

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 26, 2014

TO: Patti Daniel, Bureau Chief, Bureau of Economic Impact and Rate Design

FROM: Sonica Bruce, Economic Analyst
Martha Golden, Regulatory Supv/Consultant
Matthew Vogel, Public Utility Analyst I
Penny Buys, Engineering Specialists IV

RE: Docket No. 130265-WU – Application for staff-assisted rate case in Charlotte County by Little Gasparilla Water Utility, Inc.

– STAFF REPORT –

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Case Background

Little Gasparilla Water Utility, Inc. (Little Gasparilla or Utility) is a Class B water utility serving approximately 371 customers on Little Gasparilla Island in Charlotte County. The Utility's service area is on a private island, which consists primarily of vacation rentals. Little Gasparilla's service territory is located in the Southern Water Use Caution Area (SWUCA) within the Southwest Florida Water Management District (SWFWMD). Water service is provided through a reverse osmosis water treatment plant. Wastewater service is provided by either septic tanks or a central wastewater system owned by the condominium's homeowners' association (HOA).¹ According to Little Gasparilla's 2013 annual report, total gross revenues were \$258,770 and total operating expenses were \$231,320 resulting in a net loss of \$17,825.

Little Gasparilla has been in existence since 1986 and was granted an original certificate in 2001.² Effective September 25, 2007, the Florida Public Service Commission's (Commission or PSC) jurisdiction was rescinded by Charlotte County, and the Utility's certificate was cancelled.³ Subsequently in 2013, Charlotte County transferred jurisdiction back to the PSC. Effective February 12, 2013, Little Gasparilla was granted Certificate No. 661-W.⁴ Little Gasparilla's rate base was established by Charlotte County as of December 31, 2010, but has never been established by the PSC.⁵ In the instant docket, the Utility filed its application on November 4, 2013. The official date of filing is January 3, 2014.

One of the primary reasons the Utility filed this case is to address the planned subaqueous pipeline from the island to an interconnection with Charlotte County to purchase bulk water. The Utility indicated that the interconnection will be an economical and feasible means of expanding the plant while improving the water source. The Utility anticipates the completion of the interconnect by November 2014.

This Staff Report is a **preliminary** analysis of the Utility prepared by Commission staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed September 25, 2014, for the October 9, 2014 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting. The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ The homeowner's association provides service solely to members and is exempt pursuant to Section 367.022 (7), F.S.

² See Order No. PSC-01-0992-PAA-WU, issued April 20, 2001, in Docket No. 001049-WU, In re: Application for original water certificate in Charlotte County by Little Gasparilla Water Utility, Inc.

³ See Order No. PSC-07-0984-FOF-WS, issued December 10, 2007, in Docket No. 070643-WS, In re: Resolution No. 2007-143 by Charlotte County Board of Commissioners, in accordance with Section 367.171, F.S., rescinding Florida Public Service Commission jurisdiction over private water and wastewater systems in Charlotte County.

⁴ See Order No. PSC-13-0177-PAA-WU, issued April 29, 2013, in Docket No. 130052-WU, In re: Application for grandfather certificate to operate water utility in Charlotte County by Little Gasparilla Water Utility, Inc.

⁵ See Charlotte County Board of County Commissioners' Resolution Number 2012-032, issued June 12, 2012, in Charlotte County Docket No. 2011-02-W, In re: Application of Little Gasparilla Water Utility, Inc. for Staff Assisted Rate Case.

Discussion of Issues

Issue 1: Is the quality of service provided by Little Gasparilla satisfactory?

Preliminary Recommendation: The staff recommendation regarding quality of service will not be finalized until after the July 16, 2014 customer meeting. (Buys)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the utility operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Florida Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from DEP and health department officials and customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities

Little Gasparilla's service area is located on Little Gasparilla Island, near Englewood, Florida in Charlotte County. The raw water source is ground water, which is obtained from three wells in the service area and is treated. The water treatment processing sequence is to pump raw water from the aquifer, perform a desalination process, inject calcium hypochlorite, store the treated water in a tank, and distribute. Wastewater service is provided via septic tanks or a central wastewater treatment plant owned by the HOA. Staff reviewed the Utility's last two DEP Sanitary Survey Reports dated November 9, 2012, and December 6, 2013. Both reports had the same deficiencies: one of the wells was leaking and there was no safety equipment for handling the chlorine. Staff will follow up with the Utility about these two deficiencies.

Staff also reviewed the System Lab Reports with samples dated December 20, 2012. All of the contaminants except for the Chloride, which is a secondary contaminant, were below the Maximum Contaminant Level (MCL). The MCL for Chloride is 250 milligrams per liter (mg/L) and the Chloride tested at 315 mg/L. The Total Dissolved Solids (TDS), another secondary contaminant, tested at 480 mg/L and the MCL for TDS is 500 mg/L. The secondary contaminants are the contaminants the customers would notice but are not a health risk. Because the secondary contaminants are not a health risk, DEP does not enforce the MCL, unless another type contaminant is over the MCL. Staff contacted DEP about the system lab tests. DEP noted that the source water is very salty and, when there is any other type of issues that DEP is concerned with, the Utility works to correct the problem with the system and water quality. DEP also noted that the Utility is very responsive to them. In order to improve its water source, the Utility anticipates constructing a subaqueous pipeline from the island to an interconnection with Charlotte County.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the PSC's complaint records and there were no complaints recorded during the test year. Staff asked the Utility for a copy of its in house complaints during the test year and the Utility responded with thirteen complaints from April 22, 2011 to January 13, 2013. Eight complaints were billing issues and two concerned the quality of water. Of these complaints, one was about salt in the water and the other complainant had questions about a report. Two additional complaints were concerning leaks in pipes and valves not closing. The last complaint concerned meters and alleged high readings. Staff will conduct a customer meeting on July 16, 2014, which will give the customers an opportunity to go on record with specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation. This recommendation is scheduled to be heard by the Commission at the October 9, 2014 Agenda Conference.

Summary

The staff recommendation regarding quality of service will not be finalized until after the July 16, 2014 customer meeting.

Issue 2: What are the used and useful percentages (U&U) of the water treatment plant (WTP), storage facilities, and the distribution system?

Preliminary Recommendation: Little Gasparilla's water treatment plant should be considered 100 percent U&U. Little Gasparilla's storage facilities should be considered 97 percent U&U. Staff can not make a recommendation on the water distribution system's U&U and on the adjustments made for excessive unaccounted for water (EUW) at this time. (Buys)

Staff Analysis: Little Gasparilla has a desalination WTP with two 4-inch wells and a third well that is 6 inches in diameter. Each well is rated at 60 gallons per minute (gpm) for a total capacity of 180 gpm. Raw water goes through a membrane treatment process and is then treated with injected calcium hypochlorite prior to entry into two ground storage tanks. The Utility's concrete storage tank has a capacity of 146,600 gallons and its fiberglass storage tank has a capacity of 12,000 gallons. The treated water from the tanks is pumped into the water distribution system. A field inspection of the water treatment plant will be conducted around July 16, 2014.

The distribution system is a composite network of approximately 15,000 linear feet of 6-inch PVC pipe, 6,000 linear feet of 4-inch PVC pipe, 4,000 linear feet of 3-inch PVC pipe, and 2,000 linear feet of 2 and 1-inch PVC pipe. According to the Utility, there are 14 fire hydrants. The distribution system appears to be properly sized and engineered to meet pressure and supply demands.

EUW

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. Unaccounted for water is all water that is produced that is not sold, metered or accounted for in the records of the utility. The rule provides that to determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for other services, such as flushing, and the gallons sold to customers from the total gallons pumped for the test year. The Utility's records indicated unaccounted for water of 17 percent, which would mean there is a EUW of 7 percent. The Utility produced 10,291,000 gallons of water; therefore, 7 percent of the water produced would be 704,690 gallons or 1,931 gallons per day (gpd).

WTP U&U

Pursuant to Rule 25-30.4325, F.A.C., the U&U percentage of a WTP with storage is calculated by dividing the peak system demand by the firm reliable capacity (FRC). The system demand is based on the single maximum day in the test year less EUW, plus a fire flow allowance and a growth allowance. The FRC for a water system with more than one well is determined by removing the highest capacity well. The Utility has three wells with a total capacity of 180 gpm. By taking one of the wells (60 gpm) out of service, the Utility reflected a

FRC of 115,200 gpd based on sixteen hours of pumping. The single maximum day in the test year was 69,000 gallons which occurred on June 27, 2013. It does not appear that there was a line break or other unusual occurrence on that day. The Utility's EUW is 7 percent of the water produced or 1,931 gpd. Based on historic patterns, the growth allowance by equivalent residential connections (ERC) is 58 ERCs. The gallons per ERCs are 206 gallons, which is the single maximum day minus the EUW. The growth allowance by gallon per day is 11,868 gpd (206 x 58). The fire flow allowance is 60,000 gpd per Rule 25-30.4325, F.A.C. The result, $[(69,000 - 1,931 + 60,000 + 11,868) / 115,200 = 121\%]$, is greater than 100 percent U&U. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission.

Storage U&U

Pursuant to Rule 25-30.4325(8), F.A.C., the U&U calculation for storage is based on the peak system demand divided by the usable storage capacity. Pursuant to Rule 25-30.4325(9), F.A.C., the usable storage capacity is 142,740 gpd which is 90 percent of the total ground storage capacity of 158,600 gpd. The peak system demand is calculated above as the single maximum day, 69,000 gpd, minus the EUW, 1,931 gpd, plus the fire flow allowance, 60,000 gpd, and the growth allowance, 11,868 gpd. The result is $[(69,000 - 1,931 + 60,000 + 11,868) / 142,740 = 97\%]$ 97 percent U&U for storage. As mentioned above, there has been no prior rate case for this Utility; therefore U&U has not been previously established by the Commission.

Distribution System U&U

It appears from the Utility's system maps that the distribution system was designed to serve the existing customers. Staff will verify this information during its field inspection, which is scheduled for July 16, 2014.

Summary

Little Gasparilla's water treatment plant should be considered 100 percent U&U. Little Gasparilla's storage facilities should be considered 97 percent U&U. Staff can not make a recommendation on the water distribution system's U&U and the adjustments made for EUW at this time.

Issue 3: What is the appropriate average test year rate base for Little Gasparilla?

Preliminary Recommendation: The appropriate average test year rate base for Little Gasparilla is \$52,857. (Golden, Vogel)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, land, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC, and working capital. Little Gasparilla's rate base has never been established by this Commission. The Utility's only prior rate case was finalized in 2012 while under Charlotte County's jurisdiction.⁶ Staff selected the test year ended September 30, 2013, for the instant rate case. A summary of each component of rate base and the recommended adjustments are discussed below.

Utility Plant in Service (UPIS): The Utility recorded a test year UPIS balance of \$1,378,288 as of September 30, 2013. Audit staff determined that none of the original plant and a significant portion of plant additions could be verified due to lack of records. Staff has been advised by the Utility that many of the records were damaged in storage. During this case, the Utility worked diligently to recover as much supporting documentation as possible. As will be discussed further in Issue 11, the Utility requested consideration of several pro forma items in this case related to a planned interconnect with Charlotte County. Staff estimated that approximately \$95,000 of the original plant related to storage facilities and transmission and distribution mains is not yet fully depreciated and will continue to be depreciated for an additional 13 years beyond the test year. Because the storage facilities and transmission and distribution mains will continue to be used following the interconnect, staff believes it is worthwhile to continue working to establish an original cost if possible. For this reason, as well as the Utility's continued efforts to recover additional records, staff believes it is appropriate to postpone any adjustments related to lack of supporting documentation pending further analysis of the original cost and any additional supporting documentation that may be provided by the Utility. However, staff recommends the following adjustments be made to the Utility's recorded UPIS at this time.

Table 3-1

Summary of Adjustments to UPIS		
	Adjustment Description	Water
1.	To reclassify meters from expense Acct. Nos. 620 & 636 to Acct. No. 334.	\$2,000
2.	To reclassify structures and improvements from expense Acct. No. 675 to Acct. No. 304.	541
3.	To reclassify contractual services - other to expense Acct. No. 636.	(1,100)
4.	To reflect an averaging adjustment.	(2,258)
	Total	(\$817)

Based on the adjustments shown above, staff's net adjustment to UPIS is a decrease of \$817. Staff recommends a UPIS balance of \$1,377,471.

⁶ See Charlotte County Board of County Commissioner's Resolution Number 2012-032, issued June 12, 2012.

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Land and Land Rights: The Utility recorded a test year land balance of \$52,475. No adjustments are necessary, therefore, staff recommends a land and land rights balance of \$52,475.

Non-Used and Useful Plant: As discussed in Issue 2, Little Gasparilla's WTP, storage facilities, and distribution system are considered 100 percent U&U pending completion of staff's investigation. Therefore, a used and useful adjustment is not being made at this time.

Contribution in Aid of Construction (CIAC): The Utility did not record a test year CIAC balance. Staff increased CIAC by \$540,000 to reflect the appropriate test year balance. Also, staff decreased CIAC by \$9,000 to reflect an averaging adjustment. Staff recommends a CIAC balance of \$531,000.

Accumulated Depreciation: Little Gasparilla recorded a test year accumulated depreciation balance of \$1,045,035. Staff calculated the annual accruals to accumulated depreciation beginning with the year 1986, using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should be decreased by \$35,404 to reflect the correct balance for the test year. Also, staff decreased this account by \$20,246 to reflect an averaging adjustment. Staff's net adjustment to accumulated depreciation is a decrease of \$55,650, resulting in an accumulated depreciation balance of \$989,385.

Accumulated Amortization of CIAC: Little Gasparilla recorded no amortization of CIAC. Amortization of CIAC has been calculated by audit staff using composite depreciation rates. As a result, accumulated amortization of CIAC should be increased by \$121,332. In addition, staff decreased this account by \$6,609 to reflect an averaging adjustment, resulting in a net adjustment of \$114,723. Therefore, staff recommends an amortization of CIAC balance of \$114,723.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are 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 operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$28,573 (based on O&M expense of \$228,583/8). Staff increased the working capital allowance by \$28,573.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$52,857. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

Issue 4: What are the appropriate return of equity and overall rate of return for Little Gasparilla?

Preliminary Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 7.90 percent. (Golden, Vogel)

Staff Analysis: According to staff's audit, the Utility's test year capital structure reflected common equity of \$1,000 and long-term debt of \$663,235. Audit staff determined that no adjustments are necessary. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 11.16 percent based upon the Commission-approved leverage formula currently in effect.⁷ Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent, and an overall rate of return of 7.90 percent.

⁷ See Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-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), F.S.

Issue 5: What is the appropriate amount of test year revenues?

Preliminary Recommendation: The appropriate amount of test year revenues for Little Gasparilla's water system is \$264,149. (Bruce)

Staff Analysis: Little Gasparilla recorded total test year revenues of \$276,331, which consists of only service revenues. Staff made several adjustments to the Utility's service revenues. The Utility incorrectly recorded CIAC of \$18,900 and loan payments of \$805 as service revenues. Staff decreased service revenues, accordingly. In addition, the Utility records its revenues based on an aging report. This aging report excludes any bills with a previous credit greater than the current balance due, which understates revenues. Staff reviewed the Utility's billing determinants, applied the rates that were in effect during the test year, and determined that the service revenues should be increased by \$5,315.

Also, service revenues should be increased by \$1,228 to impute revenues for a customer issued credit in exchange for a property easement. Furthermore, the Utility did not record late payment charges of \$980 collected during the test year. Staff increased test year revenues by \$980 to reflect the appropriate miscellaneous revenues. Staff's adjustments result in a net decrease of \$13,162 ($-\$18,900 - \$805 + \$5,315 + \$1,228$) to service revenues and an increase of \$980 to miscellaneous revenues. Based on the above, staff recommends that the appropriate amount of test year revenues for Little Gasparilla's water system is \$264,149.

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Issue 6: What is the appropriate amount of operating expenses?

Preliminary Recommendation: The appropriate amount of operating expenses for the Utility is \$291,424. (Golden, Vogel)

Staff Analysis: Little Gasparilla recorded operating expenses of \$238,513 for the test year ended September 30, 2013. The test year operating 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.

Expense Reclassifications – Little Gasparilla recorded total O&M expenses of \$179,272 for the test year. Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities are required to maintain their accounts and records in conformity with the 1996 National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). Little Gasparilla maintained a majority of its expense accounts using the NARUC USOA. However, during the test year, a number of expenses were misclassified. Staff reclassified those expenses to the correct NARUC accounts. The reclassifications are revenue neutral, have no impact on the revenue requirement, and are made simply to adjust the Utility's test year account balances to the correct starting balances for rate setting purposes. The adjusted account balances are reflected on Schedule No. 3-C in the "Total Per Utility" column, which continues to reflect the Utility's test year O&M expense total of \$179,272 following the reclassifications. Staff's remaining adjustments that have a revenue impact are discussed in detail below.

Salaries and Wages – Employees (601) – Little Gasparilla recorded \$29,883 for salaries in this account. Staff increased this account by \$11,500 to reflect current annualized employee salaries. Staff recommends salaries and wages – employees expense for the test year of \$41,383.

Employee Pensions and Benefits (604) – The Utility recorded no employee pensions and benefits expense during the test year, but requested a pro forma adjustment to recognize the Utility's planned Simplified Employee Pension Plan (SEP). The Utility has taken steps to set up the SEP and plans to contribute the maximum allowed 25 percent of salaries for all eligible employees. An estimated contribution of \$29,356 will be made annually. Staff has increased this account to reflect the annual SEP contributions, and recommends employee pensions and benefits expense of \$29,356.

Purchased Power (615) – The Utility recorded purchased power expense of \$19,048. Staff decreased this account by \$97 to remove late fees. Staff recommends purchased power expense for the test year of \$18,951.

Materials and Supplies (620) – The Utility recorded materials and supplies expense of \$12,045. Staff decreased this account by \$1,615 to reclassify meter expenses to plant Acct. No. 334. Also, staff decreased this account by \$608 to reflect appropriate accrual reversal entries. Staff's total adjustment results in a decrease of \$2,223. Staff recommends materials and supplies expense for the test year of \$9,822.

Contractual Services - Professional (631) – The Utility recorded contractual services – professional expense of (\$5,868). The negative balance is due to correcting entries that were made for items outside the test year that exceeded the test year balance. Excluding those adjustments, the test year balance would have been \$14,745. Staff increased this account by \$8,851 to reverse the out of period accrual adjustments for expenses from 2011. In addition, staff increased this account by \$11,762 to reverse an adjustment to reclassify preliminary expenses related to the interconnection project that included out of period expenses. Staff decreased this account by \$7,344 to reclassify test year preliminary expenses related to the interconnection project pending completion of the project. Staff also decreased this account by \$2,643 to reflect the 5-year amortization of legal expenses related to the Utility’s grandfather certificate application. Finally, staff decreased this account by \$98 to remove unsupported expenses. Staff’s net adjustment is an increase of \$10,528. Therefore, staff recommends contractual services – professional expense of \$4,660.

Contractual Services – Testing (635) – The Utility recorded contractual services – testing expense of \$3,508. Staff decreased this account by \$39 to remove a test year accrual that was not reversed. Staff also decreased this account by \$1,540 to reflect the 3-year amortization of the triennial water tests. Staff’s total adjustment results in a decrease of \$1,579. Staff recommends contractual services - testing expense of \$1,929.

Contractual Services - Other (636) – Little Gasparilla recorded \$12,952 for contractual services – other expense during the test year. Staff decreased this account by \$385 to reclassify meter expenses to plant Acct. No. 334. Staff also decreased this account by \$625 to reflect the appropriate test year plant operator expense. In addition, staff decreased this account by \$315 to remove out of period expenses for weed removal. Staff increased this account by \$1,110 to reclassify contractual services expense from plant in service. Finally, staff increased this account by \$290 to reflect a pro forma adjustment for the Utility’s generator maintenance service contract. Staff’s net adjustment to this account is an increase of \$75. Therefore, staff recommends contractual services – other expense of \$13,027.

Transportation Expense (650) – Little Gasparilla recorded \$9,744 for transportation expense for the test year. Little Gasparilla Island is a bridgeless barrier island that may only be accessed by boat or ferry. This account includes expenses related to the operation and maintenance of the boats used by the Utility to access the Utility facilities. Staff decreased this account by \$253 to reflect the 2-year amortization of the Utility’s boat sanding and painting repairs. Staff has increased this account by \$113 to reflect the pro forma 2-year amortization of the Utility’s boat registration. Also, staff has decreased this account by \$136 to reflect the 5-year amortization of a non-recurring auto repair. Finally, staff has decreased this account by \$1,369 to remove several unsupported, non-utility, or non-test year expenses. Staff’s net adjustment is a decrease of \$1,645. Staff recommends transportation expense for the test year of \$8,099.

Insurance Expense (655) – The Utility recorded insurance expense of \$11,547 for the test year. Staff decreased this account by \$1,457 to remove non-utility health care costs. In addition, staff decreased this account by \$2,072 to remove unsupported expenses. Staff increased this account by \$6,293 to include a pro forma adjustment to reflect the appropriate health insurance expense.

Staff's net adjustment is an increase of \$2,764. Staff recommends insurance expense for the test year of \$14,311.

Regulatory Commission Expense (665) – Little Gasparilla recorded regulatory commission expense of \$1,000 for the test year to reflect the Utility's certification filing fee. Staff decreased this account by \$800 to reflect the 5-year amortization of this expense. Regarding the instant case, the Utility is required by Rule 25-22.0407, F.A.C., to provide notices to its customers of the customer meeting and notices of final rates for Phases I and II in this case. For noticing, staff estimated \$547 for postage expense, \$335 for printing expense, and \$56 for envelopes. This results in \$938 for the noticing requirement. The Utility paid a \$1,000 rate case filing fee. The Utility has provided a preliminary estimate for legal fees of \$15,185. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on the above, staff recommends total rate case expense of \$17,122 (\$937 + \$1,000 + \$15,185), which amortized over 4 years is \$4,281. Staff's net adjustment to this account is an increase of \$3,481. Staff recommends regulatory commission expense of \$4,481.

Miscellaneous Expense (675) – The Utility recorded miscellaneous expense of \$12,322. Staff increased this account by \$217 to reverse an accrual reversal entry that included out of period expenses. Staff decreased this account by \$541 to reclassify construction materials to plant Acct. No. 304. Also, staff decreased this account by \$940 to reflect the appropriate test year telephone expense. Staff further decreased this account by \$500 to reflect the appropriate annual drinking water permit renewal expense. Finally, staff decreased this account by \$1,085 to remove several unsupported or non-utility expenses. Staff's net adjustment to this account is a decrease of \$2,849. Therefore, staff recommends miscellaneous expense of \$9,473 for the test year.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M expense should be increased by \$49,311, resulting in total O&M expense of \$228,583. Staff's recommended adjustments to O&M expense are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The Utility's records reflect test year depreciation of \$26,214 and no amortization of CIAC expense. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C. and determined that depreciation expense should be increased by \$14,250. In addition, staff calculated amortization of CIAC based on composite rates and determined amortization of CIAC of \$13,219. Staff's net adjustment is an increase of \$1,031 (\$14,250 - \$13,219). Therefore, staff recommends net depreciation expense of \$27,245.

Taxes Other Than Income (TOTI) – Little Gasparilla recorded a TOTI balance of \$33,027. Staff decreased this account by \$55 to reflect the appropriate test year RAFs. Staff increased this account by \$170 to reflect the appropriate test year utility property taxes. Also, staff increased this account by \$1,038 to reflect the appropriate payroll taxes. Staff's net adjustment to test year TOTI is an increase of \$1,153. In addition, as discussed in Issue 7, revenues have been increased by \$31,451 to reflect the change in revenue required to cover expenses and allow the recommended rate of return. As a result, TOTI should be increased by \$1,415 to reflect RAFs of 4.5 percent on the change in revenues. Therefore, staff recommends TOTI of \$35,595.

Operating Expenses Summary – The application of staff’s recommended adjustments to Little Gasparilla’s test year operating expenses result in operating expenses of \$291,424. Operating expenses are shown on Schedule No. 3-A. The adjustments are shown on Schedule No. 3-B.

Issue 7: What is the appropriate Phase I revenue requirement?

Preliminary Recommendation: The appropriate Phase I revenue requirement is \$295,600, resulting in an annual increase of \$31,451 (11.91 percent) (Golden, Vogel)

Staff Analysis: Little Gasparilla should be allowed an annual increase of \$31,451 (11.91 percent). This will allow the Utility the opportunity to recover its expenses and earn a 7.90 percent return on its investment. The calculations are as follows:

Table 7-1

Water Revenue Requirement	
Adjusted Rate Base	\$52,857
Rate of Return	x 7.90%
Return on Rate Base	\$4,177
Adjusted O&M Expense	228,583
Depreciation Expense (Net)	27,245
Taxes Other Than Income	35,595
Income Taxes	0
Revenue Requirement	\$295,600
Less Test Year Revenues	264,149
Annual Increase	\$31,451
Percent Increase	11.91%

Issue 8: What are the appropriate rate structure and rates for Little Gasparilla?

Preliminary Recommendation: The preliminary recommended rate structure and monthly water rates are shown on Schedule No. 4. 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 services rendered on or after the stamped approval date on the tariff sheets, 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 within 10 days of the date of the notice. (Bruce)

Staff Analysis: Little Gasparilla is located in Charlotte County in the SWUCA within the SWFWMD. As previously discussed, the Utility's service area is on a private island, which consists primarily of vacation rentals. There are 358 residential customers of which only about 20 are full-time residents, which is indicative of a highly seasonal customer base. In addition, there are 13 water customers billed as general service because they use water service for boat maintenance. The average residential water demand is 1,734 per month, including zero gallons bills. Currently, Little Gasparilla's rate structure consists of a monthly base facility charge (BFC) and a uniform gallonage charge for both residential and general service customers. Although the rates are monthly, customers are billed on a quarterly basis. It is Commission practice to convert quarterly billing to monthly billing when appropriate to encourage water conservation. However, the Utility owner has indicated billing on a monthly basis would not be effective due to the highly seasonal nature of its customer base. Furthermore, the average usage is very low. Therefore, staff is not recommending a change to monthly billing.

Water Rates

Staff performed an 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 water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In this case, staff believes that it is not necessary to design a conservation-oriented rate structure due to the Utility's highly seasonal customer base coupled with the low average monthly consumption. In addition, no significant repression is anticipated. Staff recommends that the revenue requirement increase be applied across-the-board to the Utility's existing rates. To determine the appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in an 11.95 percent increase in the service rates.

Summary

Based on the foregoing, staff recommends no change to the water rate structure. Staff recommends that the water rates for Little Gasparilla be increased by 11.95 percent. The recommended monthly water rates shown on Schedule No. 4 should continue to be billed on a quarterly basis. 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 services rendered on or after the stamped approval date on the tariff sheets, 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 within 10 days of the date of the notice.

Issue 9: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F. S.?

Preliminary Recommendation: The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and 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. If Little Gasparilla 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. (Bruce, Golden, Vogel)

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, the associated return on working capital, and the gross-up for RAFs which is \$4,527. Using the Utility's current revenues, expenses, and customer base, the reduction in revenues will result in the rate decrease shown on Schedule No. 4.

Little Gasparilla 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 Little Gasparilla 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.

Date: June 26, 2014

Issue 10: Should the Commission approve a Phase II increase for pro forma items for Little Gasparilla?

Preliminary Recommendation: Yes. The Commission should approve a Phase II revenue requirement associated with pro forma items. The Utility's Phase II revenue requirement is \$496,100 which equates to a 67.83 percent increase over the Phase I revenue requirement. Staff recommends that the increase be applied as an across-the-board increase to the Phase I base facility charge (BFC) and gallorage charges as shown on Schedule No. 8.

Little Gasparilla should be required to complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should also be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing. (Golden, Vogel, Buys, Bruce)

Staff Analysis: The Utility has requested recognition of several pro forma plant items in the instant case which includes construction of subaqueous pipeline and interconnection with Charlotte County. As mentioned in the case background, the Utility indicated that the interconnection will be an economical and feasible means of expanding the plant while improving the water source. The Utility anticipates the completion of the interconnect by November 2014. The following table summarizes the pro forma plant items and estimated cost.

Table 12-1

	Pro Forma Plant Items	Estimated Cost
1.	Generator Repair	\$1,201
2.	Backhoe Purchase	24,695
3.	Golf Cart Purchase	4,922
4.	Construction of subaqueous pipeline and interconnection with Charlotte County	739,624
5.	Construction of Utility Building	374,000
6.	Remote Read Meter Change Out Program	24,915
	Total	<u>\$1,169,357</u>

Staff's analysis regarding the reasonableness of the cost and the Utility's prudent management of the pro forma investment has not been finalized. However, staff recommends that these pro forma plant items be included in a Phase II revenue requirement on a preliminary basis pending further review.

Staff is recommending a Phase II revenue requirement associated with the pro forma items for a number of reasons. First, it assures that the pro forma items are completed prior to

the Utility's recovery of the investment in rates. In addition, addressing the pro forma items in a single case saves additional rate case expense to the customers because the Utility would not need to file another rate case or limited proceeding to seek recovery for these items. The Commission has approved a Phase-In approach in Docket Nos. 110238-WU, 110165-SU, and 100471-SU.⁸

The Utility's Phase II revenue requirement should be \$496,100. Phase II rate base is shown on Schedule Nos. 5-A and 5-B. The capital structure for Phase II is shown on Schedule No. 6. The revenue requirement is shown on Schedule Nos. 7-A and 7-B. The resulting rates are shown on Schedule No. 8.

Little Gasparilla should be required to complete the pro forma items within 12 months of the issuance of the consummating order. The Utility should also be required to submit a copy of the final invoices and cancelled checks for all pro forma plant items. The Utility should be allowed to implement the above rates once all pro forma items have been completed and documentation provided showing that the improvements have been made. Once verified, the 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. The rates should not be implemented until notice has been received by the customers. Little Gasparilla should provide proof of the date notice was given within 10 days of the date of the notice. If the Utility encounters any unforeseen events that will impede the completion of the pro forma items, the Utility should immediately notify the Commission in writing.

⁸ See Order Nos. PSC-12-0533-PAA-WU, issued October 9, 2012, in Docket No. 110238-WU, In re: Application for staff-assisted rate case in Polk County by Sunrise Utilities, LLC.; PSC-12-0410-PAA-SU, issued August 13, 2012, in Docket No. 110165-SU, In re: Application for staff-assisted rate case in Highlands County by Utility Corporation of Florida, Inc.; and PSC-11-0444-PAA-SU, issued October 7, 2011, in Docket No. 100471-SU, In re: Application for staff-assisted rate case in Marion County by S&L Utilities, Inc.

Issue 11: What are the appropriate initial customer deposits for Little Gasparilla?

Preliminary Recommendation: The appropriate initial customer deposit should be \$126 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Bruce)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Rule 25-30.311(7), F.A.C. provides that new or additional customer deposits may be collected from existing customers based on an average monthly bill for a two-month period. Staff calculated an initial residential customer deposit of \$126 for the 5/8" x 3/4" meter size. Also, the initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water.

Staff recommends that the appropriate initial customer deposit should be \$126 for the residential 5/8" x 3/4" meter size. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

Issue 12: Should the recommended rates be approved for Little Gasparilla on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates for Phase I 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. Little Gasparilla 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. 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 Clerk's office 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. (Golden, Vogel)

Staff Analysis: This recommendation proposes an increase in 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. Little Gasparilla 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 temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. 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 staff's approval of an 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 \$20,968. 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 monies 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;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 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 Clerk's office 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 13: Should Little Gasparilla be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted all applicable NARUC USOA primary accounts to reflect the Commission-approved adjustments?

Preliminary Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Little Gasparilla should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Golden, Vogel)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, Little Gasparilla should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made.

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
SCHEDULE OF WATER RATE BASE (PHASE I)			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,378,288	(\$817)	\$1,377,471
2. LAND & LAND RIGHTS	52,475	0	52,475
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(531,000)	(531,000)
5. ACCUMULATED DEPRECIATION	(1,045,035)	(55,650)	(989,385)
6. AMORTIZATION OF CIAC	0	114,723	114,723
7. WORKING CAPITAL ALLOWANCE	0	<u>28,573</u>	<u>28,573</u>
8. WATER RATE BASE	<u>\$385,728</u>	<u>(\$332,871)</u>	<u>\$52,857</u>

LITTLE GASPARILLA WATER UTILITY, INC.**TEST YEAR ENDED 09/30/13****ADJUSTMENTS TO RATE BASE (PHASE I)****SCHEDULE NO. 1-B****DOCKET NO. 130265-WU****UTILITY PLANT IN SERVICE**

1. To reclassify meters from expense Acct. Nos. 620 & 636 to Acct. No. 334.	\$2,000
2. To reclassify structures and improvements from expense Acct. 675 to Acct. 304.	541
3. To reclassify contractual services - other to expense Acct. No. 636.	(1,100)
4. To reflect an averaging adjustment.	(2,258)
Total	<u>(\$817)</u>

CIAC

1. To reflect appropriate allocation of CIAC.	(\$540,000)
2. To reflect an averaging adjustment.	9,000
Total	<u>(\$531,000)</u>

ACCUMULATED DEPRECIATION

1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	\$35,404
2. To reflect an averaging adjustment.	20,246
Total	<u>\$55,650</u>

AMORTIZATION OF CIAC

1. To adjust reflect appropriate amortization of CIAC.	\$121,332
2. To reflect an averaging adjustment.	(6,609)
Total	<u>\$114,723</u>

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O&M expenses.	<u>\$28,573</u>
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Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 SCHEDULE OF CAPITAL STRUCTURE (PHASE I)							SCHEDULE NO. 2 DOCKET NO. 130265-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. COMMON STOCK	\$1,000	\$0	\$1,000						
2. RETAINED EARNINGS	0	0	0						
3. PAID IN CAPITAL	0	0	0						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>						
TOTAL COMMON EQUITY	\$1,000	\$0	\$1,000	(\$920)	\$80	0.15%	11.16%	0.02%	
5. LONG TERM DEBT	\$54,460	\$0	\$54,460	(\$50,126)	\$4,334	8.20%	6.75%	0.55%	
6. LONG TERM DEBT	608,775	0	608,775	(560,331)	48,444	91.65%	8.00%	7.33%	
7. SHORT-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%	
8. PREFERRED STOCK	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%	
TOTAL LONG TERM DEBT	\$663,235	\$0	\$663,235	(\$610,458)	\$52,777	99.85%			
9. CUSTOMER DEPOSITS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>	
10. TOTAL	<u>\$664,235</u>	<u>\$0</u>	<u>\$664,235</u>	<u>(\$611,378)</u>	<u>\$52,857</u>	<u>100.00%</u>		<u>7.90%</u>	
RANGE OF REASONABLENESS						LOW	HIGH		
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>		
OVERALL RATE OF RETURN						<u>7.90%</u>	<u>7.90%</u>		

Docket No. 130265-WU
 Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC. TEST YEAR ENDED 09/30/13 SCHEDULE OF WATER OPERATING INCOME (PHASE I)			SCHEDULE NO. 3-A DOCKET NO. 130265-WU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$276,331</u>	<u>(\$12,182)</u>	<u>\$264,149</u>	<u>\$31,451</u> 11.91%	<u>\$295,600</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$179,272	\$49,311	\$228,583	\$0	\$228,583
3. DEPRECIATION (NET)	26,214	1,031	27,245	0	27,245
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	33,027	1,153	34,180	1,415	35,595
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$238,513</u>	<u>\$51,495</u>	<u>\$290,008</u>	<u>\$1,415</u>	<u>\$291,424</u>
8. OPERATING INCOME/(LOSS)	<u>\$37,818</u>		<u>(\$25,859)</u>		<u>\$4,177</u>
9. WATER RATE BASE	<u>\$385,728</u>		<u>\$52,857</u>		<u>\$52,857</u>
10. RATE OF RETURN	<u>9.80%</u>		<u>(48.92%)</u>		<u>7.90%</u>

LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 09/30/13
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 130265-WU
Page 1 of 2

OPERATING REVENUES

- | | |
|---|-----------------|
| 1. To reflect the appropriate test year revenues. | (13,162) |
| 2. To reflect the appropriate test year miscellaneous service revenues. | 980 |
| Subtotal | <u>(12,182)</u> |

OPERATION AND MAINTENANCE EXPENSES

- | | |
|--|------------------|
| 1. Salaries and Wages - Employees (601) | |
| a. To reflect appropriate allocation of current annualized employee salaries. | <u>\$11,500</u> |
| 2. Employee Pensions and Benefits (604) | |
| a. To reflect annual contribution to Simplified Employee Pension Plan. | <u>\$29,356</u> |
| 3. Purchased Power (615) | |
| a. To remove late fees. | <u>(\$97)</u> |
| 4. Materials and Supplies (620) | |
| a. To reclassify meter expenses to plant Acct. No. 334. | (\$1,615) |
| b. To remove accrual reversal entries for 2011 and 2012. | (608) |
| Subtotal | <u>(\$2,223)</u> |
| 5. Contractual Services - Professional (631) | |
| a. To reverse out of period accrual adjusting entries for 2011. | \$8,851 |
| b. To reverse out of period adjustment to reclassify 2012 interconnection project preliminary expenses. | 11,762 |
| c. To reclassify interconnection project preliminary expenses to Acct. No. 183 - Preliminary Survey and Investigation Charges. | (7,344) |
| d. To reflect 5-year amortization of legal expenses for grandfather certificate application. | (2,643) |
| e. To remove unsupported expenses. | (98) |
| Subtotal | <u>\$10,528</u> |
| 6. Contractual Services - Testing (635) | |
| a. To remove December 2012 accrual that was not reversed in the test year. | (\$39) |
| b. To reflect 3-year amortization of triennial water tests (\$460/3 and \$1,850/3). | (1,540) |
| Subtotal | <u>(\$1,579)</u> |
| 7. Contractual Services - Other (636) | |
| a. To reclassify meter expenses to plant Acct. No. 334. | (\$385) |
| b. To reflect appropriate test year plant operator expenses. | (625) |
| c. To remove out of period expenses for weed removal. | (315) |
| d. To reclassify contractual services expense from plant in service. | 1,110 |
| e. To reflect pro forma adjustment for generator maintenance service contract. | 290 |
| Subtotal | <u>\$75</u> |

LITTLE GASPARILLA WATER UTILITY, INC.
TEST YEAR ENDED 09/30/13
ADJUSTMENTS TO OPERATING INCOME (PHASE I)

SCHEDULE NO. 3-B
DOCKET NO. 130265-WU
Page 2 of 2

8. Transportation Expense (650)	
a. To reflect 2-year amortization of boat sanding and painting repairs.	(\$253)
b. To reflect pro forma 2-year amortization of boat registration.	113
c. To reflect 5-year amortization of non-recurring auto repair.	(136)
d. To remove unsupported, non-utility, or non-test year expenses.	<u>(1,369)</u>
Subtotal	<u>(\$1,645)</u>
9. Insurance Expenses (655)	
a. To remove non-utility health care expense.	(\$1,457)
b. To remove expenses without support.	(2,072)
c. To reflect pro forma adjustment to reflect appropriate health insurance expense.	6,293
Subtotal	<u>\$2,764</u>
10. Regulatory Commission Expense (665)	
a. To reflect 5-year amortization of grandfather certificate application fee.	(\$800)
b. To reflect 4-year amortization of rate case expense (\$17,122/4).	4,281
Subtotal	<u>\$3,481</u>
11. Miscellaneous Expense (675)	
a. To reverse out of period accrual reversal entry for 2011.	\$217
b. To reclassify construction materials to plant Acct. No. 304.	(541)
c. To reflect appropriate test year telephone expense.	(940)
d. To reflect appropriate expense for annual drinking water license renewal.	(500)
e. To remove unsupported or non-utility expenses.	<u>(1,085)</u>
Subtotal	<u>(\$2,849)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$49,311</u>
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per Rule 25-30.140, F.A.C.	\$14,250
2. To reflect the appropriate amortization of CIAC.	(13,219)
Total	<u>\$1,031</u>
TAXES OTHER THAN INCOME	
1. To reflect appropriate test year RAFs.	(\$55)
2. To reflect appropriate test year utility property taxes.	170
3. To reflect appropriate payroll taxes.	<u>1,038</u>
Total	<u>\$1,153</u>

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE I)			
	TOTAL PER UTILITY*	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$29,883	\$11,500	\$41,383
(603) SALARIES AND WAGES - OFFICERS	63,500	0	63,500
(604) EMPLOYEE PENSIONS AND BENEFITS	0	29,356	29,356
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	19,048	(97)	18,951
(616) FUEL FOR POWER PRODUCTION	1,512	0	1,512
(618) CHEMICALS	2,169	0	2,169
(620) MATERIALS AND SUPPLIES	12,045	(2,223)	9,822
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	(5,868)	10,528	4,660
(635) CONTRACTUAL SERVICES - TESTING	3,508	(1,579)	1,929
(636) CONTRACTUAL SERVICES - OTHER	12,952	75	13,027
(640) RENTS	5,910	0	5,910
(650) TRANSPORTATION EXPENSE	9,744	(1,645)	8,099
(655) INSURANCE EXPENSE	11,547	2,764	14,311
(665) REGULATORY COMMISSION EXPENSE	1,000	3,481	4,481
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>12,322</u>	<u>(2,849)</u>	<u>9,473</u>
	<u>\$179,272</u>	<u>\$49,311</u>	<u>\$228,583</u>

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.

TEST YEAR ENDED JUNE 30, 2013

MONTHLY WATER RATES (PHASE I)

SCHEDULE NO. 4

DOCKET NO. 130265-WU

	UTILITY CURRENT RATES	STAFF PRELIMINARY RECOMMENDED PHASE I RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$49.80	\$55.75	\$0.85
3/4"		\$83.63	\$1.28
1"		\$139.38	\$2.13
1-1/2"		\$278.75	\$4.26
2"		\$446.00	\$6.82
3"		\$892.00	\$13.65
4"		\$1,393.75	\$21.32
6"		\$2,787.50	\$42.65
Charge per 1,000 gallons - Residential and General Service	\$4.81	\$5.38	\$0.08
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
2,000 Gallons	\$59.42	\$66.51	
5,000 Gallons	\$73.85	\$82.65	
8,000 Gallons	\$88.28	\$98.79	

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 5-A	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
SCHEDULE OF WATER RATE BASE (PHASE II)			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,377,471	\$1,169,357	\$2,546,828
2. LAND & LAND RIGHTS	52,475	0	52,475
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(531,000)	0	(531,000)
5. ACCUMULATED DEPRECIATION	(989,385)	(41,191)	(1,030,576)
6. AMORTIZATION OF CIAC	114,723	0	114,723
7. WORKING CAPITAL ALLOWANCE	<u>28,573</u>	<u>5,353</u>	<u>33,926</u>
8. WATER RATE BASE	<u>\$52,857</u>	<u>\$1,133,519</u>	<u>\$1,186,376</u>

LITTLE GASPARILLA WATER UTILITY, INC.**TEST YEAR ENDED 09/30/13****ADJUSTMENTS TO RATE BASE (PHASE II)****SCHEDULE NO. 5-B****DOCKET NO. 130265-WU****UTILITY PLANT IN SERVICE**

1.	To reflect pro forma plant addition for generator repair to Acct. No. 310.	\$1,201
2.	To reflect pro forma plant addition for backhoe to Acct. No. 339.	24,695
3.	To reflect pro forma plant addition for golf cart to Acct. No. 341.	4,922
4.	To reflect plant additions in 2011 for interconnection to Account 331.	3,952
5.	To reflect plant additions in 2012 for interconnection to Account 331.	12,276
6.	To reflect plant additions in 2013 for interconnection to Account 331.	4,871
7.	To reflect pro forma plant addition for subaqueous pipeline and interconnection.	718,525
8.	To reflect pro forma plant addition for new utility building.	374,000
9.	To reflect pro forma drive-by meter change out program (year 1).	<u>24,915</u>
	Total	<u>\$1,169,357</u>

ACCUMULATED DEPRECIATION

To reflect accumulated depreciation on pro forma plant additions. (\$41,191)

WORKING CAPITAL ALLOWANCE

To reflect 1/8 of test year O&M expenses. \$5,353

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.

TEST YEAR ENDED 09/30/13

SCHEDULE OF CAPITAL STRUCTURE (PHASE II)

SCHEDULE NO. 6

DOCKET NO. 130265-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. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
TOTAL COMMON EQUITY	\$1,000	\$0	\$1,000	\$786	\$1,786	0.15%	11.16%	0.02%
5. LONG-TERM DEBT	\$54,460	\$0	\$54,460	\$42,810	\$97,270	8.20%	6.75%	0.55%
6. SHORT-TERM DEBT	608,775	0	608,775	478,545	1,087,320	91.65%	8.00%	7.33%
7. PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL DEBT	\$663,235	\$0	\$663,235	\$521,355	\$1,184,590	99.85%		
8. CUSTOMER DEPOSITS	\$0	\$0	\$0	\$0	\$0	0.00%	2.00%	0.00%
9. TOTAL	\$664,235	\$0	\$664,235	\$522,141	\$1,186,376	100.00%		7.90%
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						10.16%	12.16%	
OVERALL RATE OF RETURN						7.90%	7.90%	

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Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.				SCHEDULE NO. 7-A	
TEST YEAR ENDED 09/30/13				DOCKET NO. 130265-WU	
SCHEDULE OF WATER OPERATING INCOME (PHASE II)					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$295,600</u>	<u>\$0</u>	<u>\$295,600</u>	<u>\$200,500</u> 67.83%	<u>\$496,100</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$228,583	\$42,824	\$271,407	\$0	\$271,407
3. DEPRECIATION (NET)	27,245	41,191	68,436	0	68,436
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	35,595	17,916	53,511	9,023	62,534
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$291,424</u>	<u>\$101,930</u>	<u>\$393,354</u>	<u>\$9,023</u>	<u>\$402,377</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,177</u>		<u>(\$97,754)</u>		<u>\$93,724</u>
9. WATER RATE BASE	<u>\$52,857</u>		<u>\$1,186,376</u>		<u>\$1,186,376</u>
10. RATE OF RETURN	<u>7.90%</u>		<u>(8.24%)</u>		<u>7.90%</u>

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Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 7-B
TEST YEAR ENDED 06/30/13		DOCKET NO. 130265-WU
ADJUSTMENTS TO OPERATING INCOME (PHASE II)		
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Water (610)		
a. To reflect purchased water expense.		<u>\$54,325</u>
2. Purchased Power (615)		
a. To reflect reduction in purchased power expense.		<u>(\$11,501)</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS		<u>\$42,824</u>
DEPRECIATION EXPENSE		
To reflect pro forma depreciation expense for pro forma plant additions.		<u>\$41,191</u>
TAXES OTHER THAN INCOME		
To reflect appropriate test year utility property taxes.		<u>\$17,916</u>

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.		SCHEDULE NO. 7-C	
TEST YEAR ENDED 09/30/13		DOCKET NO. 130265-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE (PHASE II)			
	TOTAL PER UTILITY	STAFF ADJUST- MENTS	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$41,383	\$0	\$41,383
(603) SALARIES AND WAGES - OFFICERS	63,500	0	63,500
(604) EMPLOYEE PENSIONS AND BENEFITS	29,356	0	29,356
(610) PURCHASED WATER	0	54,325	54,325
(615) PURCHASED POWER	18,951	(11,501)	7,450
(616) FUEL FOR POWER PRODUCTION	1,512	0	1,512
(618) CHEMICALS	2,169	0	2,169
(620) MATERIALS AND SUPPLIES	9,822	0	9,822
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,660	0	4,660
(635) CONTRACTUAL SERVICES - TESTING	1,929	0	1,929
(636) CONTRACTUAL SERVICES - OTHER	13,027	0	13,027
(640) RENTS	5,910	0	5,910
(650) TRANSPORTATION EXPENSE	8,099	0	8,099
(655) INSURANCE EXPENSE	14,311	0	14,311
(665) REGULATORY COMMISSION EXPENSE	4,481	0	4,481
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSE	<u>9,473</u>	<u>0</u>	<u>9,473</u>
	<u>\$228,583</u>	<u>\$42,824</u>	<u>\$271,407</u>

Docket No. 130265-WU

Date: June 26, 2014

LITTLE GASPARILLA WATER UTILITY, INC.

TEST YEAR ENDED JUNE 13, 2013

MONTHLY WATER RATES (PHASE II)

SCHEDULE NO. 8

DOCKET NO. 130265-WU

	STAFF'S RECOMMENDED PHASE I RATES	STAFF'S RECOMMENDED PHASE II RATES
<u>Residential and General Service</u>		
Base Facility Charge by Meter Size		
5/8"X3/4"	\$55.75	\$93.89
3/4"	\$83.63	\$140.84
1"	\$139.38	\$234.73
1-1/2"	\$278.75	\$469.45
2"	\$446.00	\$751.12
3"	\$892.00	\$1,502.24
4"	\$1,393.75	\$2,347.25
6"	\$2,787.50	\$4,694.50
Charge per 1,000 Gallons - Residential Service and General Service	\$5.38	\$9.06
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>		
2,000 Gallons	\$66.51	\$112.01
5,000 Gallons	\$82.65	\$139.19
8,000 Gallons	\$98.79	\$166.37