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Public Service Commission

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

DATE: May 19, 2010

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Daniel, Maurey, Walden)
Office of the General Counsel (Klancke)

RE: Docket No. 090381-SU – Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood.

AGENDA: 06/01/10 – Regular Agenda – Proposed Agency Action Except For Issue Nos. 24 and 25 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 5-Month Effective Date Waived Through 6/1/10

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090381.RCM.DOC

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Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including 15 water and wastewater utilities within the State of Florida. Currently, UI has six separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

Docket No.	Utility Subsidiary
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities, Inc. of Longwood
090392-WS	Utilities, Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities, Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090381-SU. Utilities, Inc. of Longwood is a Class B utility providing wastewater service to approximately 1,560 customers in Seminole County. Water service is provided by the City of Longwood. In 1996, the Commission approved the transfer from Longwood Utilities, Inc. to Utilities, Inc. of Longwood (Longwood or Utility), as well as established rate base as of July 31, 1995.[1] The Utility is a wholly-owned subsidiary of UI. Longwood has never had a rate case.

On September 29, 2009, Longwood filed its application for approval of final and interim rate increases in the instant docket. The Utility had a few deficiencies in the Minimum Filing Requirements (MFRs). The deficiencies were corrected and November 13, 2009, was established as the official filing date. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure. The test year established for interim and final rates is the historical twelve-month period ended December 31, 2008.

By Order No. PSC-09-0833-PCO-SU, Longwood was granted an interim rate increase designed to generate annual wastewater revenues of $851,489.[2] This represents a revenue increase on an annual basis of $109,159 (14.70 percent). The Utility requested final rates designed to generate annual wastewater revenues of $943,939. This represents a revenue increase of $199,144 (26.74 percent).

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. By Order No. PSC-10-0280-PCO-SU, issued May 6, 2010, the Commission acknowledged OPC's intervention in the instant docket.[3]

By letter dated April 13, 2010, the Utility waived the statutory 5-month deadline for this case through June 1, 2010. This recommendation addresses Longwood's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

[1] See Order No. PSC-96-0448-FOF-SU, issued March 29, 1996, in Docket No. 950959-SU, In re: Application for transfer of facilities and Certificate No. 232-S in Seminole County from Longwood Utilities, Inc. to Utilities, Inc. of Longwood.
[2] See Order No. PSC-09-0833-PCO-SU, issued December 21, 2009.
[3] See Order No. PSC-10-0280-PCO-SU, issued May 6, 2010.

Discussion of Issues

Issue 1: Is the quality of service provided by Utilities, Inc. of Longwood satisfactory?

Recommendation: Yes. The overall quality of service is satisfactory. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C), the Commission determines the overall quality of service provided by a utility by evaluating three separate components of wastewater operations. These components include the quality of the utility's product, the operational condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by the Commission from customers are reviewed. The utility's current compliance with the Department of Environmental Protection (DEP) is also considered.

Quality of the Utility's Product and Operational Condition of Plant and Facilities

The Utility only provides wastewater service. The homes in the service area were built from the mid-1970s to the mid-1980s, depending upon the development of each of the subdivisions. The Utility's wastewater plant was inspected by the DEP in 2008 and a few issues needing attention concerning reporting requirements were promptly corrected. Another inspection was conducted in April 2010 and no significant compliance issues were noted.

The Utility experienced increased flows to the wastewater plant in August, September, and October 2008 due to excessive rainfall from Tropical Storm Fay. Investigation showed a lift station pumping excessive amounts of water. Two manholes and related sections of collection line collapsed in the Longwood Groves subdivision, and repairs were made to restore the integrity of the collection system. The Utility performed an Infiltration and Inflow (I & I) Study and the system was determined to be in better shape than expected.

Repairs are in progress at the lift station at Township Plaza. These repairs involve reconnecting a sewer service to the station as well as realignment of a downstream gravity collection main. Costs are estimated at $70,000 for these repairs.

The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held in Altamonte Springs on February 17, 2010. No customers came to the meeting.

There are no outstanding complaints from the Utility's customers on the Commission's Consumer Activity Tracking System. A customer contacted the Commission in February 2010, suggesting that a metered rate based upon water consumption is preferred over the current and proposed flat rate. Another complaint was made with the Commission in 2008 concerning the owner of a rental property who was being billed for service. The Utility provided a resolution to the complaint. The Utility provided a list of complaints and resolutions to those complaints in its filing. Those complaints included odor coming from the wastewater treatment plant, a clogged sewer line, a malfunctioning lift station alarm, and yard restoration needed after a truck damaged lawn near a lift station. A review of the complaints shows that all have been resolved and staff recommends that the Utility's attempts to address customer concerns are satisfactory.

Summary

Based on all of the above, staff recommends that the quality of the Utility's product, the operational condition of the plant, and the Utility's attempt to address customer concerns are satisfactory. Therefore, the overall quality of service is satisfactory.

Issue 2: Should the audit adjustments to rate base and net operating income, to which the Utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the Utility and staff, the following adjustments to rate base and net operating income should be made.

Audit Adjustments to Which Longwood Agrees							
Audit Finding	Plant	Accum. Depr.	Accum. Amort. of CIAC	Operating Revenues	O&M Expense	Depr. Expense	Taxes Other Than Income (TOTI)
Finding No. 1 - Acquisition Adj. Correcting Entries		($46,464)				$3,319	
Finding No. 3 - Plant Sample	($49,698)	16,007				(2,236)	
Finding No. 4 - Plant Retirements	(25,505)	31,238				(8,382)	
Finding No. 5 - Allowance for Funds Used During Construction	(7,282)	3,805				(371)	
Finding No. 8 - Accum. Amort. of CIAC			$466,018				
Finding No. 9 - Revenue Adjustment				($16,459)			
Finding No. 11 - Employee Not Replaced					($474)		($33)
Finding No. 14 - Def. Main. Exp					(2,128)		
Finding No. 16 - O&M Sample					(3,789)		
Total Adjustments	($82,485)	$4,586	$466,018	($16,459)	($6,391)	($7,670)	($33)

(Fletcher)

Staff Analysis: In its response to staff's audit report, Longwood agreed to the audit findings and audit adjustment amounts listed below. Staff recommends the following adjustments to rate base and net operating income.

Audit Adjustments to Which Longwood Agrees							
Audit Finding	Plant	Accum. Depr.	Accum. Amort. of CIAC	Operating Revenues	O&M Expense	Depr. Expense	Taxes Other Than Income (TOTI)
Finding No. 1 - Acquisition Adj. Correcting Entries		($46,464)				$3,319	
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Total Adjustments	($82,485)	$4,586	$466,018	($16,459)	($6,391)	($7,670)	($33)

Issue 3: Should any audit adjustment contested by the Utility be made to test year plant?

Recommendation: Yes. Plant should be reduced by $105,408. Moreover, a corresponding adjustment should be made to decrease accumulated depreciation by $30,572. (Fletcher)

Staff Analysis: In its MFRs, the Utility reflected test year plant of $4,066,168. As discussed above in Issue 2, staff reduced plant by $82,485. In Audit Finding 6, staff noted that the new accounting system implemented by Longwood's parent automatically allocates costs each month using the monthly ERC for each region. UI sold off some of their systems in 2009 and this changed its ERC calculations. The Utility personnel attempted to make a pro forma adjustment to the 2008 ledger to reflect this change. But in doing so, their calculation was only for plant additions and not for its accumulated depreciation balance. This caused an overstatement of allocated net plant to the Utility.

Longwood agreed with the audit finding that an error was made, but did not agree with audit staff's calculation. In its response to the audit, the Utility provided its calculation of the correction but staff was not able to reconcile their numbers. In addition, in its response to staff's data request dated January 26, 2010, Longwood provided another calculation that did not match its initial audit response. It is the Utility's burden to justify its requested costs.[4] Due to the discrepancies in the Utility's responses, staff agrees with the auditors' adjustments reflected in Audit Finding No. 6. Based on the above, plant should be reduced by $105,408. In addition, a corresponding adjustment should be made to decrease accumulated depreciation by $30,572.

[4] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

Issue 4: Should any adjustments be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

Recommendation: Yes. Plant should be reduced by $9,570. In addition, the balances of accumulated depreciation and depreciation expense both should be reduced by $4,278. (Deason, Fletcher)

Staff Analysis: The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and, financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December of 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's ERCs at September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, the Commission approved recovery of the cost of the Phoenix Project in seven UI rate cases.[5] The approved costs were allocated based on each subsidiary's specific test year ERCs to the total UI test year ERCs. With respect to the current UI cases before the Commission, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. Longwood divided its ERCs by UI's total ERCs resulting in an allocation percentage of 7.54. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of $21,364,569, Longwood calculated its allocated share to be 0.62 percent, or $132,848.

As discussed in Issue 3, staff agreed with the adjustments recommended by the auditors in Audit Finding No. 6, to apply a more current ERC count provided by the Utility which recognized the divestitures of certain UI systems in 2009.

Divestiture of UI Subsidiaries

As discussed in Issue 4, staff used a more recent ERC count provided by Longwood which recognized the divestitures of certain UI subsidiaries in 2009. According to Longwood's March 22, 2010, response to staff's second data request, UI recently divested several Florida subsidiaries including, Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010, between staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana[6] that was not included in the ERC count previously provided to the staff auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of the cost of the Phoenix Project.

[5] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.
[6] This wastewater system represented appropriately 950 ERCs.

Staff agrees that allocating costs on ERCs is an appropriate methodology to spread the cost of Project Phoenix. However, staff does not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.[7] Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.[8] Staff believes the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Thus, staff believes the divested subsidiaries allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

According to Audit Finding No. 5, staff auditors determined that the correct ledger balance of the software is $21,617,487, not the $21,364,569 Longwood used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, staff determined the actual amount paid of $21,617,487 for the Phoenix Project should be reduced by $1,724,166 resulting in a remaining balance of $19,893,321. Based on the unrecovered cost of the Phoenix Project and the ECRs adjusted for divestiture, staff recommends that the appropriate amount of Longwood's allocated share of the Phoenix Project is $134,421. As such, staff recommends that plant be reduced by $9,570.

Amortization Period

In previous UI cases, the Commission approved a 6-year amortization period.[9] In subsequent UI cases,[10] staff determined and the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude. For several reasons, staff now believes that the amortization period for the Phoenix Project should be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long term accounting, billing, and customer service needs. Second, staff believes the software will be used at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a recent docket involving a UI subsidiary in Nevada,[11] UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, staff believes 10 years is a more reasonable amortization period than the 8-year amortization period currently approved by this Commission. Thus, staff recommends that accumulated depreciation and depreciation expense be reduced $4,278.

[7] The sale price of Wedgefield Utilities, Inc. in April of 2009 was $7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or $885,852 greater than rate base.
[8] The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was $7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or $1,897,837 greater than their collective rate bases.
[9] See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.
[10] See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.
[11] Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

<u>Summary</u>

In summary, staff recommends plant be reduced by $9,570. In addition, the balances of accumulated depreciation and depreciation expense both should be reduced by $4,278.

Issue 5: Should adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. Plant should be decreased by $352,342. Accordingly, corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense both by $7,822. Finally, a corresponding adjustment should be made to decrease property taxes by $1,560. (Fletcher, Walden)

Staff Analysis: In its MFRs, Longwood reflected pro forma additions of $370,000. The following table provides a breakdown of each pro form plant addition.

Wastewater Pro Forma Additions	Amount
Manhole Rehabilitation at Township Plaza	$70,000
I&I Investigation Longwood Groves Subdivision	100,000
Correct Deficiencies Indentified in Longwood Groves I&I Study	200,000
Total Wastewater Additions	$370,000

Staff has reviewed the supporting documentation and the prudence of these pro forma plant additions and believes several adjustments are necessary as discussed below.

First, staff notes that, by letter dated August 14, 2009, the Chairman's Office approved Longwood's requested test year for purposes of filing the Utility's MFRs. In that letter, Longwood was put on notice that the Commission may disregard any information not filed with its original application because of the time limitation contained in Section 367.081, F.S., and the lengthy auditing and investigation required. Second, in Audit Finding 2, staff auditors stated that the Utility supplied proposals for the Manhole Rehabilitation at Township Plaza dating as far back as December 20, 2006. Specifically, these proposals supplied to the auditors were for professional engineering services and construction but no contracts or actual invoices were provided by Longwood.

In its response to staff's data request dated January 26, 2010, the Utility provided the same two quotes that it gave the staff auditors for the Manhole Rehabilitation at Township Plaza project. Staff believes the two quotes are not sufficient support documentation to include in rate base because they are approximately 3 years old. If the Utility intended to undertake this project, it should have included a more current quote or provided an explanation as to why the 2006 quote was still valid.

In its response to staff's data request dated January 26, 2010, Longwood also provided an unexecuted contract dated November 19, 2009, between Altair Environmental Group (Altair) and the Utility's sister company, Utilities, Inc. of Florida (UIF), for $17,658 related to the I&I Investigation Longwood Groves Subdivision project. By e-mail dated April 20, 2010, the Utility provided an executed contract between Altair and UIF for the I&I Investigation Longwood Groves Subdivision project. The contract was signed by UIF on December 15, 2009.

To date, with the exception of the executed contract between Altair and UIF referenced above, Longwood has not provided staff with any support documentation for its other requested pro forma plant projects. The Utility has the burden of proving that its costs are reasonable.[12] Based on the above, staff recommends plant be decreased by $352,342. Accordingly, corresponding adjustments should be made to decrease accumulated depreciation and depreciation expense both by $7,822. Finally, a corresponding adjustment should be made to decrease property taxes by $1,560.

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

Issue 6: What are the used and useful percentages of the Utility's wastewater system?

Recommendation: The wastewater plant and collection system are 100 percent used and useful. (Walden)

Staff Analysis: The wastewater treatment plant is a 500,000 gallons per day (gpd) facility, limited to 470,000 gpd because of the reuse system on the plant site. Average annual daily flows during the test year were 410,870 gpd, and average 209 gpd per connection.

The service area is essentially built out, serving sixteen contiguous subdivisions. Customer growth is negative and the number of active single family customers was less in 2008 than it was in 2004. Because of the service area being built out and the negative customer growth, staff recommends that the wastewater plant and collection system be considered 100 percent used and useful.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $68,048. (Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. Staff has recommended adjustments to Longwood's O&M expenses. As a result, staff recommends that working capital of $68,048 be approved. This reflects a decrease of $31,932 to the Utility's requested working capital allowance of $99,980.

Issue 8: What is the appropriate rate base for the test year ending December 31, 2008?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base is $1,964,085. (Fletcher)

Staff Analysis: Consistent with other recommended adjustments, the appropriate rate base is $1,964,085. The schedule for rate base is attached as Schedule No. 1-A. The adjustments to rate base are shown on Schedule No. 1-B.

Issue 9: What is the appropriate return on equity?

Recommendation: The appropriate return on common equity is 11.13 percent based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Fletcher)

Staff Analysis: The return on equity (ROE) included in the Utility's filing is 11.13 percent. Based on the current leverage formula approved in Order No. PSC-09-0430-PAA-WS and an equity ratio of 42.64 percent, the appropriate ROE is 11.13 percent.[13] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[13] See Order No. PSC-09-0430-PAA-WS, issued June 19, 2009, in Docket No. 090006-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 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2008, is 7.04 percent. (Fletcher)

Staff Analysis: In its filings, the Utility requested an overall cost of capital of 7.09 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 7.04 percent. This represents a 5 basis points reduction from Longwood's requested an overall cost of capital of 7.09 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 11: What is the appropriate annualized revenue adjustment?

Recommendation: The appropriate annualized revenue adjustment is $126,765. The Utility's annualized revenue adjustment of $9,695 should be increased by $117,070. (Fletcher)

Staff Analysis: As discussed in Issue 2, Longwood's test year revenues were reduced by $16,459.[14] In its filling, the Utility included an annualized revenue adjustment of $9,695. Using test year billing units, staff calculated an annualized revenue adjustment of $126,765. Thus, staff recommends that test year revenues be increased by $117,070 ($126,765-$9,695).

[14] This uncontested audit adjustment was reflected in the test year units used in determining the appropriate annualized revenue adjustment.

Issue 12: Should any audit adjustments contested by the Utility be made to test year O&M expenses?

Recommendation: Yes. O&M expenses should be decreased by $7,591. Accordingly, a corresponding adjustment should be made to increase plant by $82. Finally, accumulated depreciation and depreciation expense both should be increased by $4. (Fletcher)

Staff Analysis: In its MFRs, the Utility reflected adjusted test year O&M expenses of $594,163. As discussed in Issue 2, staff reduced O&M expenses by $6,391. Based on a contested audit finding and the Utility's response to data requests, staff believes further adjustments should be made to the test year O&M expenses as discussed below.

Headquarter Samples

Audit staff sampled entries for O&M expenses taken from UI's headquarters in Northbrook, IL to trace to support documentation. Audit staff identified $4,371 in entries that should have been capitalized, were non-reoccurring in nature, or did not have any support documentation provided. Longwood agreed with the audit that some entries should have been capitalized and others should have been removed. The Utility did provide support documentation for some of the entries. Therefore, staff recommends that O&M expenses be reduced by $4,371. Accordingly, a corresponding adjustment should be made to increase plant by $82. Finally, accumulated depreciation and depreciation expense both should be increased by $4.

Deferred Maintenance

In its filling, Longwood reflected a deferred maintenance project related to the painting of its Shadow Hills wastewater treatment plant. Using a 3-year amortization period, the Utility amortized the total cost of $24,150 which yielded an amortization amount of $8,050. Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be justified. The Utility has not provided any justification why its wastewater treatment plant painting should be amortized over 3 years instead of 5 years. It is the Utility's burden to prove that its requested costs are reasonable.[15] As such, staff recommends that O&M expenses be decreased by $3,220.

Summary

In summary, staff recommends that O&M expenses be decreased by $7,591 ($4,371+$3,220). Accordingly, a corresponding adjustment should be made to increase plant by $82. Finally, accumulated depreciation and depreciation expense both should be increased by $4.

[15] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982)

Issue 13: Should any adjustment be made to the Utility's requested salaries, and wages expense and pensions and benefits expense?

Recommendation: Yes. Longwood's salaries and wages expense should be decreased by $14,706. Accordingly, pensions and benefits expense should be reduced by $3,628, and payroll taxes should be reduced by $1,125. (Fletcher)

Staff Analysis: On MFR Schedule B-6, the Utility recorded salaries and wages expense and pensions and benefits expense of $128,971 and $27,223, respectively. The increase in salaries and wages expense represents an increase of 93.38 percent since 2003. The increase in pensions and benefits expense represents an increase of 117.23 percent over the level in 2003.

Staff's review of O&M expenses included a comparison of reported expenses with those expenses the Utility experienced 5 years before the test year in this instant case. Schedule B-8 requires the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). Longwood calculated a benchmark of 24.70 percent. For salaries and wages and pensions and benefits, the Utility stated that the reason for the increase was due to the number of employees and available positions that have increased over the past three years, as well as the associated cost of living increases with those employees. In addition, the number of affiliate companies has decreased, thus increasing the allocation percentage to Longwood.

In staff's data request dated January 26, 2010, the Utility was asked to explain why its salaries and wages expense was significantly greater than its reported salaries in 2003. In its response, Longwood explained that the increases are attributable to several factors. First, the Utility gives a standard cost of living increase to its employees on an annual basis. Second, the salary adjustment in 2008 has been annualized to account for a full year of salaries for all allocated personnel. Third, between 2003 and 2007, six new positions were created within the Utility, including a regional vice president serving the Florida and South Regions, a business manager serving the same area, a cross connection specialist, an operator, and a part-time operator, all of whom are allocated to various Florida companies. These new employees alone account for much of the difference in this expense between 2003 and 2008. In response to staff auditors' data request, Longwood provided an updated salary request that reflected annualized adjustments of 2.25 percent and 3.5 percent increases in September of 2009 and April 2010, respectively. As discussed in Issue 4, UI has divested numerous subsidiaries. As a result, staff would expect the number of allocated employees to decrease, not increase, as stated above by the Utility.

In its response dated April 9, 2010, to a staff data request, Longwood stated that a major cost saving measure since 2003 was the closure of three call centers in various states in the first quarter of 2010. These closures were part of UI's customer service optimization program. The personnel from those closed call centers were terminated. All customer service is now being maintained by the remaining call centers in Nevada, North Caroline, and Florida. The costs for these remaining call centers are now being allocated based on total parent company ERCs. Because the costs for the Florida call center were previously being allocated by only ERCs from Florida and Louisiana, the effect of the above-mentioned customer service optimization program should have resulted in cost savings to all of UI's Florida subsidiaries. However, to date, Longwood has failed to provide staff with any adjustments to salaries and wages related to these cost savings.

Based on the above, staff believes the requested increase in salaries and wages expense is excessive. The Utility has the burden of proving that its costs are reasonable.[16] Staff believes that the Utility has not met its burden of proof that the proposed increase in salaries and wages expense from 2003 to 2008 are reasonable. Further, staff believes Longwood has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since 2003.

Staff has used the benchmark analysis found on Schedule B-8 of the MFRs to support a reduction to salaries and wages expense. The Commission has utilized the benchmark analysis found on MFR Schedule B-8 in previous rate cases.[17] Accordingly, staff recommends salaries and wages expense be decreased by $14,706. In addition, pensions and benefits expense should be reduced by $3,628,[18] and payroll taxes should be reduced by $1,125.

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[16] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982)

[17] See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.

[18] Staff notes that it utilized the Utility's test year ratio of pensions & benefits to salaries in order to determine the corresponding adjustment for pensions & benefits.

Issue 14: Should any adjustment be made to allocated relocation expenses?

Recommendation: Yes. Consistent with Commission practice, relocation expense should be based on a 4-year average. Accordingly, Longwood's allocated relocation expense of $971 should be reduced by $550. (Linn, Fletcher)

Staff Analysis: UI's relocation expenses for the 2008 test year were $156,647, a 59 percent increase from 2007. Longwood's allocated portion of this expense was $971. The relocation expenses for 2008 was for the relocation of one headquarter employee. UI's relocation expenses have varied significantly from year to year. In 2004 and 2005, UI did not have any relocation expenses. UI's relocation expense was $16,145 for 2006 and $98,577 for 2007. The year over year increase from 2006 to 2007 represented a 511 percent increase.

Recognizing that relocation expenses have varied significantly from year to year, it has been Commission practice to base this expense on a 4-year average of actual experience rather than the specific expense in any given year. To be consistent with Commission practice,[19] staff recommends relocation expenses be based on UI's 4-year average. Accordingly, staff recommends that relocation expenses be reduced by $550.

[19] See Order Nos. PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company; and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

Issue 15: Should any adjustment be made to transportation expenses?

Recommendation: Yes. Transportation expense should be decreased by $1,215. (Fletcher)

Staff Analysis: On MFR Schedule B-6, Longwood recorded transportation expense of $11,326 in the test year. According to MFR Schedule B-8, the Utility made a pro forma adjustment to increase transportation expense by $1,394 based on its analysis of the cost per vehicle of all direct and allocated employees of Longwood. Staff notes that of the $1,394 pro forma amount, 73 percent or $1,019 relates to fuel purchases. In its March 10, 2010, data request, staff asked the Utility to provide the amount of its transportation expense that related to fuel purchases and the total gallons of fuel purchased. In its response, the Utility stated that fuel accounted for $8,413 of the $11,326 total expense. The Utility further stated that it could not determine the total gallons of fuel purchased for Longwood because its parent company (Utilities, Inc.) recently switched vendors and the information relating to purchased gallons from the past was no longer available.

By e-mail dated March 31, 2010, from a representative of UI to staff, UI asserted that the total gallons for Longwood were 27,813. Based on the total dollar of $8,413 for fuel, the cost per gallon would be approximately $0.30 per gallon.

In its April 9, 2010, response to a staff data request, Longwood proposed that the appropriate fuel costs for the Utility was $6,371. In support of its position, Longwood provided workpapers for its calculations. Specifically, the Utility multiplied the gallons per vehicle by the nominal price per gallon of $3.27 in 2008, then allocated the costs based on 2008 year-end ERC percentages for allocated employees and assigned the full amount for direct employees of the Utility. However, staff believes the gallons reported on the Longwood's workpapers are unreliable. First, staff applied the ERC percentages for all allocated employees to determine the Utility's gallons associated with those employees and added all the gallons associated with the direct employees of Longwood. Using this method, staff calculated total gallons attributable to the Utility of 1,985. Applying the initial dollar of $8,413 yields an approximate cost of $4.24 per gallon.

It is the Utility's burden to prove that its costs are reasonable.[20] Based on the above, staff believes the Utility's gallonage data is unreliable in determining the appropriate level of fuel costs for prospective ratemaking purposes.

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, retail gasoline prices are expected to be an annual average of $2.84 for 2010 per gallon while the annual average for 2008 was $3.26 per gallon. The Commission has utilized the United States Energy Information Administration Short-Term Energy Outlook Report in a recent formal file and suspend rate case to determine the appropriate level of fuel cost.[21] The difference between the annual average price in 2008 and 2010 is $0.42

[20] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)

[21] See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

or 12.88 percent. In the absence of reliable gallonage data, staff believes a reasonable method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 12.88 percent. Therefore, staff recommends that the Utility's transportation expense should be decreased by $1,215 [($8,413+1,019)x .1288].

Issue 16: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is $116,025. This expense should be recovered over four years for an annual expense of $29,006. Thus, rate case expense should be decreased by $15,123. (Fletcher)

Staff Analysis: In its MFRs, the Utility included an estimate of $176,518 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On April 9, 2010, the Utility submitted a revised estimated rate case expense through completion of the PAA process of $179,935.

	MFR Estimated	Actual	Additional Estimated	Revised Total
Legal Fees	$48,800	$25,857	$27,133	$52,990
Accounting Consultant Fees	37,400	30,013	7,700	37,713
Engineering Consultant Fees	5,370	2,900	2,320	5,220
WSC In-house Fees	62,311	22,130	36,791	58,921
Filing Fee	4,000	4,000	0	4,000
Travel- WSC	3,200	0	3,200	3,200
Temp Employee Fees-WSC	0	2,454	0	2,454
Miscellaneous	12,000	0	12,000	12,000
Notices	3,437	0	3,437	3,437
Total Rate Case Expense	$176,518	$87,354	$92,581	$179,935

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices of the Utility's consultants, a combined amount of $1,021 was billed for correcting MFR deficiencies and revising the Utility's filing. Specifically, $908 related to legal fees and $113 related to accounting fees. Accordingly, staff recommends that $1,021 be removed as duplicative and unreasonable rate case expense. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[22]

The second adjustment relates to the filing fee for this case. In its filing, Longwood reflected a filing fee of $4,000, but the actual filing fee required was $2,000. Based on staff's review, the Utility included $4,000 in a filing fee line item, as well as the actual $2,000 in legal fees. As such, this created a triple counting of the actual filing fee. Thus, legal fees and the filing fee both should be reduced by $2,000.

The third adjustment relates to duplicative legal fees and WSC In-house fees. As discussed in Issue 5, in its first data request dated January 26, 2010, staff requested a copy of all support documentation, including contracts or invoices, for the Utility's I&I Investigation of the Longwood Groves Subdivision. In its response dated February 16, 2010, Longwood provided an unexecuted contract dated November 19, 2009, between Altair Environmental Group (Altair) and the Utility's sister company Utilities, Inc. of Florida (UIF), for $17,658 relating to the I&I Investigation of the Longwood Groves Subdivision. In a conference call with the Utility, OPC, and staff on April 16, 2010, staff requested again a copy of the executed contract between Altair and UIF. By e-mail dated April 20, 2010, the Utility provided an executed contract between Altair and UIF for the I&I Investigation Longwood Groves Subdivision project signed by UIF on December 15, 2009.

Because of the duplicative requests before the Utility finally provided the executed contract, staff believes there was unwarranted and duplicative rate case expense incurred to respond to staff's data requests in this matter. Although the estimated breakdown for legal fees and WSC in-house fees do not isolate the duplicative time spent, staff believes one hour for each Utility attorney and WSC employee that participated in the April 16, 2010, conference call should be disallowed. However, staff believes this recommended disallowance should be split between two sister companies of the Utility because staff also requested supporting documentation related to these companies as well. Thus, staff recommends that legal fees and WSC In-house fees should be reduced by $212 and $42, respectively.

The fourth adjustment relates to duplicative actual legal fees and unsupported estimated legal fees. Longwood requested total estimated legal fees of $52,990. However, the Utility only provided a detail breakdown for $44,578. As such, staff recommends that legal fees be reduced by $8,412 ($52,990-$44,578).

The fifth adjustment relates to the remaining estimated legal fees. In its breakdown of estimated legal fees, the Utility applied an hourly rate of $330 for all estimated legal fees. The law firm representing Longwood has a partner billing at a rate of $330 per hour and an associate lawyer billing at a rate of $305 per hour. In its breakdown for estimated legal fees, the Utility stated that, with the exception of the agenda conference hours, the associate lawyer would be

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

handling the remaining estimated legal fees which represents a total of 46.9 hours. As such, staff recommends that legal fees be reduced by $1,173 [($330-$305)x46.9].

The sixth adjustment relates to the Utility's $37,713 of accounting consultant fees. That amount includes $7,700 for an estimate to complete this case. The only support provided for the work to be performed was "Assist w/ MFRs, data requests, and audit facilitation." Staff notes that there would be no work remaining for MFRs and audit facilitation. Also, staff believes any remaining data requests would be more appropriately addressed by WSC in-house employees. Accordingly, staff recommends that $7,700 be removed as unreasonable and unsupported rate case expense.

The seventh adjustment relates to the Utility's actual engineering consulting fees and its estimated engineering consultant fees to complete the rate case. Longwood requested total engineering fees of $5,370 which was comprised of $2,900 in actual costs and $2,320 in estimated fees. Based on invoices provided, the actual costs were $2,465, instead of $2,900. This represents a difference of $435. Also, the estimated remaining hours to complete the PAA case for engineering totaled 16 hours or $2,320. The only support provided for the work to be performed was "U&U Analysis, Assist w/ MFRs, data requests, and audit facilitation." Staff notes that there would be no work remaining for U&U Analysis, MFRs, and audit facilitation. Also, staff believes any remaining data requests would be more appropriately addressed by WSC In-house employees. Accordingly, staff recommends that $2,755 ($435+$2,320) be removed as unreasonable and unsupported rate case expense.

The eighth adjustment relates to WSC in-house employee fees. In its rate case expense update, the Utility stated that the WSC employees' estimated hours of 586.75 or $33,401 related to assistance with MFRs, data requests, audit facilitation, billing analysis, implementation of rates, and customer notice mailings. Staff has concerns regarding these estimated hours. First, as stated earlier, there should be no estimated hours related to the MFRs or the audit in this case because the Utility has already completed the MFRs and has responded to the audit requests and those associated hours are reflected in the actual hours. Second, in those cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or remove all unsupported amounts.[23] Staff believes a reasonable method to estimate WSC employee hours to complete the rate case is to utilize the actual average monthly hours of WSC employees. Using this method, staff calculated an estimate for WSC employees to complete the case of 308.07 hours, or $11,963 which represents a reduction of 278.68 hours. Thus, staff recommends that rate case expense be decreased by $21,437 ($33,401-$11,963).

The ninth adjustment addresses WSC travel expenses. In its MFRs, Longwood estimated $3,200 for travel. However, there was no support provided for the travel expenses. Based on

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

several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference; therefore, staff recommends that rate case expense be decreased by $3,200.

The tenth adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its MFRs, the Utility estimated $12,000 for these items. UI has requested and received authorization from the Commission to keep its records outside the state in Illinois. This authorization was made pursuant to Rule 25-30.110(1)(c), F.A.C. However, when a utility receives this authorization, it is required to reimburse the Commission for the reasonable travel expense incurred by each Commission representative during the review and audit of the books and records. Further, these costs are not included in rate case expense or recovered through rates. In a 1993 rate case for Mid-County Service, Inc. (another UI subsidiary),[24] the Commission found the following:

> The Utility also requested recovery of the actual travel costs it paid for the Commission auditors. Because the Utility's books are maintained out of state, the auditors had to travel out of state to perform the audit. We have consistently disallowed this cost in rate case expense. See Order No. 25821, issued February 27, 1991, and Order No. 20066, issued September 26, 1988.

Staff believes that the requested amount of shipping costs in this rate case directly relates to the records being retained out of state. The Utility typically ships its MFRs, answers to data requests, etc., to its law firm located in central Florida. Then, these are submitted to the Commission. Staff does not believe that ratepayers should bear the related costs of having utility records located out of state. This is a decision of the shareholders of the Utility, and, therefore, they should bear the related costs. Therefore, staff recommends that rate case expense be decreased by $12,000.

It is the Utility's burden to justify its requested costs.[25] Further, the Commission has broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[26]

In summary, staff recommends that Longwood's revised rate case expense be decreased by $22,353 for MFR deficiencies and for unsupported and unreasonable rate case expense. The appropriate total rate case expense is $116,025. A breakdown of rate case expense is as follows:

[24] See Order No. PSC-93-1713-FOF-SU, p. 19., issued November 30, 1993, in Docket No. 921293-SU, In re: Application for a Rate Increase in Pinellas County by Mid-County Services, Inc.
[25] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982)
[26] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rev. den., 529 So. 2d 694 (Fla. 1988)

Description	MFR Estimated	Utility Revised Actual & Estimated	Staff Adjustments	Total
Legal Fees	$48,800	$52,990	($12,965)	$40,025
Accounting Consultant Fees	37,400	37,713	(7,813)	29,900
Engineering Consultant Fees	5,370	5,220	(2,755)	2,465
WSC in-house Fees	62,311	58,921	(23,176)	35,745
Filing Fee	4,000	4,000	(2,000)	2,000
Travel- WSC	3,200	3,200	(3,200)	0
Temp Employee Fees-WSC	0	2,454	0	2,454
Miscellaneous	12,000	12,000	(12,000)	0
Notices	3,437	3,437	0	3,437
Total Rate Case Expense	$176,518	$179,935	($63,909)	$116,025
Annual Amortization	$44,129	$44,984	($15,977)	$29,006

In its MFRs, Longwood requested total rate case expense of $176,518, which amortized over four years would be $44,129. Based on the adjustments recommended above, annual rate case expense should be decreased by $60,493, or $15,123 per year.

The recommended total rate case expense should be amortized over four years, pursuant to Section 367.0816, F.S. Based on the data provided by Longwood and the recommended adjustments discussed above, staff recommends annual rate case expense of $29,006.

Issue 17: Should any adjustment be made to bad debt expense?

Recommendation: Yes. Consistent with Commission practice, bad debt expense should be based on a 3-year average. The Utility's bad debt expense should be $5,657. Accordingly, Longwood's bad debt expense of $6,235 should be reduced by $578 (Fletcher)

Staff Analysis: The Utility recorded bad debt expense of $6,235 for 2008. Consistent with Commission practice, bad debt expense should be $5,657 based on a 3-year average. The Commission has previously approved the application of a 3-year average to determine the appropriate level of bad debt expense. The Commission has set bad debt expense using the 3-year average in three electric cases,[27] two gas cases,[28] and two water and wastewater cases.[29] The Commission approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, Longwood is entitled to bad debt expense of $5,657 which staff believes is representative of Longwood's bad debt expense. Accordingly, staff recommends Longwood's bad debt expense of $6,235 be reduced by $578.

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[27] See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In Re: Petition for a rate increase by Florida Power Corporation, at p. 48.

[28] See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by PEOPLES GAS SYSTEM, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

[29] See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42; and See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., at pp. 92-96.

Issue 18: What is the test year operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in other issues, the test year operating income is $113,775 before any revenue increase. (Fletcher)

Staff Analysis: This is primarily a "fall-out" issue subject to the resolution of other issues related to revenues, operating expenses, and rate base. As shown on Schedule No. 3-A, after applying staff's adjustments, the Utility's net operating income is $113,775. Staff's adjustments to operating income are shown on Schedule No. 3-B.

Issue 19: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Wastewater	$845,405	$41,091	$886,496	4.86%

(Fletcher)

Staff Analysis: The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A. This results in a revenue requirement of $886,496, which represents an increase of $41,091 or 4.86 percent.

Issue 20: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly rates are shown on Schedule No. 4. Staff's recommended rates are designed to produce revenues of $860,600 excluding miscellaneous service charge revenues. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Fletcher)

Staff Analysis: Staff's recommended revenue requirement is $886,496. After excluding miscellaneous service and other revenues of $26,370, the revenue to be recovered through rates is $860,600. Longwood's current wastewater rate structure is a flat rate for residential customers and a base facility charge and gallonage charge for general service customers.

Because the revenue requirement increase is very small, staff recommends that an across-the-board increase be applied to the Utility service rates prior to filing. To determine the appropriate percentage increase to apply to the service rates prior to filing, miscellaneous service and other revenues should be removed from the test year revenues.

		Wastewater
1	Total Test Year Revenues	$845,405
2	Less: Miscellaneous Revenues	26,370
3	Test Year Revenues from Service Rates	$819,035
4	Revenue Increase	$41,091
5	% Service Rate Increase (Line 4/Line3)	5.02%

As such, the across-the-board increase of 5.02 percent should be applied to the service rates prior to filing. 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 of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's prior to filing and requested rates, the Commission-approved interim rates, and staff's recommended PAA rates are shown on Schedule No. 4.

Issue 21: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. Longwood should be authorized to revise its miscellaneous service charges. The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. The Utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. The appropriate charges are reflected below. This notice may be combined with the notice required in Issue 20.

Miscellaneous Service Charges

	Normal Hrs	After Hrs
Initial Connection	$21	$42
Normal Reconnection	$21	$42
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit	$21	$42

(Fletcher)

Staff Analysis: The miscellaneous service charges were approved for Longwood on July 15, 2001, and have not changed since that date. The Utility believes these charges should be updated to reflect current costs. Staff agrees with this request. Longwood provided the following cost estimates for the expenses associated with connections, reconnections, and premises visits:

During Business Hours		After Hours	
Item:	Cost:	Item:	Cost:
Labor ($31.50/hr. X 0.5 hours)	$15.63	Labor ($46.88/hr. X 0.75 hours)[30]	$35.16
Transportation	5.00	Transportation	6.00
Total	$20.63	Total	$41.16

Staff recommends that Longwood be allowed to increase its water and wastewater miscellaneous service charges from $15 to $21 for work performed during normal working hours and from $15 to $42 for after hours work. Staff recommends these same charges apply to the Utility's Premises Visit Charge. The current and recommended wastewater charges are shown below.

[30] Represents time-and-a-half wage and the additional time it takes an employee to get to the customer's property after hours.

Wastewater Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	N/A	$21	$42
Normal Reconnection	$15	N/A	$21	$42
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	$10	N/A	$21	$42
Premises Visit	N/A	N/A	$21	$42

Longwood's miscellaneous service charges have not been updated in approximately 9 years, and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 35.25 percent in that period of time. The Commission has expressed concern with miscellaneous service charges that fail to compensate utilities for the cost incurred. In Order No. PSC-96-1320-FOF-WS, involving Southern States Utilities Inc., the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications."[31] Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request that their miscellaneous service charges be indexed. Staff applied the approved price indices from 2001 through 2010 to Longwood's $15 miscellaneous service charge and the result was a charge of $20.29. Therefore, staff believes a $21 charge is reasonable and is cost based.

The Utility's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premise for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should be replaced with what will be called "Premises Visit" charge. In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection charge, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, the Commission approved a Premises Visit charge to be levied when a service representative visits a premises at the customer's request for a complaint and the problem is found to be the customer's responsibility.[32] Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) charge be eliminated and the Premises Visit charge be approved.

[31] Issued October 30, 1996, in Docket No. 950495-WS, In re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

[32] Issued April 18, 2005, in Docket 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

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

Issue 22: Should the Utility's request for approval of Non-Sufficient Funds (NSF) fees be granted?

Recommendation: Yes. The Utility's requested Non-Sufficient Funds (NSF) fee should be approved. The NSF fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. This notice may be combined with the notice required in Issue 20. (Fletcher)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Longwood has requested an NSF fee in accordance with the Section 832.08(5), F.S.

Staff believes that Longwood should be authorized to collect an NSF fee. Staff believes the NSF fee should be established consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 68.065(2) and 832.08(5), F.S., the following fees may be assessed:

1.) $25, if the face value does not exceed $50,

2.) $30, if the face value exceeds $50 but does not exceed $300,

3.) $40, if the face value exceeds $300, or

4.) five percent of the face amount of the check, whichever is greater.

Staff recommends that Longwood's tariff for an NSF fee be revised to reflect the charges set by Sections 68.065(2) and 832.08(5), F.S.

Approval of an NSF fee is consistent with prior Commission decisions.[33] As such, staff recommends that Longwood's proposed NSF fee should be approved. This fee should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

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[33] See Order Nos. PSC-08-0831-PAA-WS, issued December 23, 2008, in Docket No. 070680-WS, In re: Application for staff-assisted rate case in Pasco County by Orangewood Lakes Services, Inc.; and PSC-97-0531-FOF-WU, issued May 9, 1997, in Docket No. 960444-WU, In re: Application for rate increase and for increase in service availability charges in Lake County by Lake Utility Services, Inc., at p.20.

OTHER ISSUES

Issue 23: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, no wastewater refunds are required. Further, upon issuance of the Consummating Order in this docket, the surety bond should be released. (Fletcher)

Staff Analysis: By Order No. PSC-09-0833-PCO-SU, issued December 21, 2009, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was $851,489, which represents an increase of $109,159 or 14.70 percent.

According to Section 367.082, F.S., 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 should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2008. Longwood's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the $851,489 revenue requirement granted in Order No. PSC-09-0833-PCO-SU is less than the revised revenue requirement for the interim collection period of $853,594. As such, staff recommends that no refund is required for wastewater revenues collected under interim rates. Further, upon issuance of the Consummating Order in this docket, the surety bond should be released.

Issue 24: 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?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $30,639 for rate case expense, grossed-up for Regulatory Assessment Fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is $30,639. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. Longwood should provide proof of the date notice was given no less than 10 days after the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should 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.

Issue 25: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Longwood should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Fletcher)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Longwood should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 26: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the surety bond released. However, 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. (Klancke, Fletcher)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the surety bond released. However, 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.

	Utilities, Inc. of Longwood Schedule of Wastewater Rate Base Test Year Ended 12/31/08				Schedule No. 1-A Docket No. 090381-SU	
	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year
1	Plant in Service	$3,634,524	$431,644	$4,066,168	($549,723)	$3,516,445
2	Land and Land Rights	229,215	210	229,425	0	229,425
3	Non-used and Useful Components	0	0	0	0	0
4	Accumulated Depreciation	(1,896,917)	385,077	(1,511,840)	47,254	(1,464,586)
5	CIAC	(1,661,914)	0	(1,661,914)	0	(1,661,914)
6	Amortization of CIAC	1,264,556	(453,906)	810,650	466,018	1,276,668
7	CWIP	218,314	(218,314)	0	0	0
8	Acquisition Adjustment	101,733	(101,733)	0	0	0
9	Working Capital Allowance	0	99,980	99,980	(31,932)	68,048
10	**Rate Base**	$1,889,511	$142,958	$2,032,469	($68,384)	$1,964,085

Utilities, Inc. of Longwood **Adjustments to Rate Base** **Test Year Ended 12/31/08**		**Schedule No. 1-B** **Docket No. 090381-SU**
	Explanation	**Wastewater**
	Plant In Service	
1	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	($82,485)
2	Contested Rate Base Audit Adjustments. (Issue 3)	(105,408)
3	To Reflect Phoenix Project Adjustment. (Issue 4)	(9,570)
4	To Reflect Pro Forma Adjustments. (Issue 5)	(352,342)
5	Contested NOI Audit Adjustments. (Issue 12)	82
	Total	($549,723)
	Accumulated Depreciation	
1	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	$4,586
2	Contested Rate Base Audit Adjustments. (Issue 3)	30,572
3	To Reflect Phoenix Project Adjustment. (Issue 4)	4,278
4	To Reflect Pro Forma Adjustments. (Issue 5)	7,822
5	Contested NOI Audit Adjustments. (Issue 12)	(4)
	Total	$47,254
	Accumulated Amortization of CIAC	
	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	$466,018
	Working Capital	
	To reflect the appropriate working capital allowance. (Issue 7)	($31,932)

Utilities, Inc. of Longwood
Capital Structure-Simple Average
Test Year Ended 12/31/08

Schedule No. 2
Docket No. 090381-SU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($179,181,047)	$818,953	40.29%	6.65%	2.68%
2	Short-term Debt	32,637,500	0	32,637,500	(32,489,090)	148,410	7.30%	5.23%	0.38%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	158,054,717	0	158,054,717	(157,335,603)	719,114	35.38%	11.13%	3.94%
5	Customer Deposits	29,428	0	29,428	0	29,428	1.45%	6.00%	0.09%
6	Deferred Income Taxes	316,564	0	316,564	0	316,564	15.58%	0.00%	0.00%
7	**Total Capital**	$371,038,209	$0	$371,038,209	($369,005,740)	$2,032,469	100.00%		7.09%
Per Staff									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($179,214,289)	$785,711	40.00%	6.65%	2.66%
9	Short-term Debt	32,637,500	0	32,637,500	(32,495,035)	142,465	7.25%	5.23%	0.38%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	158,054,717	0	158,054,717	(157,364,799)	689,918	35.13%	11.13%	3.91%
12	Customer Deposits	29,428	0	29,428	0	29,428	1.50%	6.00%	0.09%
13	Deferred Income Taxes	316,564	0	316,564	0	316,564	16.12%	0.00%	0.00%
14	**Total Capital**	$371,038,209	$0	$371,038,209	($369,074,124)	$1,964,085	100.00%		7.04%

	LOW	HIGH
RETURN ON EQUITY	10.13%	12.13%
OVERALL RATE OF RETURN	6.69%	7.39%

Utilities, Inc. of Longwood
Statement of Wastewater Operations
Test Year Ended 12/31/08

Schedule No. 3-A
Docket No. 090381-SU

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Staff Adjust-ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1	**Operating Revenues:**	$770,736	$173,203	$943,939	($98,534)	$845,405	$41,091 4.86%	$886,496
	Operating Expenses							
2	Operation & Maintenance	$577,507	$16,656	$594,163	($49,782)	$544,381		$544,381
3	Depreciation	87,195	2,905	90,100	(19,766)	70,334		70,334
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	82,706	9,803	92,509	(7,152)	85,357	1,849	87,206
6	Income Taxes	(9,872)	32,937	23,065	8,494	31,559	14,767	46,326
7	**Total Operating Expense**	$737,536	$62,301	$799,837	($68,206)	$731,631	$16,616	$748,246
8	**Operating Income**	$33,200	$110,902	$144,102	($30,327)	$113,775	$24,475	$138,250
9	**Rate Base**	$1,889,511		$2,032,469		$1,964,085		$1,964,085
10	**Rate of Return**	1.76%		7.09%		5.79%		7.04%

	Utilities, Inc. of Longwood Adjustment to Operating Income Test Year Ended 12/31/08	Schedule 3-B Docket No. 090381-SU
	Explanation	**Wastewater**
	Operating Revenues	
1	Remove requested final revenue increase.	($199,144)
2	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(16,459)
3	Reflect Appropriate Annualized Revenues. (Issue 11)	117,070
	Total	($98,534)
	Operation and Maintenance Expense	
1	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	($6,391)
2	Contested NOI Audit Adjustments. (Issue 12)	(7,591)
3	Appropriate Salary Adjustment. (Issue13)	(14,706)
4	Appropriate Benefits Adjustment. (Issue13)	(3,628)
5	Reflect Appropriate Allocated Relocation Expense. (Issue 14)	(550)
6	Appropriate Transportation Expense. (Issue15)	(1,215)
7	Reflect Appropriate Rate Case Expense. (Issue 16)	(15,123)
8	Appropriate Bad Debt Expense. (Issue 17)	(578)
	Total	($49,782)
	Depreciation Expense - Net	
1	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	($7,670)
2	To Reflect Phoenix Project Adjustment. (Issue 4)	(4,278)
3	To Reflect Pro Forma Adjustments. (Issue 5)	(7,822)
4	Contested NOI Audit Adjustments. (Issue 12)	4
	Total	($19,766)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($4,434)
2	Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(33)
3	To Reflect Pro Forma Adjustments. (Issue 5)	(1,560)
4	Payroll taxes associated Salary Adjustment. (Issue 13)	(1,125)
	Total	($7,152)

Utilities, Inc. of Longwood — **Schedule No. 4**
Wastewater Monthly Service Rates — **Docket No. 090381-SU**
Test Year Ended 12/31/08

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	$34.98	$40.31	$39.09	$36.73	$1.27
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$15.14	$17.45	$17.14	$15.90	$0.55
1"	$37.83	$43.60	$42.85	$39.73	$1.37
1-1/2"	$75.67	$87.21	$85.71	$79.47	$2.75
2"	$121.06	$139.52	$137.14	$127.13	$4.39
3"	$242.14	$279.06	$257.13	$254.29	$8.79
Gallonage Charge, per 1,000 Gallons	$2.83	$3.26	$3.57	$2.97	$0.10
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$34.98	$40.31	$39.09	$36.73	
5,000 Gallons	$34.98	$40.31	$39.09	$36.73	
10,000 Gallons	$34.98	$40.31	$39.09	$36.73	