35.12	$44.64	$39.95	$17.96

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-4
COMMISSION
APPROVED

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Month:

	1996	1997	1998	1999	2000	2001
WATER TREATMENT PLANT						
January	1.76	23.05	45.92	70.54	97.06	123.10
February	3.53	24.94	47.96	72.74	99.42	123.10
March	5.29	26.84	50.00	74.93	101.79	123.10
April	7.05	28.73	52.03	77.13	104.16	123.10
May	8.81	30.62	54.07	79.32	106.53	123.10
June	10.58	32.52	56.11	81.52	108.89	123.10
July	12.34	34.41	58.15	83.71	111.26	123.10
August	14.10	36.30	60.19	85.91	113.63	123.10
September	15.87	38.20	62.23	88.10	116.00	123.10
October	17.63	40.09	64.27	90.30	118.36	123.10
November	19.39	41.99	66.31	92.49	120.73	123.10
December	21.15	43.88	68.35	94.69	123.10	123.10

	1996	1997	1998	1999	2000	2001
TRANSMISSION & DISTRI.						
January	5.21	68.12	135.78	208.64	287.20	364.39
February	10.42	73.72	141.81	215.14	294.21	364.39
March	15.63	79.33	147.84	221.65	301.23	364.39
April	20.84	84.93	153.88	228.15	308.25	364.39
May	26.05	90.53	159.91	234.65	315.27	364.39
June	31.26	96.13	165.94	241.16	322.28	364.39
July	36.47	101.73	171.97	247.66	329.30	364.39
August	41.68	107.34	178.01	254.17	336.32	364.39
September	46.89	112.94	184.04	260.67	343.34	364.39
October	52.10	118.54	190.07	267.17	350.35	364.39
November	57.31	124.14	196.10	273.68	357.37	364.39
December	62.52	129.75	202.14	280.18	364.39	364.39

Not The AFPI charge will cease accruing charges and will remain constant after December 31, 2000. The utility can continue to collect the constant charge until all ERCs projected in the calculation have been added.

ATTACHMENT C

Lake Utility Services Inc. (LUSI)
Docket No. 960444-WU

Total Plant Capacity (GPD)	4,716,000
Less Fire Flow	480,000
	4,236,000
Max Day Demand	1,968,000
Number ERCs	937
Max. Day Demand/ERC	2,100
Design Capacity (in ERCs)	2,017
Buildout # of ERCs	2,017
less current ERCs	937
Future ERCs	1,080
Future ERCs	1,080
Growth in ERCs per year	101
Years to buildout	11

LAKE UTILITY SERVICES, INC
COUNTY: LAKE
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

SCHEDULE NO. 4-C
DOCKET NO. 960444-WU

HARBOR OAKS AND FOUR LAKES SUBDIVISIONS

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$5.54 (A)	$7.04	$18.00	$8.06
3/4"	--	$0.00	--	$12.09
1"	--	$0.00	$27.00	$20.14
1 1/2"	--	$0.00	$45.00	$40.28
2"	--	$0.00	$90.00	$64.46
3"	--	$0.00	$144.00	$128.91
4"	--	$0.00	$288.00	$201.42
6"	--	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$0.81	$1.03	$2.195	$0.99

5/8" x 3/4" meter	Typical Residential Bill			
3,000 Gallons	$5.54	$10.13	$24.59	$11.03
5,000 Gallons	$7.16	$12.19	$28.98	$13.01
10,000 Gallons	$11.21	$17.34	$39.95	$17.96

(A) Includes 3,000 gallons per month

LAKE UTILITY SERVICES, INC
COUNTY: LAKE
RATE SCHEDULE - MONTHLY WATER RATES *(BI-MONTHLY BILLING CYCLE)*
TEST YEAR ENDING: DECEMBER 31, 1995

SCHEDULE NO. 4-D
DOCKET NO. 960444-WU

LAKE SAUNDERS ACRES

Residential and General Service	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final
Base Facility Charge:				
Meter Size:				
5/8 x 3/4"	$16.52	$21.00	$18.00	$8.06
3/4"	–	$0.00	–	$12.09
1"	–	$0.00	$27.00	$20.14
1 1/2"	–	$0.00	$45.00	$40.28
2"	–	$0.00	$90.00	$64.46
3"	–	$0.00	$144.00	$128.91
4"	–	$0.00	$288.00	$201.42
6"	–	$0.00	$450.00	$402.85
Gallonage Charge per 1,000 Gallons	$1.86	$2.36	$2.195	$0.99

5/8" x 3/4" meter	Typical Residential Bill			
3,000 Gallons	$22.10	$28.09	$24.59	$11.03
5,000 Gallons	$25.82	$32.82	$28.98	$13.01
10,000 Gallons	$35.12	$44.64	$39.95	$17.96

LAKE UTILITY SERVICES, INC. (LUSI)
DOCKET NO.: 960444-WU
TEST YEAR ENDED: DECEMBER 31, 1995
RATE SCHEDULE - SERVICE AVAILABILITY CHARGES

Schedule 6-A

Crescent Bay, Preston Cove, Lake Saunders Acres, South Clermont Region, and all future areas served

SERVICE AVAILABILITY CHARGES	PRESENT CHARGES	UTILITY'S ORIGINAL PROPOSAL	UTILITY'S PROPOSAL FOLLOWING DATA REQUEST	COMMISSION APPROVED
PLANT CAPACITY CHARGE:				
Residential - per ERC (350 gpd)	$569.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$0.00
MAIN EXTENSION CHARGE:				
Residential - per ERC (350 gpd)	$506.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$223.00
METER INSTALLATION CHARGE:				
5/8" x 3/4"	$100.00	$150.00		$150.00
1"	$143.00	$250.00		$250.00
1-1/2"	$290.00	$450.00		$450.00
2"	$400.00	$650.00		$650.00
All Others	Actual Cost	Actual Cost		Actual Cost
GUARANTEED REVENUE CHARGE:				
With prepayment of Serv. Avail Charges				
Residential-per ERC	$14.28	$0.00	$0.00	$0.00
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines constructed by the utility)	$608.09	$608.09	$608.09	See Schedule 7 - 4
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines contributed to utility)	$299.97	$299.97	$299.97	$0.00

LAKE UTILITY SERVICES, INC. (LUSI)
DOCKET NO.: 960444-WU
TEST YEAR ENDED: DECEMBER 31, 1995
RATE SCHEDULE - SERVICE AVAILABILITY CHARGES

Schedule 6-E

Amber Hill, Clermont I & II, Crescent West, Highland Point, Lake Ridge Club, The Oranges, The Vistas I & II Lake Crescent Hills

SERVICE AVAILABILITY CHARGES	PRESENT CHARGES	UTILITY'S ORIGINAL PROPOSAL	UTILITY'S PROPOSAL FOLLOWING DATA REQUEST	COMMISSION APPROVED
PLANT CAPACITY CHARGE:				
Residential - per ERC (350 gpd)	$200.00	$600.00		
Residential - per ERC (2100 gpd)			$270.00	$0.00
MAIN EXTENSION CHARGE:				
Residential - per ERC (350 gpd)	$0.00	$500.00		
Residential - per ERC (2100 gpd)			$270.00	$223.00
METER INSTALLATION CHARGE:				
5/8" x 3/4"	$150.00	$150.00	$150.00	$150.00
1"	$250.00	$250.00	$250.00	$250.00
1-1/2"	$450.00	$450.00	$450.00	$450.00
2"	$650.00	$650.00	$650.00	$650.00
All Others	Actual Cost	Actual Cost	Actual Cost	Actual Cost
GUARANTEED REVENUE CHARGE:				
With prepayment of Serv. Avail Charges Residential-per ERC	$0.00	$0.00	$0.00	$0.00
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines constructed by the utility)	$0.00	$0.00	$0.00	See Schedule 7 - 4
ALLOWANCE FOR FUNDS PRUDENTLY INVESTED: (If lines contributed to utility)	$0.00	$0.00	$0.00	$0.00

LAKE UTILITY SERVICES, INC (LUSI)
DOCKET NO.: 960444-WU
TEST YEAR ENDED: DECEMBER 31, 1996 SCHEDULE 6-C

WATER SERVICE AVAILABILITY ANALYSIS

GROSS BOOK VALUE	$1,846,705
LAND	$4,087
DEPRECIABLE ASSETS	$1,842,618
ACCUMULATED DEPRECIATION TO DATE	$187,877
ACCUMULATED DEPRECIATION AT DESIGN CAPACITY	$735,135
NET PLANT AT DESIGN CAPACITY	$1,111,570
TRANSMISSION & DISTRIBUTION/COLLECTION LINES	$1,160,992
MINIMUM LEVEL OF C.I.A.C.	62.87%
C.I.A.C. TO DATE	$1,072,421
ACCUMULATED AMORTIZATION OF C.I.A.C. TO DATE	$124,824
NET C.I.A.C. TO DATE	$947,597
LEVEL OF C.I.A.C. TO DATE	57.12%
ACCUMULATED AMORTIZATION OF C.I.A.C. AT DESIGN CAPACITY	$443,333
FUTURE CUSTOMERS (ERC) TO BE CONNECTED	1,080
COMPOSITE DEPRECIATION RATE	2.70%
COMPOSITE C.I.A.C. AMORTIZATION RATE	2.70%
NUMBER OF YEARS TO DESIGN CAPACITY	11
EXISTING CHARGE PER ERC	$1,075
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	145.41%
NET C.I.A.C. AT DESIGN CAPACITY	1,616,373
REQUESTED CHARGE PER ERC	$540
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	101.21%
NET C.I.A.C. AT DESIGN CAPACITY	1,125,027
MINIMUM CHARGE PER ERC	$76
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	62.87%
NET C.I.A.C. AT DESIGN CAPACITY	698,825
MAXIMUM CHARGE PER ERC	$223
LEVEL OF C.I.A.C. AT DESIGN CAPACITY	75.00%
NET C.I.A.C. AT DESIGN CAPACITY	833,678

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-1
COMMISSION APPROVED

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC

Information Needed	Treatment Plant	Transmi. & Distri.
1. Cost of Qualifying Assets	$ 145,276	$ 392,698
2. Number of Future Customers	1,080 ERC	977 ERC
3. Annual Depreciation Expense	$ 4,566	$ 11,710
4. Rate of Return	9.35%	9.35%
5. Weighted Cost of Equity	4.03%	4.03%
6. Equity Percent	0.3469	0.3469
7. Federal Income Tax Rate	34.00%	34.00%
8. State Income Tax Rate	5.50%	5.50%
9. Annual Property Tax	$ 820	$ 2,218
10. Other Costs	$ 0	$ 0
11. Depreciation Rate of Assets	2.70%	2.70%
12. Test Year	1995	1995

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-2A
COMMISSION
APPROVED

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC:

WATER TREATMENT PLANT

Cost of Qualifying Assets:	$	145,276	Annual Depreciation Expense:	$	4,566
Divided By Future ERC:		1,080	Future ERC's:		1,080
Cost/ERC:	$	134.51	Annual Depr. Cost per ERC:	$	4.23
Multiply By Rate of Return:		9.35%			
Annual Return Per ERC:	$	12.58	Annual Propery Tax Expense:	$	820
			Future ERC's:		1,080
Annual Reduction in Return: (Annual Depreciation Expense per ERC Times Rate of Return)	$	0.40	Annual Prop. Tax per ERC:	$	0.76

Federal Tax Rate:	34.00%	Weighted Cost of Equity:	4.03%
Effective State Tax Rate:	3.63%	Divided by Rate of Return:	9.35%
Total Tax Rate:	37.63%	% of Equity in Return:	43.10%
Effective Tax on Return: (Equity % Times Tax Rate)	13.05%	Other Costs:	$ 0
		Future ERC's:	1,080
Provision For Tax: (Tax on Return/(1-Total Tax Rate))	20.93%	Cost per ERC:	$ 0.00

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-2B
COMMISSION
APPROVED

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Costs for Each ERC:

WATER TRANSMISSION & DISTRIBUTION SYSTEM

Cost of Qualifying Assets:	$	392,698	Annual Depreciation Expense:	$	11,710
Divided By Future ERC:		977	Future ERC's:		977
Cost/ERC:	$	401.94	Annual Depr. Cost per ERC:	$	11.99
Multiply By Rate of Return:		9.35%			
Annual Return Per ERC:	$	37.58	Annual Propery Tax Expense:	$	2,218
			Future ERC's:		977
Annual Reduction in Return: (Annual Depreciation Expense per ERC Times Rate of Return)	$	1.12	Annual Prop. Tax per ERC:	$	2.27
Federal Tax Rate:		34.00%	Weighted Cost of Equity:		4.03%
Effective State Tax Rate:		3.63%	Divided by Rate of Return:		9.35%
Total Tax Rate:		37.63%	% of Equity in Return:		43.10%
Effective Tax on Return: (Equity % Times Tax Rate)		13.05%	Other Costs:	$	0
			Future ERC's:		977
Provision For Tax: (Tax on Return/(1-Total Tax Rate))		20.93%	Cost per ERC:	$	0.00

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-3A
COMMISSION APPROVE

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Year: WATER TREATMENT PLANT

		1996		1997		1998		1999		2000
Unfunded Other Costs:	$	0.00	$	0.00	$	0.00	$	0.00	$	0.00
Unfunded Annual Depreciation:		4.23		4.23		4.23		4.23		4.23
Unfunded Property Tax:		0.76		0.76		0.76		0.76		0.76
Subtotal Unfunded Annual Expense:	$	4.99	$	4.99	$	4.99	$	4.99	$	4.99
Unfunded Expenses Prior Year:		0.00		4.99		9.97		14.96		19.95
Total Unfunded Expenses:	$	4.99	$	9.97	$	14.96	$	19.95	$	24.94
Return on Expenses Current Year:		0.47		0.47		0.47		0.47		0.47
Return on Expenses Prior Year:		0.00		0.47		0.93		1.40		1.87
Return on Plant Current Year:		12.58		12.18		11.79		11.39		10.99
Earnings Proir Year:		0.00		12.58		26.41		41.60		58.28
Compound Earnings from Prior Year:		0.00		1.18		2.47		3.89		5.45
Total Compounded Earnings:	$	12.58	$	26.41		41.60		58.28		76.59
Earnings Expansion Factor for Tax:		1.21		1.21		1.21		1.21		1.21
Revenue Required to Fund Earnings:	$	15.21	$	31.93	$	50.31	$	70.48	$	92.62
Revenue Required to Fund Expenses:		4.99		9.97		14.96		15.95		24.94
Subtotal:	$	20.20	$	41.90	$	65.27	$	90.43	$	117.56
Divided by Factor for Regulatory Assessment Fee		0.955		0.955		0.955		0.955		0.955
ERC Carrying Cost for 1 Year:	$	21.15	$	43.88	$	68.35	$	94.69	$	123.10

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-3B
COMMISSION APPROVE

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Year:

WATER TRANSMISSION & DISTRIBUTION SYSTEM

	1996	1997	1998	1999	2000
Unfunded Other Costs:	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Unfunded Annual Depreciation:	11.99	11.99	11.99	11.99	11.99
Unfunded Property Tax:	2.27	2.27	2.27	2.27	2.27
Subtotal Unfunded Annual Expense:	$ 14.26	$ 14.26	$ 14.26	$ 14.26	$ 14.26
Unfunded Expenses Prior Year:	0.00	14.26	28.51	42.77	57.02
Total Unfunded Expenses:	$ 14.26	$ 28.51	$ 42.77	$ 57.02	$ 71.28
Return on Expenses Current Year:	1.33	1.33	1.33	1.33	1.33
Return on Expenses Prior Year:	0.00	1.33	2.67	4.00	5.33
Return on Plant Current Year:	37.58	36.46	35.34	34.22	33.10
Earnings Proir Year:	0.00	37.58	78.88	124.27	174.11
Compound Earnings from Prior Year:	0.00	3.51	7.38	11.62	16.28
Total Compounded Earnings:	$ 37.58	$ 78.89	124.27	174.11	228.82
Earnings Expansion Factor for Tax:	1.21	1.21	1.21	1.21	1.21
Revenue Required to Fund Earnings:	$ 45.45	$ 95.40	$ 150.27	$ 210.55	$ 276.71
Revenue Required to Fund Expenses:	14.26	28.51	42.77	57.02	71.28
Subtotal:	$ 59.71	$ 123.91	$ 193.04	$ 267.57	$ 347.99
Divided by Factor for Regulatory Assessment Fee	0.955	0.955	0.955	0.955	0.955
ERC Carrying Cost for 1 Year:	$ 62.52	$ 129.75	$ 202.14	$ 280.18	$ 364.39

LAKE UTILITY SERVICES, INC.
DOCKET NO. 960444-WU

SCHEDULE 7-4
COMMISSION
APPROVED

Allowance for Funds Prudently Invested - Water
Calculation of Carrying Cost Per ERC Per Month:

	1996	1997	1998	1999	2000	2001
WATER TREATMENT PLANT						
January	1.76	23.05	45.92	70.54	97.06	123.10
February	3.53	24.94	47.96	72.74	99.42	123.10
March	5.29	26.84	50.00	74.93	101.79	123.10
April	7.05	28.73	52.03	77.13	104.16	123.10
May	8.81	30.62	54.07	79.32	106.53	123.10
June	10.58	32.52	56.11	81.52	108.89	123.10
July	12.34	34.41	58.15	83.71	111.26	123.10
August	14.10	36.30	60.19	85.91	113.63	123.10
September	15.87	38.20	62.23	88.10	116.00	123.10
October	17.63	40.09	64.27	90.30	118.36	123.10
November	19.39	41.99	66.31	92.49	120.73	123.10
December	21.15	43.88	68.35	94.69	123.10	123.10

	1996	1997	1998	1999	2000	2001
TRANSMISSION & DISTRI.						
January	5.21	68.12	135.78	208.64	287.20	364.39
February	10.42	73.72	141.81	215.14	294.21	364.39
March	15.63	79.33	147.84	221.65	301.23	364.39
April	20.84	84.93	153.88	228.15	308.25	364.39
May	26.05	90.53	159.91	234.65	315.27	364.39
June	31.26	96.13	165.94	241.16	322.28	364.39
July	36.47	101.73	171.97	247.66	329.30	364.39
August	41.68	107.34	178.01	254.17	336.32	364.39
September	46.89	112.94	184.04	260.67	343.34	364.39
October	52.10	118.54	190.07	267.17	350.35	364.39
November	57.31	124.14	196.10	273.68	357.37	364.39
December	62.52	129.75	202.14	280.18	364.39	364.39

Not The AFPI charge will cease accruing charges and will remain constant after December 31, 2000.
The utility can continue to collect the constant charge until all ERCs projected in the calculation have been added.

ATTACHMENT C

Lake Utility Services Inc. (LUSI)
Docket No. 960444-WU

Total Plant Capacity (GPD)	4,716,000
Less Fire Flow	480,000
	4,236,000
Max Day Demand	1,968,000
Number ERCs	937
Max. Day Demand/ERC	2,100
Design Capacity (in ERCs)	2,017
Buildout # of ERCs	2,017
less current ERCs	937
Future ERCs	1,080
Future ERCs	1,080
Growth in ERCs per year	101
Years to buildout	11