

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for certificate to operate water utility in Marion County by ARMA WATER SERVICE, LLC. | DOCKET NO. 090366-WU  
ORDER NO. PSC-10-0552-PAA-WU  
ISSUED: September 3, 2010

The following Commissioners participated in the disposition of this matter:

NANCY ARGENZIANO, Chairman  
LISA POLAK EDGAR  
NATHAN A. SKOP  
ART GRAHAM  
RONALD A. BRISÉ

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INITIAL RATES AND CHARGES  
AND  
FINAL ORDER GRANTING ORIGINAL CERTIFICATE TO PROVIDE WATER SERVICE

BY THE COMMISSION:

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

BACKGROUND

On July 14, 2009, Arma Water Service, LLC (Arma or Utility) filed an application for an original water certificate in Marion County. The proposed service area includes 22 duplexes, approximately 96 homes on private wells, and additional vacant lots in the Leighton Estates subdivision in Ocala. The Utility currently provides water service to the 22 duplexes (44 connections) at no charge. The area is in the St. Johns River Water Management District. No central wastewater service is provided. Each home has a septic tank.

In 2004, several of the private wells in the area failed. Marion County subsequently required that single and multi-family homes could not construct a private well unless the homes were on five acre tracts or the wells were owned by a permitted water system. The Utility's owners asked the County Commission for authority to construct a water system. County Resolution No. 05-R-23 was approved on January 18, 2005, authorizing construction of a community water system on 4.49 acres, with the condition that no surrounding residential lots would be forced to hook up to the system. The Utility has been providing water service free of charge to its customers, and therefore the system has been exempt from Commission regulation.

DOCUMENT NUMBER-DATE

07460 SEP-3 0

FPSC-COMMISSION CLERK

The Utility wants to begin charging for service, and therefore it would become subject to Commission jurisdiction pursuant to Sections 367.011 and 367.021(12), Florida Statutes (F.S.).

A customer meeting was held in the Marion Oaks Community Center on July 15, 2010. The meeting was noticed to all renters and property owners by mail, and published in the local newspaper. No customers or property owners attended the meeting. An aide for a local Senator did attend.

The Utility's water facilities include a 4" well with a submersible pump, and a 5,000 gallon hydropneumatic tank. Water is chlorinated prior to entering the pressure tank, and then pumped to the distribution system. The Department of Environmental Protection was not able to explain to staff how this system was constructed without a PSC certificate, but did note that there are no outstanding enforcement issues.

We have jurisdiction pursuant to Sections 367.031, 367.045, and 367.081, F.S.

## DECISION

### Original Water Certificate

Arma filed its application for a water certificate to provide service in Marion County on July 14, 2009, and its final deficiency response on June 21, 2010. The application is in compliance with the governing statute, Section 367.045, F.S., and other pertinent statutes and administrative rules concerning an application for an original certificate.

The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. Several objections were received from residents of single family homes in the proposed service area stating that they did not want to have to connect to the water system. On April 1, 2010, letters were sent to each objector clarifying that the County's Resolution No. 05-R-23 provided that no surrounding residential lots would be forced to connect to the public water system. The objectors were given until April 16, 2010, to respond if they wanted a formal hearing. None of the objectors responded. There have been no other objections to the notice of application and the time for filing such has expired. As stated previously, a customer meeting was held on July 15, 2010, in the Marion Oaks Community Center, and no customer or property owners attended.

We find that Arma provided adequate service territory and system maps and a territory description, as prescribed by Rules 25-30.033(1)(l),(m) and (n), F.A.C. The proposed service territory includes 22 duplexes that the Utility has been serving since 2005, as well as 96 single family homes on private wells and several other vacant lots. The Utility's intent is to be available to provide service to the additional homes should the private wells fail, and to serve the vacant lots if homes are constructed on them. A description of the territory requested by the applicant is appended to this Order as Attachment A. Arma also submitted a copy of an executed and recorded warranty deed in its name for the land on which the water facilities are located.

We find that Arma has the financial and technical ability to provide water service to the proposed service area. The Utility owners indicated that they will make the financial and operating commitment necessary for the Utility to be successful in its endeavor to provide water service to the customers within the proposed service territory. Towards that end, Arma has retained a licensed professional for operation of the water plant system as well as a part time billing clerk. We have reviewed the financial statements of the Utility owners and we find that they have adequate resources to support the Utility during the initial years of operation, as demonstrated by the owners' operation of the Utility since 2005 at no charge to the customers.

The owners understand that the Utility's books and records must be maintained according to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), and that they will be required to file annual reports and pay regulatory assessment fees. In addition, Arma is aware that it may not charge rates, serve outside its certificated territory, or sell the Utility without prior Commission approval.

Based on the above information, we find that it is in the public interest to grant the application for an original water certificate. Accordingly, we grant Arma Water Service, LLC Certificate No. 652-W to serve the territory described in Attachment A, effective August 17, 2010. This Order shall serve as Arma's water certificate and it shall be retained by the Utility.

#### Initial Rates and Charges

As mentioned above, Arma began providing service in 2005, but it has never charged for water service. The Utility's proposed rates include a base facility charge of \$21.45 per month and a gallonage charge of \$1.62 per 1,000 gallons. There are currently 44 customers connected to the water system.

In setting initial rates and charges for a new utility, our practice has been to set rates so that the utility will have an opportunity to earn a fair return on its investment when approximately 80% of its projected customers are being served. We have not been able to determine the amount of rate base for Arma, however, because the Utility owners are currently in litigation with the contractor for both the Utility and the duplexes over the actual amount of construction costs owed to the contractor. The actual cost of the Utility assets will not be known until the litigation is resolved.

Arma provided a copy of its 2008 tax return which reflected operating and maintenance expenses of \$20,019, including a management fee, contractual services, purchased power, insurance expense, maintenance expense, and licenses and fees. We have reviewed Arma's supporting documentation, and we find that the operating and maintenance expenses are reasonable for the service provided.

Arma's proposed rates would generate annual revenues of \$20,432, assuming 44 connections using an average of 350 gallons per connection per day. The Utility owners believe that the proposed rates are sufficient to cover the current operating expense. In addition, the Utility is concerned about rate shock for the existing customers since they are currently receiving service at no charge.

Based on the above factors, we find that the Utility's requested rates are reasonable and we approve them. The requested monthly water rates, along with a comparison of typical monthly bills, are shown on Schedule No. 1. Arma shall charge these rates until authorized to change them by the Commission in a subsequent proceeding.

Arma shall file a proposed customer notice and tariff sheets reflecting our approved rates for our staff's approval. Within ten days after the Consummating Order is issued in this docket, Arma shall provide the staff-approved notice to all its customers. Within ten days after the notice is provided to customers, Arma shall file an affidavit attesting to the date that the customer notice was provided, with a copy of the customer notice attached. The docket shall remain open until the affidavit of noticing is filed and verified by staff. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C.

#### Service Availability

Rule 25-30.580(1)(a), F.A.C., provides that the maximum amount of contributions-in-aid-of-construction (CIAC), net of amortization, shall not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their design capacity. The maximum guideline is designed to ensure the utility has a significant investment in the system. Rule 25-30.580(1)(b), F.A.C., provides that the minimum amount of CIAC shall not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution systems.

Arma is requesting approval of a tap-in fee of \$875, and a meter installation charge of \$125 for 5/8" x 3/4" meters for new connections. All other meters will be installed at the Utility's actual cost. In addition, Arma proposes to require future connections to donate on-site and off-site water lines. The Utility's requested service availability policy and charges are consistent with the guidelines in Rule 25-30.580, F.A.C., which require that at a minimum the cost of the lines shall be contributed. The Utility owners are aware that existing connections will not be required to pay the proposed meter installation charge or tap-in fee. Schedule No. 1 contains the proposed service availability charges.

We find that the service availability policy and charges proposed by Arma and shown on Schedule No. 1 are consistent with the guidelines contained in Rule 25-30.580(1)(a), F.A.C. and we approve them. Arma shall include the approved service availability charges in its proposed customer notice and tariff sheets required above. The approved service availability policy and rates shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. Arma shall charge the approved rates until authorized to change them by the Commission in a subsequent proceeding.

#### Customer Deposits and Miscellaneous Service Charges

##### Customer Deposits

Arma requested an initial customer deposit for 5/8" x 3/4" meters of \$50.00. The proposed deposit is based on two times the average monthly charge for approximately 3,000

gallons of water. Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the utility, and ultimately the general body of rate payers. Historically, we have set customer deposits equal to two months bills based on average consumption. For the initial deposit, the amount is based on the average consumption per residential customer, calculated on the total residential usage divided by the number of residential bills. Therefore, the deposits are calculated specifically by the customer class.

At the point in time that the water meter is actually read by a meter reader, typically a full month of consumption has already passed. Consumption-based charges are based on past consumption. The consumption period is referred to as the service period, or the period of time from the previous meter reading to the current meter reading. Typically, this period of time is approximately thirty days, if a utility has a monthly billing cycle, although the cycle time may vary between twenty-seven to thirty-three days.

Another relevant time frame is the period from the meter reading date until the time the bill is prepared and rendered. This varies among utilities, but is usually between five to seven days. Payment is due 20 days from the date the bill has been mailed or presented, consistent with Rule 25-30.335(4), F.A.C. Therefore, the payment is due approximately two months after the service is actually rendered.

If payment is not received by the twentieth day, it is considered delinquent pursuant to Rule 25-30.335(4), F.A.C. At that point, a utility may begin disconnection of services. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided the customer has been provided at least five working days' written notice, and there has been a diligent attempt to have the customer comply. Thus, the service cannot be disconnected until well after two months subsequent to the bill being rendered. Also, an additional month's usage has already been provided to the delinquent customer, and presumably another month's bill has been issued by the time service can be disconnected.

Not only is collecting a customer deposit to recover this two month period of service consistent with our past practice, it is also consistent with one of the fundamental principles of rate making - ensuring that the cost of providing service is recovered from the cost causer.<sup>1</sup> If utilities do not collect adequate deposits to cover the cost of providing service, the result would be an increase in its bad debt expense. Ultimately, the bad debt expense is included in the utility's revenue requirement, and, therefore, is included in the service rates charged to the general body of ratepayers.

The methodology addressed above for calculating initial customer deposits is also consistent with the methodologies for natural gas utilities (Rule 25-7.083, F.A.C.) and electric utilities (Rule 25-6.097, F.A.C.). We find that Arma's proposed initial customer deposit of \$50.00 for 5/8" x 3/4" meters is consistent with our rules and we approve it.

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<sup>1</sup> See Order No. PSC-96-1147-FOF-WS, issued on September 12, 1996, in Docket No. 951258-WS, In re: Application for rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).

Miscellaneous Service Charges

Arma's request for miscellaneous service charges included the reasons for requesting the charges, and the cost justification required by Section 367.091, F.S. The proposed miscellaneous service charges are shown on Schedule No. 1. Pursuant to Rule 25-30.460, F.A.C., water utilities may apply for miscellaneous service charges, including initial connection, normal reconnection, violation reconnection, and premises visit charges. Since Arma has not started charging for service, the miscellaneous service charges are based on estimated expenses. Arma states that the miscellaneous service charges are designed to place the burden of the charges on the cost-causer rather than the general body of rate payers.

The proposed miscellaneous service charges shown on Schedule No. 1 are based on the hourly contract rate of the plant operator plus mileage for 30 miles round trip at \$0.50 per mile. We find that the proposed charges are reasonable based on the estimated costs to provide those services and the amount of miscellaneous service charges recently approved for other similarly situated utilities. Therefore, we approve them.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Application for a certificate to operate a water utility in Marion County by Arma Water Service, LLC. is approved, effective August 17, 2010. Arma Water Service, LLC. is hereby granted Certificate No. 652-W to serve the territory identified in Attachment A to this Order, which is incorporated by reference herein. This Order shall serve as Arma's water certificate and it shall be retained by the Utility. It is further

ORDERED that the monthly water rates, initial customer deposit rates, service availability charges, and miscellaneous service charges, shown on Schedule 1 of this Order, and incorporated by reference herein, are hereby approved. It is further

ORDERED that the provisions of this Order setting initial rates and charges, which are issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Arma shall file a proposed customer notice and tariff sheets reflecting our approved rates and charges for our staff's approval. Within ten days after the Consummating Order is issued in this docket, Arma shall provide the staff-approved notice to all its customers. Within ten days after the notice is provided to customers, Arma shall file an affidavit attesting to the date that the customer notice was provided, with a copy of the customer notice attached. The approved rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. Arma shall continue

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charging the approved rates and charges until authorized to change them by this Commission in a separate proceeding. It is further

ORDERED that in the event this Order becomes final, the docket shall remain open pending verification by our staff that notice has been appropriately given by Arma to customers of the approved rates and charges. Upon verification of the noticing, the docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 3rd day of September, 2010.



ANN COLE  
Commission Clerk

( S E A L )

MCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action proposed herein approving initial rates and charges is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 24, 2010. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.



Arma Water Service, LLC  
Marion County  
Leighton Estates Water Service Area

Section 23, Township 16 South, Range 21 East

A portion of Section 23, Township 16 South, Range 21 East, more particularly described as follows:

The SW quarter of the NE quarter;

The NW quarter of the SE quarter;

The North 600 feet of the SW quarter of the SE quarter.

**FLORIDA PUBLIC SERVICE COMMISSION**  
**authorizes**  
**Arma Water Service, LLC**  
**pursuant to**  
**Certificate Number 652-W**

to provide water service in Marion County in accordance with the provisions of Chapter 367, Florida Statutes, and the Rules, Regulations, and Orders of this Commission in the territory described by the Orders of this Commission. This authorization shall remain in force and effect until superseded, suspended, cancelled or revoked by Order of this Commission.

<u>Order Number</u>	<u>Date Issued</u>	<u>Docket Number</u>	<u>Filing Type</u>
PSC-10-0552-PAA-WU	09/03/2010	090366-WU	Original Certificate

**Arma Water Service, LLC**  
**Monthly Service Rates**  
Residential and General Service

Base Facility Charge	Commission Approved
Meter Size:	
5/8" x 3/4"	\$ 21.45
1"	48.50
1.5"	76.25
2.0"	94.12
Charge per 1,000 gallons	\$1.62

**Typical Residential Bills**

5/8" x 3/4" meter	
3,000 gallons	\$26.31
5,000 gallons	\$29.55
10,000 gallons	\$37.65

**Service Availability Charges**

Description	Commission Approved
Meter Installation Charge – 5/8" x 3/4"	\$125.00
Meter Installation Charge – over 5/8" x 3/4"	Actual Cost
Tap In Fee	\$875.00

**Initial Customer Deposits**

Description	Commission Approved
5/8" x 3/4" Meter	\$50.00

**Miscellaneous Service Charges**

Description	Normal Hours	After Hours
Initial Connection	\$ 25.00	\$ 50.00
Normal Reconnection	\$ 25.00	\$ 50.00
Violation Reconnection	\$ 25.00	\$ 50.00
Premises Visit Charge	\$ 25.00	\$ 50.00