

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in
Duval County by Regency Utilities, Inc.

DOCKET NO. 110282-WS
ORDER NO. PSC-12-0436-PAA-WS
ISSUED: August 24, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES AND FINAL ORDER
GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

BY THE COMMISSION:

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

Case Background

Regency Utilities, Inc. (Regency or Utility) is a Class C water and wastewater utility in Duval County. According to the Utility's 2011 Annual Report, total gross revenues were \$155,213 and \$91,157 for water and wastewater, respectively. The total operating expenses were \$260,348 for water and \$133,020 for wastewater.

Regency operates the on-site water delivery, wastewater collection, and fire protection systems providing service to Regency Square Mall (Mall) in Jacksonville, Florida. Regency's customers are all general service and tenants of the Mall. Regency serves approximately 138 water customers and 125 wastewater customers. The Utility is located in the St. Johns River Water Management District (SJRWMD or District), which has not issued a water shortage order at this time; however, there is a yearly two-day per week irrigation rule.

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FPSC-COMMISSION CLERK

Regency was previously granted water and wastewater certificates to serve the Mall in 1975.¹ The certificates were amended twice to extend Regency's service territory to the area surrounding the Mall.² On April 10, 2001, Regency and JEA executed a transaction whereby Regency transferred its water and wastewater plants to JEA.

Regency's service territory was transferred in the transaction except for the Mall, which JEA declined to serve directly. The transfer was approved in Order No. PSC-02-0060-FOF-WS.³ Since Regency would thereafter resell water and wastewater services pursuant to a reseller exemption in Section 367.022(8), Florida Statutes (F.S.), the order also cancelled Regency's water and wastewater certificates.

On February 26, 2008, Regency applied for water and wastewater certificates and authorization to charge rates in excess of the purchase price. In its petition, Regency stated that it could no longer support its operations while billing customers at the same rates for water and wastewater services, when it pays to purchase the services from JEA. By Order No. PSC-08-0611-PAA-WS, Regency's application for water and wastewater certificates was approved and Regency was awarded certificate Nos. 641-W and 551-S.⁴

We have jurisdiction over this matter pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

Decision

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., the overall quality of service provided by a utility is determined by evaluating three components of water and wastewater operations. These components are the quality of a utility's product, the operating condition of a utility's plant and facilities, and a utility's attempt to address customer satisfaction. Customers' comments and complaints were also reviewed.

Regency, a consecutive system, purchases its bulk water and wastewater services from JEA. Regency provides water, wastewater, and fire protection services to the Regency Mall in Jacksonville. JEA delivers treated water at a master meter, which is then channeled into the distribution system for use by customers in the Mall. Wastewater from Regency's collection

¹ See Order No. 6448, issued January 9, 1975, in Docket Nos. 74425-W and 74426-S, In Re: Application of Regency Utilities, Inc., for certificates to operate a water and sewer utility in Duval County, Fla.

² See Order Nos. 8045, issued November 16, 1977, in Docket No. 770504-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Water Certificate No. 197-W and Sewer Certificate No. 143-S in Duval County, Florida. Section 367.061, Florida Statutes; and 9518, issued September 3, 1980, in Docket No. 800151-WS (EX), In Re: Application of Regency Utilities, Inc. for amendment of Certificate Nos. 143-S and 197-W to include territory in Duval County, Florida.

³ See Order No. PSC-02-0060-FOF-WS, issued January 8, 2002, in Docket No. 010986-WS, In Re: Notice of sale of assets of Regency Utilities, Inc., in Duval County to Jacksonville Electric Authority and request for cancellation of Certificate Nos. 197-W and 143-S.

⁴ See Order No. PSC-08-0611-PAA-WS, issued September 22, 2008, in Docket No. 080113-WS, In Re: Application for certificates to provide water and wastewater service in Duval County by Regency Utilities, Inc.

systems are delivered to JEA's lift station for treatment. Regency operates and maintains the water distribution and wastewater collection systems. It appears that Regency is in compliance with local health departments with respect to the maintenance of the distribution and collection systems.

No customer complaints were filed against Regency in the last three years. A customer meeting was held on June 7, 2012, in Jacksonville, Florida, and no customer attended the meeting.

Based on the above, we find that Regency's product, the operating condition of the plant and facilities, customer satisfaction, and overall quality of service are satisfactory.

Used and Useful

Regency provides services only to the Regency Mall. Regency experienced no customer growth for the past five years, and there are no expansion plans for the Regency Mall. The existing distribution and collection systems are used to serve the existing customers. Therefore, we find that the water distribution and wastewater collection systems are 100 percent use and useful.

Rate Base

Rate base for this Utility was not previously established. A test year ending September 30, 2011, was established for this rate case. Regency was unable to provide documentation for its water, wastewater, and fire protection assets. In order to calculate an appropriate balance for the Utility's plant in service, documentation was used from the sale to JEA in 2001 and the certification docket in 2008. Based on the documentation, an appropriate rate base component was determined for the Utility. A summary of each component and the adjustments are discussed below:

Utility Plant in Service (UPIS): The Utility recorded a test year plant in service balance of \$1,131,493 for water and \$36,942 for wastewater. The balances were increased for both water and wastewater by \$25,000 each to reflect organization costs incurred during the certification docket. Water was increased by \$11,401 to reflect the appropriate balance for meters.

In addition, the balances for both water and wastewater were increased by \$373 to reflect the appropriate account balance for office equipment. We approve adjustments to plant in service resulting in increases of \$36,774 for water and \$25,373 for wastewater, and plant in service balances of \$1,168,267 for water and \$62,315 for wastewater.

Non-used and Useful Plant: As discussed above, Regency's water distribution and wastewater collection systems are considered 100 percent use and useful. Therefore, a use and useful adjustment is not necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded test year contribution in aid of construction of \$0 for both water and wastewater. The appropriate contribution in aid of

construction is \$21,980 for water and \$30,260 for wastewater, and the balances in this account were increased accordingly.

Accumulated Depreciation: Regency recorded balances for accumulated depreciation of \$711,791 for water and \$28,079 for wastewater. The accumulated depreciation was calculated using the prescribed rates set forth in Rule 25-30.140, F.A.C. The accumulated depreciation is \$840,717 for water and \$31,185 for wastewater. As a result, accumulated depreciation was increased by \$128,926 for water and \$3,106 for wastewater.

In addition, accumulated depreciation was decreased by \$16,727 for water and \$786 for wastewater to reflect averaging adjustments. We approve accumulated depreciation of \$823,990 and \$30,399 for water and wastewater, respectively.

Accumulated Amortization of Contribution in Aid of Construction: The Utility recorded amortization of contribution in aid of construction balances of \$0 for both water and wastewater. Amortization of contribution in aid of construction was calculated using composite depreciation rates. As a result, accumulated amortization of contribution in aid of construction shall be increased by \$21,672 for water and \$27,933 for wastewater.

In addition, this account shall be decreased by \$315 for water and \$382 for wastewater to reflect averaging adjustments. This account's adjustments resulted in amortization of contribution in aid of construction balances of \$21,357 for water and \$27,551 for wastewater.

Working Capital Allowance: Regency recorded working capital of \$34,741 for water and \$6,158 for wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or the going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., the one-eighth of the operation and maintenance expense formula approach was used for calculating the working capital allowance.

Applying this formula, we approve a working capital allowance of \$25,024 for water and \$18,952 for wastewater (based on operation and maintenance expense of \$200,190/8 for water and \$151,619/8 for wastewater, as shown on Schedule Nos. 3-A and 3-B, respectively). The working capital allowance was decreased by \$9,717 for water and increased by \$12,794 for wastewater.

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$368,678 for water and \$48,160 for wastewater. Water and wastewater rate base is shown on Schedule Nos. 1-A and 1-B, respectively. The related adjustments are shown on Schedule No. 1-C.

Rate of Return

The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.70 percent. According to the audit, the Utility's capital structure consists of common equity of \$627,318 and customer deposits of \$5,400. The Utility currently does not have a tariff for customer deposits. Regency was

collecting the customer deposits prior to being certified. The customer deposits were not addressed in the certification docket. The Utility continued to collect a \$50 customer deposit from its customers after its certification.

Although Regency does not have a tariff authorizing the collection of customers' deposits, it was an oversight during its certification docket. The customer deposits are a liability to the Utility. Therefore, we find it appropriate to include the customer deposits in Regency's capital structure. Regency's tariff shall be amended to allow for the collection of customer deposits on a going forward basis.

The Utility's capital structure has been reconciled with the rate base. The appropriate return on equity is 8.74 percent using the approved leverage formula currently in effect.⁵ We approve a return on equity of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.70 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

Test Year Revenue

Regency recorded total revenue of \$265,347 for water and \$0 for wastewater. Revenues were annualized based on test year billing determinants and existing rates, and the Utility's recorded revenue was determined to be \$161,813 for water and \$107,009 for wastewater. The test year revenues were decreased for water by \$103,534 and the wastewater test year revenues were increased by \$107,009. We approve test year revenue of \$161,813 and \$107,009 for water and wastewater, respectively. Water and wastewater test year revenue is shown on Schedule Nos. 3-A and 3-B.

Operating Expense

Regency recorded operating expense of \$325,513 for water and \$57,439 for wastewater, for the test year ending September 30, 2011. The test year operation and maintenance expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Several adjustments were made to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) – Regency recorded \$17,484 in this account for water and \$10,269 for wastewater. The Utility provided recent W-2 forms as supporting documentation of the salaries and wages for two staff accountants who are responsible for customer relations and accounting duties.

The Utility also included the salary of \$6,439 for water and \$74 for wastewater in this account for Ms. Alexa Daniels, the Utility's Chief Financial Officer (CFO). Ms. Daniels' salary was reclassified to salaries and wages – officers. Accordingly, these amounts were reclassified

⁵ See Order Nos. PSC-12-0339-PAA-WS, issued June 28, 2012, and PSC-12-0372-CO-WS, issued July 20, 2012, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

to salaries and wages - officers. We approve salaries and wages – employees' expense of \$11,045 for water and \$10,195 for wastewater.

Salaries and Wages - Officers (603/703) – Regency did not record any amount of salaries and wages – officers in this account. As stated above, the reclassified \$6,439 and \$74 for water and wastewater were adjusted to this account for the Chief Financial Officer's salary. Based on copies of W-2 forms provided by the Utility, the Chief Financial Officer's total salary allocated to Regency shall be \$6,850. It is our practice to allocate common costs between water and wastewater based on the number of customers.

Regency has 138 water customers and 125 wastewater customers. Therefore, the appropriate allocation is 52 percent for water and 48 percent for wastewater. Thus, the appropriate amount of salary for the Chief Financial Officer is \$3,562 ($\$6,850 \times 52$ percent) for water and \$3,288 ($\$6,850 \times 48$ percent) for wastewater. As such, adjustments were made to decrease water by \$2,877 ($\$3,562 - \$6,439$) and increase wastewater by \$3,214 ($\$3,288 - \74) to reflect the appropriate salary allocation for Regency's Chief Financial Officer.

Mr. Robert Stein serves as the president for Regency, and performs 15 hours of consulting work per week, for an annual total of \$12,600. This amount is reasonable based on the number of hours worked per week. The Utility recorded Mr. Stein's fees in contractual services – other. However, Mr. Stein's salary shall be included in salaries and wages – officers because the Utility recorded benefits and paid payroll taxes for Mr. Stein. To reflect the reclassification adjustment, this account was increased by \$7,938 for water and \$4,662 for wastewater.

Based on the allocation methodology mentioned above, the appropriate salary for Mr. Stein is \$6,552 ($\$12,600 \times 52$ percent) for water and \$6,048 ($\$12,600 \times 48$ percent) for wastewater. Therefore, this account was decreased by \$1,386 ($\$6,552 - \$7,938$) for water and increased by \$1,386 ($\$6,048 - \$4,662$) for wastewater. We approve salaries and wages – officers expense of \$10,114 ($\$6,439 - \$2,877 + \$7,938 - \$1,386$) for water and \$9,336 ($\$74 + \$3,214 + \$4,662 + \$1,386$) for wastewater.

Employee Pensions and Benefits (604/704) – Regency recorded \$7,428 for water and \$4,363 for wastewater in this account for employees' pensions and benefits. The Utility's records supported annual pensions and benefits totaling \$8,557 for water and \$7,899 for wastewater. Accordingly, adjustments were made to increase this account by \$1,129 for water and \$3,536 for wastewater. We approve employees' pensions and benefits expense of \$8,557 for water and \$7,899 for wastewater.

Purchased Water and Purchased Wastewater Treatment (610/710) – Regency recorded \$182,610 in this account for purchased water and \$0 for purchased wastewater treatment. Invoices from JEA were reviewed and it was determined that purchased water expense of \$102,049 and purchased wastewater treatment expense was \$81,501. As such, Account No. 610 was reduced by \$80,561 for water and Account No. 710 was increased by \$81,501 for wastewater. In addition, the Utility has provided the JEA's increased bulk rates that will go into effect on October 1, 2012.

The increase in JEA's bulk rates will result in a \$20,274 increase to purchased water expense and a \$14,819 increase to purchased wastewater treatment. Therefore, a pro forma adjustment was made to increase this account by \$20,274 for water and \$14,819 for wastewater to reflect the increase in bulk rates. The final rates, which reflect the pro forma increase for purchased water/wastewater, must not be implemented prior to October 1, 2012. We approve total purchased water and wastewater treatment expenses of \$122,323 and \$96,320, respectively.

Purchased Power (615/715) – Regency did not record any purchased power for either water or wastewater in this account. The Utility provided invoices totaling \$281 for electric charges for the Utility's fire pump, and this account was increased by \$281 for water. Additionally, the Utility provided invoices totaling \$1,715 for electric charges for the Utility's lift station, and this account was increased by \$1,715 for wastewater. We approve purchased power expense of \$281 for water and \$1,715 for wastewater.

Materials and Supplies (620/720) – Regency recorded \$5,525 for water and \$3,245 for wastewater in this account for materials and supplies. The Utility's records substantiated materials and supplies expense of \$1,904 for water and \$1,757 for wastewater. Therefore, adjustments were made to decrease this account by \$3,621 for water and \$1,488 for wastewater to remove the unsupported balance. We approve materials and supplies expense of \$1,904 for water and \$1,757 for wastewater.

Contractual Services – Professional (631/731) – Regency recorded \$2,834 for water and \$1,665 for wastewater in this account for contractual services – professional. Table 6-1 below provides the Utility's balance and the adjustments.

Table 6-1

Name	Description	Per		Adjustment	Total
		Utility	Approved		
KPMG	2010 U.S. Income Tax Return	\$850	\$850	\$0	\$850
Burton & Associates	PSC Certificate Application	64	0	(64)	0
Burton & Associates	Valuation Analysis	3,533	707	(2,826)	707
		<u>\$4,447</u>	<u>\$1,557</u>	<u>(\$2,890)</u>	<u>\$1,557</u>

The cost related to the income tax return review is reasonable. However, the amount for the PSC Certificate Application was removed because the last certificate application that was filed on behalf of the Utility was the certificate application filed in 2008. Thus, this expense is not valid for the test year ending September 30, 2011. In addition, the amount for the valuation analysis is a non-recurring cost. Therefore, this amount was amortized over 5 years.

The Utility used an allocation methodology of 63 percent for water and 37 percent for wastewater. As stated above, the appropriate allocation is 52 percent for water and 48 percent for wastewater. Applying this allocation methodology, the balance for water is \$809 (\$1,557 x 52 percent) and \$747 (\$1,557 x 48 percent) for wastewater. Thus, adjustments were made to

decrease water by \$2,025 (\$2,834 - \$809) and wastewater by \$918 (\$1,665 - \$747), respectively, to reflect the appropriate allocation. We approve contractual services – professional expense of \$809 for water and \$747 for wastewater.

Contractual Services – Other (636/736) – Regency recorded \$32,705 for water and \$13,209 for wastewater in this account for contractual services – other. Reclassifications were made for \$7,938 for water and \$4,662 for wastewater to salaries and wages – officers for the Utility’s president, Mr. Robert Stein. While calculating the appropriate total for this account, it was discovered that Mr. Stein’s salary was recorded twice.

Therefore, a separate adjustment was made to remove the duplication of his salary. Finally, an adjustment was made to decrease water by \$1,415 and increase wastewater by \$915. We approve contractual services – other expense of \$15,414 (\$32,705 - \$7,938 - \$7,938 - \$1,415) for water and \$4,800 (\$13,209 - \$4,662 - \$4,662 + \$915) for wastewater.

Regulatory Commission Expense (665/765) – Regency recorded \$0 for both water and wastewater in this account. Pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates in this case to its customers. For these notices, we estimated \$231 for postage expense, \$210 for printing expense, and \$26 for envelopes. The above results in \$468 for postage, mailing notices, and envelopes.

The Utility paid a \$2,000 rate case filing fee. The Utility also incurred consultant fees for legal assistance totaling \$8,010 for the instant docket. The total rate case expense including postage, mailing notices, envelopes, filing fees, and consultant fees is \$10,478.

Based on the allocation methodology of 52 percent for water and 48 percent for wastewater, regulatory commission expense was calculated as \$5,449 for water and \$5,029 for wastewater. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. We approve regulatory commission expense of \$1,362 for water and \$1,257 for wastewater.

Bad Debt Expense (670/770) – Regency recorded \$1,304 for water and \$766 for wastewater in this account for bad debt expense. The Utility’s procedure for bad debt is as follows:

“When a company closes, the final invoice is sent to the last known address on file unless we are contacted by the tenant with a forwarding address. The final balance due is carried as an open item on accounts receivable for approximately 2-3 billing cycles while we try to collect it. If it is not collected, the customer’s deposit on account is applied to the final amount due and the balance is written off to bad debts to clear it out of accounts receivable. If a tenant pays on the invoice after it has been cleared from accounts receivable, the deposit received is applied to bad debt to reflect the payment.”

Based on a list of accounts provided by the Utility, the appropriate amount of bad debt expense is \$2,329 for water and \$2,150 for wastewater. Therefore, an adjustment was made to increase the balances for water by \$1,025 and for wastewater by \$1,384.

We approve bad debt expense of \$2,329 for water and \$2,150 for wastewater.

Miscellaneous Expense (675/775) – Regency recorded \$4,525 for water and \$2,657 for wastewater in this account for miscellaneous expense. The Utility included annual membership fees for employee credit cards, and membership renewal fees to the Florida Institute of Certified Public Accountants. These expenses are non-utility related. Accordingly, an adjustment was made to decrease water by \$2,059 and decrease wastewater by \$381 for various memberships that are non-utility related expenses.

The Utility incurred \$150 for filing its corporate annual report with the Florida Department of State and included this amount in taxes other than income. Again, the appropriate allocation is 52 percent for water and 48 percent for wastewater. As such, this account was increased by \$78 ($\150×52 percent) for water and \$72 ($\150×48 percent) for wastewater to reflect the annual filing fee.

We approved miscellaneous expense of \$2,544 ($\$4,525 - \$2,059 + \78) for water and \$2,348 ($\$2,657 - \$381 + \72) for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to operation and maintenance expense result in a decrease of \$77,734 for water and an increase of \$102,351 for wastewater. The approved operation and maintenance expense is \$200,190 for water and \$151,619 for wastewater. Operation and maintenance expenses are shown on Schedule Nos. 3-A and 3-B.

Depreciation Expense (Net of Related Amortization of Contribution in Aid of Construction) – Regency recorded \$35,183 for water and \$885 for wastewater in this account for net depreciation expense. Depreciation expense was calculated using the prescribed rates set forth in Rule 25-30.140, F.A.C. Amortization of contribution in aid of construction was calculated based on composite rates. Net depreciation expense was decreased by \$14,404 for water and \$76 for wastewater.

We approve net depreciation expense of \$20,779 for water and \$809 for wastewater.

Taxes Other Than Income (TOTI) – As shown on Table 6-2 below, Regency recorded \$12,406 for water and \$7,286 for wastewater in this account for taxes other than income.

Table 6-2

	Water	Wastewater
Property Taxes	\$4,577	\$2,688
Payroll Taxes	0	0
Local Business Tax	496	291
Annual Report Filing Fee	95	56
Regulatory Assessment Fees	<u>7,239</u>	<u>4,251</u>
Total	<u>\$12,406</u>	<u>\$7,286</u>

We reviewed Duval County’s non-ad valorem and ad valorem tax assessment notices. Based on these notices, the appropriate property taxes are \$1,180 for water and \$1,068 for wastewater. Therefore, this account was reduced by \$3,396 (\$1,180 - \$4,577) for water and \$1,620 (\$1,068 - \$2,688) for wastewater to reflect property taxes paid by the Utility. We calculated payroll tax of \$1,362 for water and \$996 for wastewater. Accordingly, this account was increased by \$1,362 and \$996 for water and wastewater, respectively, to reflect the calculated payroll tax.

Based on the test year revenues, the Utility’s regulatory assessment fees shall be \$7,282 for water and \$4,815 for wastewater. This account was increased by \$43 and \$564 for water and wastewater, respectively, to reflect the appropriate regulatory assessment fees. As discussed below, revenues have been increased by \$106,435 for water and \$60,916 for wastewater to reflect the change in revenue required to cover expenses and afford the Utility an opportunity to earn the approved return on investment for its water operations and the margin over the operation and maintenance expenses for its wastewater operations.

As a result, taxes other than income shall be increased by \$4,790 for water and \$2,741 for wastewater to reflect regulatory assessment fees of 4.5 percent on the incremental change in revenues. We approve taxes other than income of \$15,204 (\$12,406 - \$3,396 + \$1,362 + \$43 + \$4,790) for water and \$9,968 (\$7,286 - \$1,620 + \$996 + \$564 + \$2,741) for wastewater.

Income Tax – The Utility did not have any income tax expense for the test year. Regency is an S Corporation. The tax liability is passed on to the owners’ personal tax returns. Therefore, no adjustment was made to this account.

Operating Expenses Summary – The application of the adjustments to Regency’s recorded test year operating expenses result in the operating expenses of \$236,173 for water and \$162,395 for wastewater. Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

Operating Ratio

The operating ratio methodology is used for calculating the revenue requirement for the Utility's wastewater system only. The margin shall be 10 percent of operation and maintenance expenses. Section 367.0814(9), F.S., provides that we may, by rule, establish standards and procedures for setting rates and charges of small utilities using criteria other than those set forth in Sections 367.081(1), (2)(a) and (3), F.S. Rule 25-30.456, F.A.C., provides, in part, that as an alternative to a staff-assisted rate case as described in Rule 25-30.455, F.A.C., utilities with total gross annual operating revenues of less than \$250,000 per system may petition for our staff's assistance in alternative rate setting.

Although Regency did not petition for alternative rate setting under the aforementioned rule, we exercised our discretion to employ the operating ratio methodology as an alternative means to set wastewater rates in this case. The operating ratio methodology is an alternative to the traditional calculation of revenue requirements.

Under this methodology, instead of applying a return on the Utility's rate base, the revenue requirement is based on the margin of Regency's operation and maintenance expenses. This methodology has been applied in cases where the traditional calculation of revenue requirements would not provide sufficient revenues to protect against potential variances in revenues and expenses.

By Order No. PSC-96-0357-FOF-WU, the operating ratio methodology was used for the first time as an alternative means for setting rates.⁶ This order also discussed criteria related to the use of the operating ratio methodology and provided a guideline margin of 10 percent of operation and maintenance expense. This criteria was applied again in Order No. PSC-97-0130-FOF-SU.⁷ Most recently, we approved the operating ratio methodology for setting rates in Order No. PSC-10-0167-PAA-WU.⁸

Order No. PSC-96-0357-FOF-WU outlines the criteria to determine whether to utilize the operating ratio methodology for those utilities with low or non-existent rate base. The qualifying criteria outlined in Order No. PSC-96-0357-FOF-WU, and its application to the Utility are discussed below:

1) Whether the Utility's Operation and Maintenance expense exceeds rate base. In the instant case, the rate base is substantially less than the level of operation and maintenance expense. Based on the audit, the adjusted rate base for the test year is \$48,160, while adjusted operation and maintenance expenses are \$151,619.

⁶ See Order No. PSC-96-0357-FOF-WS, issued March 13, 1996, in Docket No. 950641-WU, In Re: Application for staff-assisted rate case in Palm Beach County by Lake Osborne Utilities Company, Inc.

⁷ See Order No. PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, In Re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.

⁸ See Order No. PSC-10-0167-PAA-WU, issued March 23, 2010, in Docket No. 090346-WU, In Re: Application for a staff-assisted rate increase in Lake County by Brendenwood Water System.

2) Whether the Utility is expected to become a Class B utility in the foreseeable future. According to Section 367.0814(9), F.S., the alternative form of regulation being considered in this case only applies to small utilities with gross annual revenues of \$250,000 or less. Regency is a Class C utility and the revenue requirement of \$167,925 is below the threshold level for Class B status (\$250,000 per system). The Utility's service area is the Mall and Regency experienced no customer growth in the last five years, and the service area is built out. Therefore, the Utility will not become a Class B utility in the foreseeable future.

3) Quality of service and condition of plant. The Utility is in compliance with all state and local regulations for consecutive wastewater systems. The quality of service appears satisfactory.

4) Whether the Utility is developer-owned. The current utility owner is not a developer. The service territory is not in the early stages of growth, and there has not been any customer growth in the last five years.

5) Whether the Utility operates treatment facilities or is simply a distribution and/or collection system. Regency purchases wastewater treatment from JEA. The operating ratio method was calculated without consideration of the purchased wastewater treatment costs.

By Order Nos. PSC-96-0357-FOF-WS and PSC-97-0130-FOF-SU, it was determined that a margin of 10 percent shall be used unless unique circumstances justify the use of a greater or lesser margin. The important is what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires exercising judgment based upon the particular circumstances of the utility. In prior cases, we applied a 10 percent margin.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Regency's capital structure is 100 percent equity and has no interest expense.

Second, use of the operating ratio methodology rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much greater operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to Regency amounts to \$4,190. This amount is only sufficient to cover a 2.76 percent variance in operation and maintenance expenses. We find that \$4,190 is an insufficient financial cushion for this Utility.

Third, if the return on rate base method is applied, a normal return would generate such a small level of revenues that in the event revenues or expenses vary from the estimates, Regency could lack funds to cover operating expenses. Therefore, the margin shall provide adequate revenues to protect against potential variability in revenues and expenses.

Because the Utility's amount of rate base is so small, the return on rate base method would provide Regency only \$4,190 in operating income to cover revenue and expense variances. If the Utility's operating expenses increase and revenues decrease, Regency will not have the funds required for day-to-day operations.

In conclusion, the above factors demonstrate that the Utility needs a higher margin of revenues over operating expenses than provided by the traditional return on rate base method. Therefore, in order to provide Regency with adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, we approve application of the operating ratio methodology at a margin of 10 percent of operation and maintenance expenses for determining the revenue requirement for the wastewater system.

Revenue Requirement

Regency is allowed an annual increase of \$106,435 (65.78 percent) for water. This will allow the Utility the opportunity to recover its expenses and earn an 8.70 percent return on its investment. Using the operating ratio method for calculating the revenue requirement for wastewater, the Utility is allowed an annual increase in revenue of \$60,916 (56.93 percent). This will allow Regency the opportunity to recover its expenses and provide a 10 percent operating margin over its operation and maintenance expense. The calculations are as follows:

Table 8-1

	<u>Water</u>
Adjusted Rate Base	\$368,678
Rate of Return	x .0870
Return on Rate Base	\$32,075
Adjusted O&M Expense	200,190
Depreciation Expense (Net)	20,779
Amortization	0
Taxes Other Than Income	15,204
Income Taxes	0
Revenue Requirement	\$268,248
Less Test Year Revenues	161,813
Annual Increase	\$106,435
Percent Increase/(Decrease)	65.78%

Table 8-2

	<u>Wastewater</u>
Adjusted O&M Expense	\$151,619
Less Purchased Wastewater Treatment (PWT)	96,320
Adjusted O&M Less PWT	\$55,299
Operating Margin	x .1000
Operating Margin	\$ 5,529
Adjusted O&M Expense	151,619
Depreciation Expense (Net)	809
Amortization	0
Taxes Other Than Income	9,968
Income Taxes	0
Revenue Requirement	\$167,925
Less Test Year Revenues	107,009
Annual Increase	\$60,916
Percent Increase/(Decrease)	56.93%

Rate Structures

The appropriate rate structures for the Utility's water and wastewater systems' non-residential class is a continuation of the base facility charge (BFC)/gallonge charge rate structure. The water system's base facility charge cost recovery is 40 percent and the wastewater base facility charge cost recovery is 50 percent. Order No. PSC-02-0060-FOF-WS addressed the transfer of Regency's water and wastewater plants to JEA. This transfer included all of the Utility's service area except for the Regency Square Mall. For this reason, the Utility purchases its water and wastewater treatment from JEA and resells these services to the tenants of the Mall. The transfer did not include the facilities and wells associated with the fire protection services. The Utility continues to maintain and monitor the fire protection system as required to provide fire protection water to the service area.

Water: Currently, the Utility serves 128 non-residential customers and 10 irrigation customers. Regency's rates for the non-residential class consist of a base facility charge /gallonge charge rate structure. The base facility charge is \$16.99 and the gallonge charge is \$1.60 per 1,000 gallons.

The Utility is located in the St. John River Water Management District (SJRWMD). Since the Utility purchases its potable water and wastewater treatment from JEA and resells these services to the tenants of the Mall, the Utility is considered non-jurisdictional for the potable water system. However, the District does have jurisdiction of the facilities associated with the fire protection services.

Based on an analysis of the non-residential customer base, the average monthly consumption is 33.46 kgals. However, given that the customer base consists of non-residential customers only, we approve a continuation of the current base facility charge/gallage charge rate structure. This rate structure is typical for non-residential customers. Furthermore, this rate structure is considered conservation-oriented because customers' bills increase as their consumption increases.

The initial allocation for the water base facility charge cost recovery for the non-residential class is 32.34 percent. We approve increasing the water system's fixed cost recovery to 40 percent. The base facility charge cost recovery is typically set at no greater than 40 percent.

Regency also provides water for the Mall's fire protection system. The water is supplied from a dedicated well and is piped, without treatment, to a storage tank. The water is available upon demand to all customers of the Mall. Typically, private fire protection rates are one-twelfth of the base facility charge of the meter supplying the water. In this instance, the water is not measured by a meter. Therefore, a private fire protection rate cannot be established using this methodology. The Mall is the exclusive user of the non-potable water provided for fire protection. The tenants of the Mall benefit from the existence of the fire protection system. The approved revenue requirement allows Regency to recover a return on its investment and expenses related to fire protection. Based on the above, we find that the costs associated with the fire protection service are best recovered through the monthly rates of the customers.

Based on the foregoing, we find that the appropriate rate structure for the water system's non-residential class is a continuation of the monthly base facility charge/uniform gallage charge rate structure. The water system's base facility charge cost recovery is 40 percent.

Wastewater: Regency's current rate structure consists of a base facility charge /gallage rate structure for the wastewater systems' non-residential customers. The monthly base facility charge is \$18.96 and the usage charge is \$3.54 per 1,000 gallons.

The initial allocation for the wastewater base facility charge cost recovery for the non-residential class is 26.94 percent. This base facility charge allocation is lower than the normal base facility charge allocation of at least 50 percent. For this reason, the base facility charge allocation is 50 percent due to the capital intensive nature of wastewater plants.

Furthermore, typically our practice is to set a monthly wastewater gallage cap. However, it is not appropriate in this case because the customers are non-residential only.

Based on the foregoing, we find that the appropriate rate structure for the wastewater system's non-residential class is a continuation of the monthly base facility charge/uniform gallonage charge rate structure. The wastewater system's base facility charge cost recovery is 50 percent.

Rates

The appropriate monthly rates are shown on Schedule Nos. 4-A and 4-B. The rates are designed to produce revenue of \$268,248 for water and \$167,925 for wastewater. Regency shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates must not be implemented until our staff has approved the proposed customer notice and the customers received the notice. The Utility must provide proof of the date notice was given within 10 days of the date of the notice.

The rates shall be designed to produce revenue of \$268,248 for the water system and \$167,925 for the wastewater system. There are no miscellaneous service revenues for the water and wastewater systems. The appropriate rate structure for Regency's non-residential customers is a continuation of the base facility charge/uniform gallonage charge rate structure. The approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the customers received the notice. The Utility shall provide proof of the date notice was given within 10 days of the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for services rendered prior to the stamped approval date.

Based on the foregoing, the appropriate rates are shown on Schedule Nos. 4-A and 4-B for water and wastewater, respectively.

Four-Year Rate Reduction

The water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. Regency shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data must 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.

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 revenue associated with the amortization of the rate case expense, the associated return in working capital, and the gross-up for regulatory assessment fees. The total reduction is \$1,442 for water and \$1,333 for wastewater. Using Regency's current revenue, expenses, capital structure, and customer base, the reduction in revenue will result in the rate decreases shown on Schedule Nos. 4-A and 4-B.

The Utility shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Regency shall also be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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

Temporary Rates

Pursuant to Section 367.0814(7), F.S., the rates are 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. Regency shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall be effective for services 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 must not be implemented until our staff has approved the proposed notice, and the customers have received the notice. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. If the rates are approved on a temporary basis, the rates collected by the Utility are subject to the refund provisions discussed below. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility must file reports with our Clerk 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 must indicate the status of the security being used to guarantee repayment of any potential refund.

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, the rates are approved on a temporary basis. Regency shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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 must not be implemented until our staff has approved the proposed notice, and the customers have received the notice. The rates collected by the Utility shall be subject to the refund provisions discussed below.

Regency shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security shall be

in the form of a bond or letter of credit for \$111,642. Alternatively, the Utility can establish an escrow agreement with an independent financial institution.

If Regency chooses a bond as security, the bond must 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 Regency chooses a letter of credit as a security, it must 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 must 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 Regency;
- 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by the Utility. Irrespective of the form of security chosen by Regency, an account of all monies received from the rate increase must be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

Regency shall 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 shall file reports with our Clerk 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 must indicate the status of the security being used to guarantee repayment of any potential refund.

Customers' Deposits

The appropriate customers' deposits for water and wastewater are \$263 and \$158 for 5/8" x 3/4" meters, respectively. The approved customers' deposits shall 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 shall be required to charge the approved charges until the Utility is authorized to change the rates in a subsequent proceeding.

In addition, the Utility shall file verification that the interest has been paid or credited to those customers who had deposits collected since Regency's certification in 2008. The Utility shall provide a report that customers' deposits were refunded or that higher interest rates paid to the customers that met the requirement of Rule 25-30.311(5), F.A.C. The reports for interest and refunds must be provided within 90 days of the effective date of this Order.

Pursuant to Section 367.091, F.S., we are authorized to establish, increase, or change a rate or charge other than monthly rates or service availability charges.

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customers' deposits. Customers' deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, initial customers' deposits equaled two months' bills based on estimated average consumption for the customer class.⁹

The consumption-based charges are based on the prior month's meter readings. It generally takes five to seven days from the meter reading date for the bills to reach the customers. Pursuant to Rule 25-30.335(4), F.A.C., payment may not be considered delinquent

⁹ See Order Nos. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In Re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; and PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In Re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

until 21 days after the bill is mailed or presented. Pursuant to Rule 25-30.320(2) (g), F.A.C., a utility may discontinue service for nonpayment of bills, provided there has been a diligent attempt to have the customer comply, and the customer has been provided at least five working days' written notice. It is likely that the service would not be disconnected until well after two months subsequent to the service being rendered. Not only is collecting a customer's 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.¹⁰

The Utility's proposed initial customers' deposits for water and wastewater are \$263 and \$158 for 5/8" x 3/4" meters, respectively. These amounts were calculated in compliance with Rule 25-30.311(7), F.A.C. We approve these charges.

NARUC Uniform System of Accounts (USOA)

To ensure that the Utility adjusts its books in accordance with this Order, Regency shall provide proof, within 90 days of the final order in this docket, that it has made the adjustments for all applicable NARUC USOA primary accounts.

If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Regency Utilities, Inc.'s application for an increase in rates and charges is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that the appropriate rate structures for Regency Utilities, Inc.'s water and wastewater systems' non-residential class is a continuation of the base facility charge (BFC)/gallongage charge rate structure. The water system's base facility charge cost recovery is 40 percent and the wastewater base facility charge cost recovery is 50 percent. It is further

¹⁰ See Order Nos. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In Re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; and PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

ORDERED that the approved rates shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved rates must not be implemented until our staff has approved the proposed customer notice and the customers have received the notice. It is further

ORDERED that the Utility must provide proof of the date notice was given within 10 days of the date of the notice. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule Nos. 4-A and 4-B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. It is further

ORDERED that Regency is 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. It is further

ORDERED that if Regency Utilities, Inc., files this reduction in conjunction with a price index or pass-through rate adjustment, separate data must 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. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates are approved for Regency Utilities, Inc., on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. It is further

ORDERED that Regency Utilities, Inc., must file revised tariff sheets and a proposed customer notice to reflect the approved rates. It is further

ORDERED that the approved rates shall 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. It is further

ORDERED that the temporary rates must not be implemented until our staff has approved the proposed notice, and Regency Utilities, Inc., provides proof that the customers received the notice. It is further

ORDERED that prior to implementation of any temporary rates, Regency Utilities, Inc., shall provide appropriate security. It is further

ORDERED that since the rates are approved on a temporary basis, the rates collected by Regency Utilities, Inc., are subject to the refund provisions as provided in this Order. It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., Regency Utilities, Inc., must file reports with our Clerk 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 must indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that Regency Utilities, Inc., shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for the potential refund and the proposed customer notice. It is further

ORDERED that security shall be in the form of a bond or letter of credit for \$111,642. Alternatively, Regency Utilities, Inc., may establish an escrow agreement with an independent financial institution. It is further

ORDERED that Regency Utilities, Inc.'s request for a customer deposit is approved. The appropriate customers' deposits for water and wastewater are \$263 and \$158 for 5/8" x 3/4" meters, respectively. It is further

ORDERED that the approved customer deposits shall 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. Regency Utilities, Inc., is required to charge the approved charges until a change is authorized in a subsequent proceeding. It is further

ORDERED that Regency Utilities, Inc. shall file verification that the interest has been paid or credited to those customers who had deposits collected since Regency Utilities, Inc.'s certification in 2008. It is further

ORDERED that Regency Utilities, Inc., shall provide a report that customer deposits have been refunded or a higher rate interest was paid to the customers that met the requirement of Rule 25-30.311(5), F.A.C. The reports for interest and refunds must be provided within 90 days of the effective date of this Order. It is further

ORDERED that Regency Utilities, Inc., shall 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. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 24th day of August, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

PER

ORDERED that Regency Utilities, Inc., shall 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. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order will be issued. The docket shall remain open for our staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 24th day of August, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

PER

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, with the exception of the Four-Year Rate Reduction and the Proof of Adjustments, 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 14, 2012. 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.

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 110282-WS	
DESCRIPTION	BALANCE PER UTILITY	ADJUST. TO UTIL. BAL.	BALANCE
1. UTILITY PLANT IN SERVICE	\$1,131,493	\$36,774	\$1,168,267
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CONTRIBUTION IN AID OF CONSTRUCTION	0	(21,980)	(21,980)
5. ACCUMULATED DEPRECIATION	(711,791)	(112,199)	(823,990)
6. AMORTIZATION OF CONTRIBUTION IN AID OF CONSTRUCTION	0	21,357	21,357
7. WORKING CAPITAL ALLOWANCE	<u>34,741</u>	<u>(9,717)</u>	<u>25,024</u>
8. WATER RATE BASE	<u>\$454,443</u>	<u>(\$85,765)</u>	<u>\$368,678</u>

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 110282-WS	
DESCRIPTION	BALANCE PER UTILITY	ADJUST. TO UTIL. BAL.	BALANCE
1. UTILITY PLANT IN SERVICE	\$36,942	\$25,373	\$62,315
2. LAND & LAND RIGHTS	0	0	0
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CONTRIBUTION IN AID OF CONSTRUCTION	0	(30,260)	(30,260)
5. ACCUMULATED DEPRECIATION	(28,079)	(2,320)	(30,399)
6. AMORTIZATION OF CONTRIBUTION IN AID OF CONSTRUCTION	0	27,551	27,551
7. WORKING CAPITAL ALLOWANCE	<u>6,158</u>	<u>12,794</u>	<u>18,952</u>
8. WASTEWATER RATE BASE	<u>\$15,021</u>	<u>\$33,139</u>	<u>\$48,160</u>

REGENCY UTILITIES, INC.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 9/30/11		DOCKET NO. 110282-WS	
ADJUSTMENTS TO RATE BASE			
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect the appropriate balance to Acct. Nos. 301/351.	\$25,000	\$25,000	
2. To reflect the appropriate balance to Acct. No. 334.	11,401	0	
3. To reflect the appropriate balance to Acct. Nos. 340/390.	<u>373</u>	<u>373</u>	
Total	<u>\$36,774</u>	<u>\$25,373</u>	
Contribution in Aid of Construction			
To reflect the appropriate Contribution in Aid of Construction.	<u>(\$21,980)</u>	<u>(\$30,260)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect accumulated depreciation per Rule 25-30.140, F.A.C.	(\$128,926)	(\$3,106)	
2. To reflect averaging adjustments.	<u>16,727</u>	<u>786</u>	
Total	<u>(\$112,199)</u>	<u>(\$2,320)</u>	
<u>AMORTIZATION OF CONTRIBUTION IN AID OF CONSTRUCTION</u>			
To reflect amortization of Contribution in Aid of Construction			
1. based on composite rates.	\$21,672	\$27,933	
2. To reflect averaging adjustments.	<u>(315)</u>	<u>(382)</u>	
Total	<u>\$21,357</u>	<u>\$27,551</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year operation and maintenance expenses.	<u>(\$9,717)</u>	<u>\$12,794</u>	

REGENCY UTILITIES, INC.
TEST YEAR ENDING 9/30/11
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 110282-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
1. TOTAL COMMON EQUITY	\$627,318	\$0	\$627,318	(\$215,880)	\$411,438	98.70%	8.74%	8.63%
2. CUSTOMER DEPOSITS	<u>5,400</u>	<u>0</u>	<u>5,400</u>	<u>0</u>	<u>5,400</u>	<u>1.30%</u>	6.00%	<u>0.08%</u>
3. TOTAL	<u>\$632,718</u>	<u>\$0</u>	<u>\$632,718</u>	<u>(\$215,880)</u>	<u>\$416,838</u>	<u>100.00%</u>		<u>8.70%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.72%</u>	<u>9.69%</u>	

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 110282-WS		
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$265,347</u>	<u>(\$103,534)</u>	<u>\$161,813</u>	<u>\$106,435</u> 65.78%	<u>\$268,248</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$277,924	(\$77,734)	\$200,190	\$0	\$200,190
3. DEPRECIATION (NET)	35,183	(14,404)	20,779	0	20,779
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	12,406	(1,991)	10,415	4,790	15,204
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$325,513</u>	<u>(\$94,130)</u>	<u>\$231,383</u>	<u>\$4,790</u>	<u>\$236,173</u>
8. OPERATING INCOME/(LOSS)	<u>(\$60,166)</u>		<u>(\$69,571)</u>		<u>\$32,075</u>
9. WATER RATE BASE	<u>\$454,443</u>		<u>\$368,678</u>		<u>\$368,678</u>
10. RATE OF RETURN	<u>(13.24%)</u>		<u>(18.87%)</u>		<u>8.70%</u>

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 110282-WS		
	TEST YEAR PER UTILITY	ADJUSTMENTS	ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$0	\$107,009	\$107,009	\$60,916 56.93%	\$167,925
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$49,268	\$102,351	\$151,619	\$0	\$151,619
3. DEPRECIATION (NET)	885	(76)	809	0	809
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	7,286	(59)	7,227	2,741	9,968
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$57,439	\$102,215	\$159,654	\$2,741	\$162,395
8. OPERATING INCOME/(LOSS)	(\$57,439)		(\$52,645)		\$5,530
9. WASTEWATER RATE BASE	\$15,021		\$48,160		\$48,160
10. RATE OF RETURN	\$0		\$0		10.00%

REGENCY UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 9/30/11		DOCKET NO. 110282-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
To reflect the appropriate test year revenues.	(<u>\$103,534</u>)	<u>\$107,009</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages Employees (601/701)			
To reclassify A. Daniels' salaries to Acct. No. 603/703.	(<u>\$6,439</u>)	(<u>\$74</u>)	
2. Salaries and Wages Officers (603/703)			
a. To reclassify A. Daniels' salary from Acct. Nos. 601/701.	\$6,439	\$74	
b. To reflect appropriate salary for A. Daniels.	(2,877)	3,214	
c. To reclassify R. Stein's salary from Acct. Nos. 636/736.	7,938	4,662	
d. To reflect appropriate allocation of R. Stein's salary.	(<u>1,386</u>)	<u>1,386</u>	
Subtotal	<u>\$10,114</u>	<u>\$9,336</u>	
3. Employees Pension and Benefits (604/704)			
a. To reflect the appropriate allocation between systems.	<u>\$1,129</u>	<u>\$3,536</u>	
4. Purchased Water/Purchased Wastewater (610/710)			
a. To reflect test year purchased water/purchased wastewater.	(\$80,561)	\$81,501	
b. To reflect pro forma adjustment for increase in JEA rates.	<u>20,274</u>	<u>14,819</u>	
Subtotal	<u>(\$60,287)</u>	<u>\$96,320</u>	
5. Purchased Power (615/715)			
To reflect invoices for electric charges.	<u>\$281</u>	<u>\$1,715</u>	
6. Materials & Supplies (620/720)			
To remove unsupported balance.	(<u>\$3,621</u>)	(<u>\$1,488</u>)	
7. Contractual Services - Professional (631/731)			
To reflect invoices for professional services.	<u>(\$2,025)</u>	<u>(\$918)</u>	
(OPERATION AND MAINTENANCE EXPENSES CONTINUED ON NEXT PAGE)			

REGENCY UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 9/30/11		DOCKET NO. 110282-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
O&M EXPENSES CONTINUED	<u>WATER</u>	<u>WASTEWATER</u>	
8. Contractual Services - Other (636/736)			
a. To reclassify R. Stein's salary to Account Nos. 603/703.	(\$7,938)	(\$4,662)	
b. To remove R. Stein's salary recorded twice.	(7,938)	(4,662)	
c. To reflect the appropriate allocation between systems.	(1,415)	915	
Subtotal	<u>(\$17,291)</u>	<u>(\$8,409)</u>	
9. Regulatory Expense (665/765)			
To amortize rate case expense over 4 years.	<u>\$1,362</u>	<u>\$1,257</u>	
10. Bad Debt Expense (670/770)			
To reflect appropriate bad debt expense.	<u>\$1,025</u>	<u>\$1,384</u>	
11. Miscellaneous Expense (675/775)			
a. To remove non-utility expenses.	(\$2,059)	(\$381)	
b. To include annual filing fee.	78	72	
Subtotal	<u>(\$1,981)</u>	<u>(\$309)</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$77,734)</u>	<u>\$102,351</u>	
DEPRECIATION EXPENSE			
To reflect the appropriate net depreciation expense.	<u>(\$14,404)</u>	<u>(\$76)</u>	
TAXES OTHER THAN INCOME			
1. To reflect the appropriate property taxes.	(\$3,396)	(\$1,620)	
2. To reflect the appropriate payroll taxes.	1,362	996	
3. To reflect the appropriate RAFs.	43	564	
Total	<u>(\$1,991)</u>	<u>(\$59)</u>	

REGENCY UTILITIES, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDING 9/30/11		DOCKET NO. 110282-WS	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL		TOTAL
	PER	ADJUST-	
	UTILITY	MENT	
(601) SALARIES AND WAGES - EMPLOYEES	\$17,484	(\$6,439)	\$11,045
(603) SALARIES AND WAGES - OFFICERS	0	10,114	10,114
(604) EMPLOYEE PENSIONS AND BENEFITS	7,428	1,129	8,557
(610) PURCHASED WATER	182,610	(60,287)	122,323
(615) PURCHASED POWER	0	281	281
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	5,525	(3,621)	1,904
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,834	(2,025)	809
(635) CONTRACTUAL SERVICES - TESTING	1,213	0	1,213
(636) CONTRACTUAL SERVICES - OTHER	32,705	(17,291)	15,414
(640) RENTS	9,412	0	9,412
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	12,884	0	12,884
(665) REGULATORY COMMISSION EXPENSE	0	1,362	1,362
(670) BAD DEBT EXPENSE	1,304	1,025	2,329
(675) MISCELLANEOUS EXPENSES	<u>4,525</u>	<u>(1,981)</u>	<u>2,544</u>
TOTAL	<u>\$277,924</u>	<u>(\$77,734)</u>	<u>\$200,190</u>

REGENCY UTILITIES, INC.		SCHEDULE NO. 3-E	
TEST YEAR ENDING 9/30/11		DOCKET NO. 110282-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	ADJUST- MENT	TOTAL
(701) SALARIES AND WAGES - EMPLOYEES	\$10,269	(\$74)	\$10,195
(703) SALARIES AND WAGES - OFFICERS	0	9,336	9,336
(704) EMPLOYEE PENSIONS AND BENEFITS	4,363	3,536	7,899
(710) PURCHASED SEWAGE TREATMENT	0	96,320	96,320
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	0	1,715	1,715
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	3,245	(1,488)	1,757
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,665	(918)	747
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	13,209	(8,409)	4,800
(740) RENTS	5,527	0	5,527
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	7,567	0	7,567
(765) REGULATORY COMMISSION EXPENSES	0	1,257	1,257
(770) BAD DEBT EXPENSE	766	1,384	2,150
(775) MISCELLANEOUS EXPENSES	<u>2,657</u>	<u>(309)</u>	<u>2,348</u>
TOTAL	<u>\$49,268</u>	<u>\$102,351</u>	<u>\$151,619</u>

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 110282-WS	
	UTILITY'S EXISTING RATES	APPROVED RATES	MONTHLY RATE REDUCTION
<u>General Service</u>			
<u>Base Facility Charge by Meter Size:</u>			
5/8" X 3/4"	\$16.99	\$30.69	\$0.16
3/4"	\$25.49	\$46.04	\$0.24
1"	\$42.48	\$76.73	\$0.41
1-1/2"	\$84.96	\$153.45	\$0.82
2"	\$135.93	\$245.52	\$1.31
3"	\$271.87	\$491.04	\$2.61
4"	\$424.79	\$767.25	\$4.08
6"	\$849.58	\$1,534.50	\$8.16
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$1.60	\$3.01	\$0.02
<u>Typical 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$21.79	\$39.72	
5,000 Gallons	\$24.99	\$45.74	
10,000 Gallons	\$32.99	\$60.79	

REGENCY UTILITIES, INC. TEST YEAR ENDING 9/30/11 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 110282-WS	
	UTILITY'S EXISTING RATES	APPROVED RATES	MONTHLY RATE REDUCTION
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"	\$18.96	\$25.35	\$0.20
3/4"	\$28.44	\$38.03	\$0.30
1"	\$47.40	\$63.38	\$0.50
1-1/2"	\$94.80	\$126.75	\$0.99
2"	\$151.68	\$202.80	\$1.59
3"	\$303.37	\$405.60	\$3.18
4"	\$474.01	\$633.75	\$4.97
6"	\$948.03	N/A	N/A
<u>General Service Gallonage Charge</u>			
Per 1,000 Gallons	\$3.54	\$6.72	\$0.05
<u>Typical 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$29.58	\$45.51	
5,000 Gallons	\$36.66	\$58.95	
10,000 Gallons	\$54.36	\$92.55	