

State of Florida



# Public Service Commission

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

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

**DATE:** April 10, 2008

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Deason, Bulecza-Banks, Edwards, Fletcher, Bruce)  
Office of the General Counsel (Hartman)

**RE:** Docket No. 070601-WU – Application for staff-assisted rate case in Pasco County by Orangeland Water Supply.

**AGENDA:** 04/22/08 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Skop

**CRITICAL DATES:** 02/14/09 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\070601.RCM.DOC

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### Case Background

Orangeland Water Supply (Orangeland or utility) is a Class C water utility located in Pasco County serving approximately 76 water customers. Orangeland is located in the Southwest Florida Water Management District (SWFWMD). The utility's 2006 annual report reflects operating water revenues of \$6,214 and an operating loss of (\$3,930).

Orangeland has been under Commission jurisdiction since July 11, 1972, when Pasco County transferred jurisdiction to the Commission. On April 28, 1977, the utility was granted certificate No. 179-W to operate a water utility in Pasco County in Docket No. 760763-W by Order No. 7790, In re: Application of ORANGELAND WATER SUPPLY for a certificate to operate a water utility in Pasco County, Florida, pursuant to Section 367.171, Florida Statutes.

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There has been no further activity since the utility was issued its certificate. On September 17, 2007, Orangeland applied for a staff-assisted rate case (SARC). The utility has not previously filed for a rate increase with the Commission.

Staff has audited Orangeland's records for compliance with Commission rules and orders, and examined all components necessary for rate setting. The staff engineer also conducted a field investigation, which included a visual inspection of the facilities along with the service area. Orangeland's operating expenses, maps, files, and rate application were also reviewed by staff to determine the reasonableness of maintenance expenses, regulatory compliance, plant in service, and quality of service. Staff has selected a historical test year ended June 30, 2007.

The Commission has jurisdiction pursuant to Section 367.0814, Florida Statutes (F.S.).

### Discussion of Issues

**Issue 1:** Should the quality of service provided by Orangeland be considered satisfactory?

**Recommendation:** Yes, Orangeland's overall quality of service should be considered satisfactory. (Edwards)

**Staff Analysis:** Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health department's officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components.

#### Quality of Utility's Product

Staff reviewed the utility and DEP's records. According to DEP's records, the utility's finished water product complies with regulatory standards. Therefore, it appears the quality of the finished water product is satisfactory.

#### Operating Condition of the Water Treatment Facilities

According to DEP's last inspection on April 20, 2005, the condition of the water treatment plant (WTP) meets regulatory standards. Based on the above, it appears that the conditions of the water facilities are satisfactory.

#### Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and found that there were no complaints recorded during the test year. Further, staff reviewed the DEP's records and found no customer complaints on file. However, on March 13, 2008, the Commission received a letter from an Orangeland customer that expressed concerns that the 800 percent rate increase was too high.

On March 20, 2008, staff conducted a customer meeting in New Port Richey, Florida. Earlier that day, during the review of the utility's service territory, staff talked to several residents and discussed their views regarding the rate case. The customers stated they did not have an issue with a possible 800 percent water cost increase because for almost 40 years they

have paid five dollars per month for water service. In addition, several customers who talked to the engineer stated they are satisfied with the water product and service provided by Orangeland. Further, the residents stated they were not planning to attend the afternoon meeting because they were not in opposition to the rate increase. There was only one customer that attended the evening meeting and she spoke. The customer is a new resident and her concern was that 800 percent is a very high increase. Staff explained the rate making process to the customer and the customer appeared to understand staff's explanation. However, on April 7, 2008, the Commission received a signed petition from several customers opposing the amount of the increase.

Based on the above, staff believes the utility is making a concerted effort to provide good water and service. Therefore, it appears the utility is satisfying its customers.

### Summary

Based on staff's review of the water treatment plant and the distribution system, it appears the water product complies with regulatory standards, condition of the plant is sufficient and the majority of the customers are satisfied with the utility. Therefore, staff recommends the overall quality of service provided by Orangeland be considered satisfactory.

**Issue 2:** What are the used and useful percentages for the utility's water treatment plant and distribution system?

**Recommendation:** Orangeland's used and useful percentages (U&U) should be as follows:

Water Treatment Plant	100%
Water Distribution System	100%

(Edwards)

**Staff Analysis:** Staff has performed an analysis of the utility's facilities and our analysis and recommendations are discussed below.

#### Water Treatment Plant – U&U

Orangeland has two wells with a total capacity of 210 gallons per minute (gpm). Consistent with past Commission practice and in accordance with the American Waterworks Association Manual of Water Supply Practices, if a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's reliability (firm reliable capacity). By taking one of the wells (110 gpm) out of service, the utility reflected a firm reliable capacity of 100 gpm, which is the capacity of the smaller well. The calculation of firm reliable capacity is consistent with Commission practice.<sup>1</sup> Peak demand was determined by taking the single maximum day in the test year (36,000 gallons), less excessive unaccounted for water, divided by 1,440 minutes in a day, multiplied by 2 to equal a demand of 50 gpm ((36,000 / 1440) \* 2). This amount was divided by the firm reliable capacity (100 gpm), which results in a 50% U&U (see Attachment A, Page 1 of 2). Although the calculation results in a 50% U&U, Orangeland's service territory appears to be built-out. In accordance with Commission practice, if the service territory the system is designed to serve is built-out and there is no potential for expansion of the service territory, the plant is considered 100% U&U. Therefore, staff recommends the water treatment plant be considered 100% U&U.<sup>2</sup>

#### Water Distribution System

Staff reviewed the utility's service territory and believes all of the current mains are providing service for the existing customers only. As such, staff considers this system built-out. In accordance with Commission practice, the service territory the system is designed to serve is built-out when there is no potential for expansion of the service territory. Therefore, staff recommends the water distribution system be considered 100% U&U<sup>3</sup> (see Attachment A, Page 2 of 2).

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<sup>1</sup> See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase filed by Utilities, Inc., of Florida.

<sup>2</sup> Id.

<sup>3</sup> Id.

**Issue 3:** What is the appropriate average test year rate base for the utility?

**Recommendation:** The appropriate average test year water rate base for the utility is \$8,438. (Deason)

**Staff Analysis:** Staff selected a test year ending June 30, 2007 for this rate case. Rate base components have been updated through June 30, 2007 using information obtained from staff's SARC audit and engineering reports. A summary of each component and the adjustments follows.

**Utility Plant in Service (UPIS):** The utility recorded \$38,499 plant in service (PIS) for the test year. Pursuant to Audit Finding No. 2, the utility was unable to provide any original cost records to substantiate its June 30, 2007, plant balances. As stated in the case background, the utility has never had a rate case nor had rate base been established by this Commission since Pasco County relinquished jurisdiction. Due to a lack of utility records, the staff engineer performed an original cost study to determine the appropriate amount of PIS. The engineer's cost estimate was performed by the use of available maps, partial invoice records, and visible facilities noted during the engineering field investigation. Based on the original cost study, staff has made an adjustment to increase plant in service by \$5,615.

Additionally, staff increased PIS account Nos. 311, 320, and 334 by \$1,971, \$183 and \$317, respectively, to reclassify plant items that were recorded in operation expense accounts pursuant to Audit Finding Nos. 2 and 4. Therefore, the appropriate amount of test year PIS is \$46,541.

**Land & Land Rights:** The utility's records reflect balances of \$1,000 in Acct No. 303 – Land and Land Rights. Staff did not make any adjustments to Acct. No. 303, therefore, the appropriate amount of test year plant in service is \$1,000.

**Non-used and Useful Plant:** As discussed in Issue No. 2 of this recommendation, the utility's water treatment plant should be considered 100% used and useful. Therefore, a used and useful adjustment is unnecessary.

**Contribution in Aid of Construction (CIAC):** The utility recorded CIAC of \$9,287 for the test year. The utility owner recorded \$1,735 in 1988 and \$202 in 1991 on the Annual Reports as CIAC. These amounts should have been recorded as owner equity. Staff decreased CIAC by \$1,937 to reflect this adjustment. This adjustment results in CIAC of \$7,350.

**Accumulated Depreciation:** The utility recorded a balance for accumulated depreciation of \$31,701 for the test year. Staff calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff increased accumulated depreciation by \$8,222 to reflect its calculated balance. Staff also decreased the accumulated depreciation by \$310 to reflect an averaging adjustment. These adjustments result in an average accumulated depreciation of \$39,613.

**Accumulated Amortization of CIAC:** The utility did not record accumulated amortization of CIAC balances. Staff calculated amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C. Based on this calculation, staff increased accumulated amortization of CIAC by \$5,071. Additionally, staff decreased accumulated amortization of CIAC by \$24 to reflect an averaging adjustment. These adjustments result in accumulated amortization of CIAC of \$5,047.

**Working Capital Allowance:** Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$2,769 (based on O&M of \$22,151).

**Rate Base Summary:** Based on the foregoing, staff recommends that the appropriate test year average rate base is \$8,438. Rate base is shown on Schedule No. 1-A, and staff's adjustments are shown on Schedule 1-B.

**Issue 4:** What is the appropriate rate of return on equity and overall rate of return for this utility?

**Recommendation:** The appropriate return on equity is 9.07% with a range of 8.07% to 10.07%. The appropriate overall rate of return is 9.07%. (Deason)

**Staff Analysis:** According to its 2006 annual report, the utility's capital structure consists of \$2,212 for proprietary capital. Using the most recent Commission-approved leverage formula,<sup>4</sup> the appropriate rate of return on equity is 9.07%. The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 9.07%, with a range of 8.07% to 10.07%, and an overall rate of return of 9.07%. The return on equity and overall rate of return are shown on Schedule No. 2.

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<sup>4</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.



**Issue 5:** What are the appropriate amount of test year revenues in this case?

**Recommendation:** The appropriate amount of test year revenues in this case are \$5,668.  
(Deason)

**Staff Analysis:** Orangeland reported test year revenues of \$5,668. Pursuant to Audit Finding No. 1, revenues are recorded on a cash basis as received. The utility also has customers who prepay for water use.

Orangeland charges \$5.00 for the first 5,000 gallons of use and \$0.25 for each additional gallons per month. The utility charges 10% of the outstanding balance on past due bills. These rates are authorized in the utility's tariff. A revenue test was performed by staff to confirm the revenues reported by the utility. Based on the foregoing, staff recommends that the appropriate amount of test year revenues is \$5,668.

**Issue 6:** What are the appropriate operating expense?

**Recommendation:** The appropriate amount of operating expense for the utility is \$22,151. (Deason)

**Staff Analysis:** Orangeland recorded operating expenses of \$8,031 during the test year ending June 30, 2007. The test year O&M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses, as summarized below:

Salaries and Wages – Employees – (601) – The utility recorded \$0 for Acct. No. 601 during the test year. Pursuant to Audit Finding No. 4, the utility did not charge for work performed by the owner and non-utility employees for clerical, meter reading and operations. Orangeland stated that the following work was performed but not charged to the utility:

Clerical – 12 hours monthly consisting of preparing the billing register, sending monthly bills, receiving payments, and making deposits.

Read meters – 12 hours monthly.

Other – 30 hours monthly consisting of checking on water plant daily, ordering new meters when needed, and turning on a generator if there is a power outage.

However, as stated in the case background, Orangeland only has 76 customers. Therefore, staff believes that the meter reading for Orangeland can be performed in 4 hours on a monthly basis, not 12 as suggested by the utility.

Given the above, staff believes salaries should be imputed for Orangeland. Staff arrived at its imputed salaries by using the appropriate salary levels found in the 2003 Water Utility Compensation Survey published by the American Water Works Association. The salaries were then indexed to 2007, and multiplied by the number of hours performed on a yearly basis. The chart below shows staffs calculation of salaries:

Work Performed	2003 Survey of salaries	Hourly Cost	Indexed Hourly Cost	Hours per year	Cost per year
Clerical and Meter Reading	\$50,972.00	\$24.51	\$27.30	192	\$5,242
Other	\$56,649.00	\$27.24	\$30.34	360	\$10,921
				Total	\$16,163

Based on the above, staff recommends Acct. No. 601 should be increased by \$16,163 to recognize the work performed by the owner and non-utility employees.

Purchased Power – (615) – Orangeland recorded a balance of \$0 in Acct. No. 615 – Purchased Power for the 12 months ended June 30, 2007. Pursuant to Audit Finding No. 4, staff determined that the owner paid \$1,447 for power expense. To recognize the power purchased by the owner, staff recommends purchased power expense for the test year of \$1,447.

Chemicals – (618) – The utility recorded balances of \$0 in Acct. No. 618 – Chemicals, for the 12 months ended June 30, 2007. Pursuant to Audit Finding No. 4, staff determined that the owner paid \$122 for chemicals. To recognize the chemicals purchased by the owner, staff recommends chemicals expense of \$122 for the test year.

Materials and Supplies – (620) – Orangeland recorded \$162 for Acct. No. 620 – Materials and Supplies for the 12 months ended June 30, 2007. Pursuant to Audit Finding No. 4, staff has determined that the materials and supplies were not purchased during the test year. Staff decreased materials and supplies expense by \$162 to remove the out of period expenses. Staff recommends Materials and Supplies expense of \$0 for the test year.

Contractual Services - Billing – (630) – The utility recorded \$2,471 for Acct. No. 630 – Contractual Services - Billing for the 12 months ended June 30, 2007. Pursuant to Audit Finding Nos. 2 and 4, staff has determined that the \$2,471 billing expense should have been classified to UPIS. Staff has decreased contractual services - billing expense by \$2,471 to remove the expenses reclassified to UPIS. Staff recommends contractual services - billing expense of \$0 for the test year.

Contractual Services - Testing – (635) – Orangeland recorded \$2,910 for Acct. No. 635 – Contractual Services - Testing for the 12 months ended June 30, 2007. Pursuant to Audit Finding No. 4, staff determined that \$480 for contractual services were not incurred during the test year. Staff has decreased contractual services - testing expense by \$480 to remove the out of period expenses. Staff recommends contractual services - testing expense of \$2,430 for the test year.

Contractual Services - Other – (636) – The utility recorded \$1,500 for Acct. No. 636 – Contractual Services - Other for the 12 months ended June 30, 2007. Pursuant to Audit Finding No. 4, staff determined that \$300 for contractual services were not incurred during the test year. Staff decreased contractual services - other expense by \$300 to remove the out of period expenses. Staff recommends contractual services - other expense of \$1,200 for the test year.

Miscellaneous Expense – (675) – Orangeland recorded \$988 for Acct. No. 675 for the test year ending June 30, 2007. Pursuant to Audit Finding No. 4, staff has decreased miscellaneous expense by \$34 and \$564 to remove customer refunds and to reflect the reclassification to Taxes Other Than Income (TOTI), respectfully. In addition, miscellaneous expenses have been increased \$399 to reflect bank charges. Staff recommends miscellaneous expenses of \$789 for the test year.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be increased \$16,390 as shown on Schedule No. 3-B. Staff's recommended O&M expenses of \$24,985 are shown on Schedule No. 3-A.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$0 for depreciation expense. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff recommends net depreciation expense of \$1,067.

Taxes Other Than Income – Orangeland’s records reflect a balance of \$564 for Acct. No. 408 – TOTI. Pursuant to Audit Finding No. 5, staff’s audit of company provided documents indicate the utility paid property taxes of \$284. The utility did not take advantage of the discounted property tax of \$275. Staff reduced property taxes by \$8 to reflect the discounted property tax amount. Staff decreased the TOTI balance by \$25 for decreases in regulatory assessment fees based on the revenue adjustment discussed in Issue No. 3. Staff increased the TOTI balance by \$1,236, for increases in payroll taxes based on staff’s recommended salary amounts. Based on the above, staff recommends test year TOTI of \$1,767.

Income Tax – The utility recorded income tax of \$0 for water. The utility is a sole proprietorship. The tax liability is passed on to the owner’s personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Expenses Summary – The application of staff’s recommended adjustments to the audited test year operating expenses results in staff’s calculated operating expenses of \$24,985. Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule 3-B.

**Issue 7:** Is a repression adjustment appropriate in this case, and if so, what are the appropriate adjustments to make for this utility, what are the appropriate corresponding expense adjustments to make, and what are the final revenue requirements?

**Recommendation:** Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 3,238 kgals. Purchased power expense should be reduced by \$766, chemical expense should be reduced by \$65, and regulatory assessment fees (RAFs) should be reduced by \$39. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of \$461, should be \$25,366.

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

**Staff Analysis:** Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that approximately 39% the residential bills rendered during the test year were for consumption levels at or below 3 kgal per month. This indicates a moderately seasonal customer base. Staff's analysis also showed that average residential monthly consumption per customer was approximately 6.6 kgal, indicating that there is some level of discretionary or non-essential consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 3,238. Purchased power expense should be reduced by \$766, chemical expense should be reduced by \$65, and regulatory assessment fees (RAFs) should be reduced by \$39. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of \$461, should be \$25,366.

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

**Issue 8:** Should the utility's current water system rate structure be changed, and, if so, what the appropriate rate structure?

**Recommendation:** Yes, the utility's current water system rate structure, which includes a 5,000 gallons (5 kgal) water allotment in the base facility charge (BFC), should be changed to a traditional BFC/uniform gallonage charge rate structure with no usage allotments. The water system's BFC cost recovery percentage should be set at 50%. (Bruce)

**Staff Analysis:** The utility's current water rate structure consists of a monthly BFC/gallonage charge rate structure, in which the BFC of \$5.00 includes 5 kgal allotment, and all gallons in excess of 5 kgal used are charged \$.25 per kgal.

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

Orangeland Water Supply is located in Pasco County within the SWFWMD in the Southern Use Caution Area. The Commission's preferred rate structure had traditionally been the BFC/uniform gallonage charge rate structure. However, over the past several years, the Water Management Districts have requested whenever possible that an inclining block rate structure be implemented.

Based on the SWFWMD's declared severe water shortage, and consistent with the results of the statewide Water Conservation Initiative and Water Management District's desire to eliminate non-conserving water rate structures, staff does not believe it is appropriate to continue the kgal allotment in the BFC. Based on staff's analysis of the utility's billing data, the customers' average monthly consumption of 6.6 kgal would suggest that implementing an inclining-block rate structure is appropriate. However, staff believes the customers will exhibit a reduction in consumption due to the high magnitude of the revenue requirement increase alone. Therefore, staff recommends that a BFC/uniform gallonage charge rate structure be implemented.

Furthermore, staff recommends that the fixed cost recovery be reduced to 50% from the initial accounting allocation of 62.69%. The Commission typically set BFC cost recovery no greater than 40%. However, setting the BFC cost recovery at 40% or below would increase the gallonage charge significantly due to the magnitude of the revenue requirement increase.

Based on the foregoing, staff recommends that the current water system rate structure, which includes a 5,000 (5 kgal) water allotment in the BFC, be changed to a traditional BFC/uniform gallonage charge rate structure with no usage allotments. The BFC cost recovery percentage for the water system should be set at 50%.

**Issue 9:** What are the appropriate monthly rates for each system?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4. The recommended water rates produce revenues of \$25,366. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Bruce, Deason)

**Staff Analysis:** The appropriate pre-repression revenue requirement is \$26,236 for the water system. As discussed in Issue 8, staff recommends that the appropriate rate structure for the water systems' residential and non-residential class is a traditional base facility base charge (BFC)/gallongage charge rate structure with no usage allotments. The BFC cost recovery percentage for the water system should be set at 50%. As discussed in Issue 8, staff recommends that repression adjustments be made to the water system. Applying these rate design and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedules No. 4. These rates are designed to recover a post-repression revenue requirement for the water system of \$25,366.

**Issue 10:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Recommendation:** The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates of \$271 annually should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Deason)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$271 annually. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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



**Issue 11:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

**Recommendation:** Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Deason)

**Staff Analysis:** This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$14,480. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect, and.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;

- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

**Issue 12:** Should this docket be closed?

**Recommendation:** No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once staff has verified all of the above actions are complete, this docket should be closed administratively. (Hartman, Deason)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once staff has verified all of the above actions are complete, this docket should be closed administratively.

**WATER TREATMENT SYSTEM USED & USEFUL**

1)		Capacity of Plant	100	gallons per minute
2)		Maximum 5 Days Average		gallons per day
	a)	Maximum day @ peak	50	gallons per minute
3)		Average Daily Flow		gallons per day
4)		Fire flow Capacity (FF) Required Fire Flow: gallons per minute for hours	n/a	gallons per day
5)		Growth	n/a	
	a)	Average Test Year Customers in ERCs: Historical Test Year: 2005	72	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\ (5a)]	0	gallons per day
6)		Excessive Unaccounted for Water (EUW)	n/a	gallons per day
	a)	Percentage of Excessive amount	n/a	
	b)	Total Unaccounted for Water	n/a	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	n/a	gallons per day
	d)	Excessive Amount	n/a	gallons per day

**USED AND USEFUL FORMULA**

$$\frac{(((\text{Max days} - \text{EUW}) / 1,440) \times 2) + \text{FF} + \text{Growth})}{1 \text{ Well (gpm)}} \\
\frac{(((36,000 - 0) / 1,440) \times 2) + 0 + 0}{100 \text{ gpm}} = 50 \% \text{ Used \& Useful}$$

The utility's service territory is built-out; therefore, the facility is 100% U&U.

<b>Name of Utility: Orangeland Water Supply</b> <b>Docket No: 070601-WU</b>	<b>Attachment A, Page 2 of 2</b>
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**DISTRIBUTION SYSTEM – USED AND USEFUL DATA**

1)		Capacity of System (ERCs)	76	ERCs
2)		Test Year Connections Average Test Year	76	ERCs
3)		Growth	0	
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	0	ERCs/yr
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

**USED AND USEFUL FORMULA**

$$[2+3] / (1) = 100\% \text{ Used and Useful}$$

The utility's service territory is built-out; therefore, the facility is 100% U&U.

**ORANGELAND WATER SUPPLY  
 TEST YEAR ENDING 6/30/2007  
 SCHEDULE OF WATER RATE BASE**

**SCHEDULE NO. 1-A  
 DOCKET NO. 070601-WU**

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$38,499	\$8,086	\$46,585
2. LAND & LAND RIGHTS	\$1,000	\$0	\$1,000
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	(\$9,287)	\$1,937	(\$7,350)
5. ACCUMULATED DEPRECIATION	(\$31,701)	(\$7,912)	(\$39,613)
6. AMORTIZATION OF CIAC	\$0	\$5,047	\$5,047
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$2,769</u>	<u>\$2,769</u>
8. WATER RATE BASE	<u>(\$1,489)</u>	<u>\$9,927</u>	<u>\$8,438</u>

**ORANGELAND WATER SUPPLY  
TEST YEAR ENDING 6/30/2007  
ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B  
DOCKET NO. 070601-WU**

	<u><b>WATER</b></u>
<u><b>UTILITY PLANT IN SERVICE</b></u>	
1. To reflect staff's plant per original cost study	\$5,615
2. Increase Acct. No. 311 – Pumping Equipment	\$1,971
3. Increase Acct. No. 320 – Water Treatment Equipment	\$183
4. Increase Acct. No. 334 – Meters & Meter Installation	<u>\$317</u>
Total	<u>\$8,086</u>
 <u><b>CIAC</b></u>	
To reflect CIAC	<u>\$1,937</u>
 <u><b>ACCUMULATED DEPRECIATION</b></u>	
1. To reflect accumulated depreciation per rule	(\$8,222)
2. To reflect averaging adjustment	<u>\$310</u>
Total	<u>(\$7,912)</u>
 <u><b>AMORTIZATION OF CIAC</b></u>	
1. To impute CIAC	\$5,071
2. To reflect an averaging adjustment	<u>(\$24)</u>
Total	<u>\$5,047</u>
 <u><b>WORKING CAPITAL ALLOWANCE</b></u>	
To reflect 1/8 of test year O & M expenses.	<u>\$2,769</u>

**ORANGELAND WATER  
 SUPPLY**  
**TEST YEAR ENDING 6/30/2007**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 070601-WU**

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. PARTNERSHIP EQUITY	\$0	\$0	\$0					
2. RETAINED EARNINGS	\$0	\$0	\$0					
3. PAID IN CAPITAL	\$0	\$0	\$0					
4. OTHER COMMON EQUITY	<u>\$2,212</u>	<u>\$0</u>	<u>\$2,212</u>					
5. TOTAL COMMON EQUITY	\$2,212	\$0	\$2,212	\$6,185	\$8,397	100%	9.07%	9.07%
6. LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
7. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
8. TOTAL	<u>\$2,212</u>	<u>\$0</u>	<u>\$2,212</u>	<u>\$6,185</u>	<u>\$8,397</u>	<u>100.00%</u>		<u>9.07%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>8.07%</u>	<u>10.07%</u>	
OVERALL RATE OF RETURN						<u>8.07%</u>	<u>10.07%</u>	



ORANGELAND WATER SUPPLY TEST YEAR ENDING 6/30/2007 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 070601-WU			
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	<u>\$5,668</u>	<u>\$0</u>	<u>\$5,668</u>	<u>\$21,023</u> 370.92%	<u>\$26,696</u>	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	\$8,031	\$14,120	\$22,151	0	\$22,151	
3. DEPRECIATION (NET)	\$0	\$1,067	\$1,067	0	\$1,067	
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0	
5. TAXES OTHER THAN INCOME	\$564	\$1,203	\$1,767	\$946	\$2,713	
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	
7. TOTAL OPERATING EXPENSES	<u>\$8,595</u>	<u>\$16,390</u>	<u>\$24,985</u>	<u>\$946</u>	<u>\$25,931</u>	
8. OPERATING INCOME/(LOSS)	<u>(\$2,928)</u>		<u>(\$19,317)</u>		<u>\$765</u>	
9. WATER RATE BASE	<u>(\$1,489)</u>		<u>\$8,438</u>		<u>\$8,438</u>	
10. RATE OF RETURN	<u>(196.61%)</u>		<u>(228.93%)</u>		<u>9.07%</u>	

ORANGELAND WATER SUPPLY	SCHEDULE NO. 3-B
TEST YEAR ENDING 6/30/2007	DOCKET NO. 070601-WU
ADJUSTMENTS TO OPERATING INCOME	
	<u>WATER</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Salaries and Wages - Employees (601)	
a. To impute salaries	<u>\$16,163</u>
2. Purchased Power Expense (615)	
a. Purchased Power paid by owner	<u>\$1,447</u>
3. Chemical Expense(618)	
a. Chemicals paid by owner	<u>\$122</u>
4. Materials and Supplies (620)	
a. out of period maintenance & supplies	<u>(\$162)</u>
5. Contractual Services - Billing (630)	
a. reclassified to UPIS	<u>(2,471)</u>
6. Contractual Services - Testing (635)	
a. out of period testing	<u>(\$480)</u>
7. Contractual Services - Other (636)	
a. out of period services	<u>(\$300)</u>
8. Miscellaneous Expense (675)	
a. customer refund	(\$34)
b. bank charges	399
c. reclassify to TOTI	<u>(\$564)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$14,120</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect net depreciation calculated per 25-30.140, FAC	\$1,267
2. To reflect test year CIAC amortization calculated by staff	<u>(200)</u>
Total	<u>\$1,067</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To reduce RAFs per audit	(\$25)
2. To reduce property taxes per audit	(8)
3. Payroll Tax	<u>1,236</u>
Total	<u>\$1,203</u>

**ORANGELAND WATER SUPPLY**

TEST YEAR ENDING 6/30/2007

**ANALYSIS OF WATER OPERATION AND  
MAINTENANCE EXPENSE****SCHEDULE NO. 3-C****DOCKET NO. 070601-WU**

	TOTAL PER UTILITY	STAFF PER ADJUST.	TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$16,163	\$16,163
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	0	1,447	1,447
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	122	122
(620) MATERIALS AND SUPPLIES	162	(162)	0
(630) CONTRACTUAL SERVICES - BILLING	2,471	(2,471)	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	0
(635) CONTRACTUAL SERVICES - TESTING	2,910	(480)	2,430
(636) CONTRACTUAL SERVICES - OTHER	1,500	(300)	1,200
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>988</u>	<u>(199)</u>	<u>789</u>
	<u>\$8,031</u>	<u>\$14,120</u>	<u>\$22,151</u>

ORANGELAND WATER SUPPLY  
 TEST YEAR ENDING 6/30/2007  
 MONTHLY WATER RATES

SCHEDULE NO. 4  
 DOCKET NO. 070601-WU

	UTILITY'S* EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<b><u>General and Residential Service</u></b>			
<u>Base Facility Charge by Meter Size:</u>			
5/8"X3/4"	\$5.00*	\$14.36	\$0.15
3/4"	\$0.00	\$21.54	\$0.23
1"	\$0.00	\$35.90	\$0.38
1-1/2"	\$0.00	\$71.80	\$0.76
2"	\$0.00	\$114.88	\$1.22
3"	\$0.00	\$229.76	\$2.44
4"	\$0.00	\$359.00	\$3.82
6"	\$0.00	\$718.00	\$7.64
* Existing rates include 5,000 gallons in the Base Facility Charge for.			
<b><u>General and Residential Gallonage Charge</u></b>			
Per 1,000 gallons over 5,000	\$ .25	\$4.41	\$0.05
Per 1,000 gallons			
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$5.00	\$27.59	
5,000 Gallons	\$5.00	\$36.41	
10,000 Gallons	\$6.25	\$58.46	