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Public Service Commission

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

DATE: July 28, 2011

TO: Office of Commission Clerk (Cole)

FROM: Division of Economic Regulation (Fletcher, Daniel, Maurey, Simpson, Stallcup, Thompson)
Office of the General Counsel (Young)

RE: Docket No. 100126-WU – Application for increase in water rates in Marion County by C.F.A.T. H2O, Inc.

AGENDA: 08/09/11 – Regular Agenda – Proposed Agency Action Except For Issue Nos. 18 and 19 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: 5-Month Effective Date Waived Through 08/09/11

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\100126.RCM.DOC

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Case Background

C.F.A.T. H2O, Inc. (C.F.A.T. or Utility) is a Class C utility providing water service to approximately 221 water customers in Marion County. C.F.A.T. is in a water use caution area of the St. Johns River Water Management District. Water rate base was last established for the Utility in 1994.[1]

On September 28, 2010, C.F.A.T. filed its application for the rate increase at issue in this docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the simple average period ended December 31, 2009.

By Order No. PSC-10-0739-PCO-WU, C.F.A.T. was granted an interim rate increase designed to generate annual water revenues of $86,882.[2] This represents a revenue increase on an annual basis of $42,792 (97.06 percent). The Utility requested final rates designed to generate annual water revenues of $95,079. This represents a revenue increase of $51,500 (118.18 percent).

By letter dated June 1, 2011, the Utility waived the statutory 5-month deadline for this case through August 9, 2011. This recommendation addresses C.F.A.T.'s requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

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[1] See Order No. PSC-94-0701-FOF-WS, issued June 8, 1994, in Docket No. 931080-WS, In re: Application for transfer of Certificate Nos. 552-W and 481-S in Marion County from THE RESOLUTION TRUST CORPORATION to C.F.A.T. H2O, Inc. (While rate base was established in this Order, an authorized return on equity was not set for the Utility.)

[2] See Order No. PSC-10-0739-PCO-WU, issued December 20, 2010.

Discussion of Issues

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

Recommendation: Yes. The quality of service provided by the Utility is satisfactory. (Simpson)

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

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

A staff field investigation of the service area was conducted on March 29, 2011. The water facilities appeared to be operating normally. The Utility installed a 200,000 gallon ground storage tank in 2007, with the intent of providing fire flow to areas that may be developed in the future. In addition, three new high service pumps were installed for additional reliability and all of the manual read water meters were replaced with new automated read meters. According to the DEP, the system is currently in compliance with DEP rules and regulations. Based on staff's review, it appears that the quality of the drinking water delivered to the customers and the operational condition of the water facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

The Commission received letters from 18 customers addressing concerns related to poor water quality and the amount of the rate increase. However, there were no complaints on the Commission's Complaint Tracking System (CATS). A customer meeting was held on April 28, 2011 in Ocala, Florida. A representative of the Utility and two Commissioners were present. One customer attended and expressed concerns about the rate increase, inadequate notice of the meeting, and the quality of the water. Staff explained the rate making process to her. According to the customer, when she paid her water bill on April 19, 2011, she inquired about the meeting and was informed that the notice of the meeting had already been mailed to all customers. The Utility indicated that notices were mailed to all customers and provided an affidavit that the notice was mailed. In addition, the Utility gave the customer a copy of the notice during her visit to the office. The customer also described the presence of sediment in the water and air pockets within the system. The Utility representative explained that the water contains calcium.

A review of reports filed with DEP regarding total dissolved solids, including calcium, indicates that the Utility meets DEP secondary drinking water standards (See Document No. 09566-10). Regarding air pockets in the system, the Utility indicated that when air is noticed in the system, appropriate measures are taken to eliminate air intrusion by using the air release valve on the hydropneumatic tank. Therefore, staff recommends that the Utility's attempt to address customer satisfaction should be considered satisfactory.

Summary

In summary, the Utility is current in all of the required chemical analyses and treatment standards. Furthermore, the Utility appears to be addressing customer concerns satisfactorily. Therefore, staff recommends that the overall quality of service provided by the Utility is satisfactory.

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

Recommendation: Yes. Based on audit adjustments agreed to by the Utility, the adjustments to rate base and net operating income should be made as set forth in staff's analysis below. (Fletcher)

Staff Analysis: Based on audit adjustments agreed to by the Utility, the adjustments to rate base and net operating income should be made as set forth in the table below.

Table 2-1

Audit Finding	Plant	Accum. Depr.	CIAC	Accum. Amort. of CIAC	Operation & Maintenance (O&M) Expense
Finding No. 1 – Adjustment to reflect: Commission-Ordered Adjustments, Unsupported Plant, Out-of-Period Items, Utility Amounts, and Retirements	($25,880)	$24,247	$0	$0	$0
Finding No. 2 – Adjustment to reflect: Commission-Ordered Adjustments	0	0	(10,512)	(756)	0
Finding No. 4 - Adjustment to reflect: Non-Utility Amounts and Unsupported Expenses	0	0	0	0	(2,862)
Total Audit Adjustments	($25,880)	$24,247	($10,512)	($756)	($2,862)

Issue 3: What are the used and useful percentages of the Utility's water treatment plant, the ground storage tank, and the water distribution system?

Recommendation: The Utility's water treatment plant is 65 percent used and useful (U&U), the ground storage tank is 86 percent U&U, and the water distribution system is 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by $73,770, $5,055, and $169, respectively. (Simpson, Fletcher)

Staff Analysis: Rule 25-30.4325, F.A.C., provides that the U&U percentage for a water treatment plant is determined by dividing the peak customer demand, less excessive unaccounted for water, plus fire flow, and a growth allowance by the firm reliable capacity (FRC) of the wells. For systems with storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd).

Water Treatment Plant (WTP)

The C.F.A.T. water treatment system has two wells that are each rated at 250 gallons per minute (gpm). The raw water is injected with liquid chlorine, discharged into a 200,000 gallon ground storage tank, then into a hydropneumatic tank, and channeled into the distribution system.

The Utility did not include a U&U calculation in its initial application. Additional information filed on January 5, 2011, included an analysis showing that the water treatment plant and storage facilities are 99.26 percent U&U. The Utility relied on a peak day demand of 64,000 gpd, fire flow of 120,000 gpd, excess unaccounted for water of 373 gpd, and a firm reliable capacity of 185,000 gpd to arrive at 99.26 percent U&U for the WTP. The Utility requested that the water treatment plant be found 100 percent U&U because there are no vacant lots and the system is built out.

The peak day of 142,300 gallons, reflected in the Utility's initial application, occurred on June 23, 2009. Staff reviewed the Utility's Monthly Operating Reports (MORs), and found that the June 23 flows represented a combination of flows for three days. The next peak days during the test year occurred on July 25, 26, and 27, 2009, when flows of 91,000 gpd were reported. Pursuant to Rule 25-30.4375(7), F.A.C., the peak day is the single maximum day in the test year where there is no unusual occurrence. Therefore, staff recommends that 91,000 gpd be used as the peak day. According to revised information from the Utility, 10.074 million gallons of finished water were produced in the test year and 9.224 million gallons of water were sold. Therefore, the unaccounted for water for the system is less than 10 percent of the water produced.

The Utility's FRC is based on the capacity of the smaller of its two wells. The Utility provided several documents showing conflicting information as to the capacities of the two wells. Staff relied on the Utility's May 27, 2011, submittal showing that the wells are rated at 250 gpm each. Therefore, pursuant to Rule 25-30.4325(6), F.A.C., the FRC of the wells, excluding the largest well, is 240,000 gpd.

The Utility made upgrades to the plant in 2007 in anticipation of providing fire flow to future development in the service area; however, the Utility's fire flow capacity is currently available at a single fire hydrant in the service area. The Utility included a fire flow demand of 120,000 gpd (1000 gpm for 2 hours) in its U&U calculation. The required flow for the single fire hydrant is 501 to 999 gpm as adopted by the Marion County Board of County Commissioners to comply with the National Fire Protection Association 291 Recommended Practices for Fire Flow Testing and Marking of Hydrants adopted by Rule 69A-3.012, F.A.C. The flow for this hydrant is 501 gpm. Due to the fact that the fire flow capacity is only available to a single general service customer, and plant additions were made in anticipation of future development, staff recommends that fire flow capacity of 60,120 gpd (501 gpm for 2 hours) be used.

The Utility did not include a growth projection in its U&U calculation. However, a review of information from the Utility indicates that there has been growth of 2 ERCs per year for the past 5 years, except in 2007, when there was negative growth. As indicated in Issue 1, the Utility does anticipate future development as evidenced by its installation of a 200,000 gallon ground storage tank for fire flow. In addition, staff disagrees with the Utility's position that there are no vacant lots. There is vacant land at several locations within the service territory available for development. Therefore, staff recommends that a growth allowance of 2 ERCs per year for five years or 4,194 gpd be included in the U&U calculation, pursuant to Section 367.081(2), F.S.

Based on the above analysis, staff recommends that the water treatment plant be considered 65 percent U&U based on a peak day of 91,000 gpd, fire flow of 60,120 gpd, growth of 4,194 gpd, and firm reliable capacity of 240,000 gpd.

Ground Storage Tanks

Rule 25-30.4325(8) and (9), F.A.C., provide that the U&U percentage for a storage tank is determined by dividing the peak demand by the usable capacity of the tank. An elevated tank is considered 100 percent usable. A ground storage tank is considered 90 percent usable if the bottom of the tank is below the centerline of the pumping unit and 100 percent usable if the tank is constructed with a bottom drain and there is no other limiting factor. A hydropneumatic tank is not considered usable storage.

In the filing, the Utility requested that its storage capacity be considered 100 percent U&U. The 200,000 gallon ground storage tank was installed in 2007. Pursuant to Rule 25-30.4235 (9)(b), F.A.C., the ground storage tank has a usable capacity of 90 percent or 180,000 gallons in this case. The U&U calculation for the tank is made by using a peak day of 91,000 gpd, growth of 4,194 gpd, fire flow of 60,120 gpd, and a usable capacity of 180,000 gpd. Therefore, staff recommends that the ground storage tank be considered 86 percent U&U.

Water Distribution System

The U&U calculation for the water distribution system is based on the number of ERCs connected to the system divided by the capacity of the system. Consideration is given for growth.

The Utility, in its filing, indicated that the distribution system should be considered 100 percent U&U. Because there are no vacant lots within the development that the distribution system was designed to serve, staff recommends that the water distribution system be considered 100 percent U&U.

Summary:

Based upon the analysis above, staff recommends that the water treatment plant be considered 65 percent U&U, storage be considered 86 percent U&U, and the water distribution system be considered 100 percent U&U. Accordingly, rate base, depreciation expense, and property taxes should be reduced by $73,770, $5,055, and $169, respectively.

Issue 4: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is $5,247. (Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class C utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expenses method. Staff has recommended adjustments to C.F.A.T.'s O&M expenses. As a result, staff recommends that working capital of $5,247 be approved. This reflects a decrease of $662 to the Utility's requested working capital allowance of $5,909.

Issue 5: What is the appropriate rate base for the test year ended December 31, 2009?

Recommendation: Consistent with other recommended adjustments, the appropriate rate base is $288,607. (Fletcher)

Staff Analysis: Consistent with other recommended adjustments, the appropriate rate base is $288,607. The schedule for rate base is attached as Schedule No. 1-A. The adjustments to rate base are shown on Schedule No. 1-B.

Issue 6: What is the appropriate return on equity?

Recommendation: The appropriate return on common equity is 11.16 percent based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Fletcher)

Staff Analysis: The return on equity (ROE) included in the Utility's filing is 10.85 percent. Based on the current leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of 3.84 percent, the appropriate ROE is 11.16 percent.[3] Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

[3] See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, 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.

Issue 7: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2009, is 5.91 percent. (Fletcher)

Staff Analysis: In its filings, the Utility requested an overall cost of capital of 6.28 percent. C.F.A.T.'s capital structure consists of long-term debt, common equity, customer deposits, and shareholder loans. Staff is recommending adjustments to the company's filed capital structure.

First, in Audit Finding 3, staff auditors reduced long-term debt by $3,200 to remove debt which was paid-off. In its response to the audit, the Utility did not object to this adjustment.

Second, staff auditors recommended that C.F.A.T's common equity balance be set to zero because the Utility's general ledger reflects negative equity for 2008 and 2009. The company included $15,419 related to monies loaned to the Utility by its shareholders. In its response to the audit, C.F.A.T. asserted these monies were loaned to the Utility by its shareholders when needed and they plan on being paid back. Staff believes that monies loaned to C.F.A.T. by shareholders are essentially additional paid-in capital and should be treated as common equity. Thus, staff recommends a common equity balance of $15,419.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, staff recommends a weighted average cost of capital of 5.91 percent. This represents a 37 basis points reduction from C.F.A.T's requested overall cost of capital of 6.28 percent. Schedule No. 2 details staff's recommended overall cost of capital.

Issue 8: Should any adjustments be made to the Utility's requested pro forma expenses?

Recommendation: Yes. Due the current economic climate, a 3-percent increase in salaries is more reasonable than the company's proposed 21 percent increase. Accordingly, salaries should be reduced by $1,511. Further, based on a 3-year average balance, a representative amount of bad debt expense for ratemaking purposes is $3,093, which represents an increase of $1,429. (Fletcher)

Staff Analysis: In its filings, the Utility requested pro forma expense increases of $1,763 for salaries, $360 for healthcare costs, and $1,664 for bad debt expense. Staff believes that healthcare costs have and will continue to significantly increase each year and that the requested healthcare costs of $360 are immaterial in nature. Accordingly, staff believes the requested increase for healthcare costs is reasonable. However, staff believes adjustments are necessary for C.F.A.T.'s pro forma salary and bad debt expense increases.

Pro Forma Salary Increase

The requested salary increase represents an increase of approximately 21 percent ($1,763 divided by historical salaries of $8,400). Staff believes that, in light of the economic climate in Florida and throughout the U.S., a 3-percent increase in salaries is more reasonable. Although a 3-percent increase exceeds the Commission's 2010 and 2011 Price Indices of 0.56 percent and 1.18 percent, the Commission has recently limited salary increases for a water utility to 3 percent.[4] A 3-percent increase equates to an increase of $252. Accordingly, staff recommends that salaries be reduced by $1,511.

Pro Forma Bad Debt Expense

In its filing, C.F.A.T. reflected no bad debt expense during the test year. However, it subsequently requested pro forma bad debt expense of $1,664. The Commission has set bad debt expense using the 3-year average in multiple electric,[5] gas,[6] and water and wastewater cases.[7] The Commission approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining the

[4] See Order No. PSC-11-0010-SC-WU, pp. 20-21, issued January 3, 2011, in Docket No. 100104-WU, In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

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

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

[7] See Order Nos. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, pp. 30-31; PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; pp. 23-24; and PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 18.

appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, C.F.A.T. should be entitled to bad debt expense of $3,093, which staff believes is representative of the Utility's bad debt expense. As a result, staff recommends that C.F.A.T.'s proposed bad debt expense of $1,664 be increased by $1,429.

Issue 9: Should any adjustments be made to the Utility's contractual billing expense?

Recommendation: Yes. To reflect the appropriate contractual billing expense, O&M expenses should be reduced by $2,163. (Fletcher)

Staff Analysis: In its filings, C.F.A.T. reflected $7,616 in contractual billing expense. These expenses are from C.F.A.T.'s affiliate-management company, M.I.R.A. International, Inc. (MIRA). MIRA charges contractual billing expense for all services outside the scope of the monthly management fee agreement, such as emergency line repairs. In response to a staff data request, the Utility provided all invoices for the test year for contractual billing expense which total $7,753. However, C.F.A.T. stated that $2,300 of that amount related to its wastewater system and was inadvertently recorded as an expense for its water system. As such, the Utility's total supported contractual billing expense is $5,453 ($7,753 - $2,300). Accordingly, staff recommends that contractual billing expense be reduced by $2,163 ($7,616 - $5,453).

Issue 10: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is $20,243. This expense should be recovered over four years for an annual expense of $5,061. Thus, C.F.A.T.'s requested annual rate case expense should be reduced by $189. (Fletcher)

Staff Analysis: C.F.A.T. included rate case expense of $21,000 in its MFRs. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the amount necessary to complete the case.

Pursuant to Section 367.081(7), F.S., "[t]he Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable." Also, it is a utility's burden to justify its requested costs.[8] Further, the Commission has broad discretion with respect to allowance of rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[9] As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed below for the current rate case. Based on our review, staff recommends several adjustments to the revised rate case expense estimate.

Legal Fees

C.F.A.T. included $6,000 in its MFRs for legal representation from Rutledge, Ecenia & Purnell. Subsequent to the filing of the MFRs, the Utility submitted actual and estimated rate case expense associated with legal services totaling $839. These costs related to the Utility's request for a test year approval and an application for qualified representative status. Thus, staff recommends rate case expense related to legal services of $839 be approved.

Consultant Fees

C.F.A.T. included $15,000 in its filing for preparation of MFRs, data request responses, and audit facilitation from Tangibl LLC (Tangibl). Based on the Utility's agreement with Tangibl, C.F.A.T. has paid Tangibl a lump sum of $12,500 for preparing the MFRs in this case. Being a Class C utility, C.F.A.T. could have availed itself to a staff-assisted rate case (SARC). When the Utility requested its test year approval, staff advised its legal counsel at that time that the Utility was eligible for a SARC. Further, by e-mail dated September 13, 2010, staff advised Mr. deMenzes that he could apply for a SARC and that the rate case expense/regulatory commission expense associated with a SARC is far less expensive than a file and suspend rate case. Through a telephone discussion, Mr. deMenzes stated he did not wish to seek rate relief through a SARC because he did not like the outcome of the last SARC C.F.A.T. had.

If C.F.A.T. were a Class B utility, staff would have no reservation in recommending approval of $12,500 for MFR preparation by Tangibl because the amount is significantly less than the amount of MFR preparation costs incurred in several recent file and suspend rate cases.

[8] See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).
[9] See Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

In numerous prior SARCs, the Commission has disallowed the consulting fees incurred for a filing a SARC application.[10] Further, because the Utility chose not to take advantage of a SARC, staff believes one could argue that all rate case expense associated the MFRs in this case should be disallowed.

While staff is cognizant of this compelling argument, staff notes that there is no statutory requirement that a Class C utility must seek rate relief through a SARC. Moreover, staff recognizes that pursuant to Section 367.0814 F.S., a utility in a SARC cannot protest the Commission's decision if the approved rates generate greater revenues than the utility's existing rates. Given Mr. deMenzes concerns regarding the outcome of the Utility's last SARC, a file and suspend rate case affords C.F.A.T. the opportunity to protest the Commission's PAA decision. Based on the above, staff recommends that $12,500 incurred to prepare the MFRs is reasonable. Accordingly, rate case expense should be reduced by $2,500 ($15,000 - $12,500).

Miscellaneous

At one time in this proceeding, the Utility retained Rose, Sundstrom & Bentley, LLP (RSB), as its legal counsel. By letter dated August 27, 2011, RSB filed a Notice of Withdrawal of Counsel and stated that C.F.A.T. will be represented by Mr. deMenzes as a qualified representative.[11]

In its filling, C.F.A.T. did not include any amount for Mr. deMenzes to process this case as a qualified representative. In response to a staff data request, the Utility requested $4,000 (40 hours @ $100 an hour). In a subsequent response to a staff data request, C.F.A.T. stated the total hours as a qualified representative were 180 hours (60 weeks @ 3 hours per week) at an hourly rate of $40 or a total of $7,200. Staff notes that, in this subsequent response, the Utility requested a lower hourly rate of $40 instead of the $100 in its first response. Staff believes the Utility's revised hourly rate of $40 is appropriate because it is in line with Mr. deMenzes' total officer salary of $83,200. When dividing $83,200 by 2,080 typical work hours in a year, it yields an hourly rate of $40.

The Utility did not provide a breakdown for each task performed and their associated hours as requested in staff's data request. However, staff has first hand knowledge that Mr. deMenzes has assisted staff auditors, attended the interim commission conference, attended the customer meeting, and responded to numerous staff data requests. Because Mr. deMenzes substituted previous legal counsel as a qualified representative, staff looked at four recent rate

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[10] See Order No. PSC-08-0548-PAA-WS, issued August 19, 2008, in Docket No. 070416-WS, In re: Application for staff-assisted rate case in Polk County by Plantation Landings, Ltd.; PSC-08-0496-PAA-WS, issued August 5, 2008, in Docket No. 070417-WS; In re: Application for staff-assisted rate case in Polk County by Anglers Cove West, Ltd.; and PSC-08-0262-PAA-WS, issued April 28, 2008, in Docket No. 070414-WS, In re: Application for staff-assisted rate case in Polk County by Hidden Cove, Ltd. (In these cases, the Commission has stated it does not believe these expenses should be recovered, as the need to file a case can easily be determined by a cursory review of the annual report, and the SARC application was designed so that any regulated utility could easily fill in the required information.)

[11] See Order No. PSC-10-0520-FOF-OT, issued August 16, 2010, in Docket No. 100008-OT, In re: Applications for qualified representative status. (By this order, Mr. deMenzes was authorized to appear as qualified representative for C.F.A.T. H2O, Inc. in Docket No. 100126-WU and Tradewinds Utilities, Inc. in Docket No. 100127-WS.)

cases that were processed by RSB in order to analyze the reasonableness of the 180 hours requested by the Utility. Based on our calculations of those four rate cases, the actual average hours were approximately 122 hours per case. Due to the lack of detail for its requested costs, staff recommends recovery of 122 hours at an hourly rate of $40. This equates to $4,880 (122 hours @ $40) resulting in a reduction of $2,320 ($7,200 - $4,880) to the company's request.

In addition, staff believes it is appropriate to allow noticing costs. There will be a total of three notices through the PAA portion of this rate case and assuming no protest. Given the number of customers and the total number of pages for these notices, staff believes $524 is a reasonable amount for the noticing requirements for this case. Therefore, staff recommends miscellaneous rate case expense of $5,404 ($4,880 + 524).

Conclusion

In summary, staff recommends that the Utility's revised rate case expense be decreased by $4,296. The appropriate total rate case expense is $20,243. A breakdown of rate case expense is as follows:

Tale 10-1

	MFR B-10 Estimate	Actual & Estimated	Staff Adjustments	Total
Legal Fees	$6,000	$839	$0	$839
Tangibl LLC	15,000	12,500	($2,500)	12,500
PSC Filing Fee	1,500	1,500	0	1,500
Miscellaneous	0	7,200	(1,796)	5,404
Total Rate Case Expense	$21,000	$22,039	($4,296)	$20,243
Annual Amortized Amount	$5,250	$5,510		$5,061

Based on Section 367.0816, F.S., the recommended annual rate case expense of $5,061 ($20,243/4) should be recovered over four years. This represents an annual rate case expense reduction of $189 ($5,250 - $5,061).

Issue 11: What is the test year operating loss before any revenue increase?

Recommendation: Based on the adjustments discussed in other issues, the test year operating loss is $15,053 before any revenue increase. (Fletcher)

Staff Analysis: This is primarily a "fall-out" issue subject to the resolution of other issues related to revenues, operating expenses, and rate base. As shown on Schedule No. 3-A, after applying staff's adjustments, the Utility's net operating loss is $15,053. Staff's adjustments to operating income are shown on Schedule No. 3-B.

Issue 12: What is the appropriate revenue requirement?

Recommendation: The following revenue requirement should be approved:

	Test Year Revenues	$ Increase	Revenue Requirement	% Increase
Wastewater	$43,579	$33,611	$77,190	77.13%

(Fletcher)

Staff Analysis: The issue is a summary computation that is subject to the resolution of other issues related to rate base and cost of capital, and is primarily a "fall-out" number. The computation of the revenue requirement is shown on Schedule No. 3-A. This results in a revenue requirement of $77,190, which represents an increase of $33,611 or 77.13 percent.

Issue 13: What is the appropriate water rate structure?

Recommendation: The appropriate rate structure for the water system's residential class is a two-tier inclining-block rate structure. Staff's preliminary rate design called for a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. However, as discussed in Issue 14, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a two-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal and b) all usage in excess of 3 kgals in the second usage block, and usage block rate factors of 0.54 and 1.0, respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 45 percent. (Thompson)

Staff Analysis: The Utility's current water system rate structure for the residential and general service classes consists of a base facility charge (BFC) and a uniform gallonage charge. The current BFC for 5/8" x 3/4" meter customers is $9.97 per month and the gallonage charge is $1.63 per kgal

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

Staff evaluated the Utility's customer billing data to determine if an inclining block rate structure was appropriate. Based on staff's analysis, the customer's monthly overall consumption is 3.287 kgal and there are only 217 residential customers. Staff does not believe that an inclining block rate structure is appropriate at this time due to the low levels of consumption. While staff's preliminary rate design called for a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure, as discussed in Issue 14, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a two-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal and b) all usage in excess of 3 kgals in the second usage block, and usage block rate factors of 0.54 and 1.0, respectively.

To further promote a conservation-oriented rate structure and to supply sufficient cash flow for the Utility's fixed costs of approximately 43 percent, staff recommends setting the BFC at 45 percent. Currently the Utility's BFC is at 66 percent. Having a lower BFC percentage will allow customer's more control over their bill and will provide the appropriate price signals needed to promote conservation.

In addition to the recommended rate structure described above, staff also evaluated two alternative water rate structures. The first alternative rate structure consists of a two-tiered rate structure. The second alternative represents a continuation of the Utility's current rate structure using an across the board calculation of the 77.1% increase. These rate structures and their resulting bills are shown on the following table.

C.F.A.T. H2O, INC. STAFF'S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL RESIDENTIAL CUSTOMERS ON 5/8" x 3/4" METERS POST-REPRESSION ANALYSIS			
Current Rate Structure and Rates		**Recommended Rate Structure and Rates**	
BFC/uniform gallonage charge rate Structure BFC = 66 percent		Two-tier inclining blocks – consumption of 0-3 kgals and 3+ kgals; rate factors of 0.54 and 1.0; BFC = 45.00 percent	
BFC	$9.97	BFC	$11.87
Gallonage Charge, all kgals	$1.63	0-3 kgals (no repression adjustment)	$4.60
		In excess of 3 kgals	$8.58
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		Cons (kgal)	
0	$9.97	0	$11.87
1	$11.60	1	$16.47
3	$14.86	3	$21.08
5	$18.12	5	$42.84
10	$26.27	10	$85.73
15	$34.42	15	$128.62
20	$42.57	20	$171.51
25	$50.72	25	$214.40
30	$58.87	30	$257.29
Alternative 1		**Alternative 2**	
Three-tiered inclining-blocks – consumption of 0-3 kgals, 3-6 kgals and 6+ kgals; rate factors at 1.0, 1.25 and 1.50; BFC = 45.00 percent		Across the board increase of 77.1%	
BFC	$11.87	BFC	$17.66
0-3 kgals	$4.04	Gallonage Charge, all kgals	$2.89
3-6 kgals	$7.81		
In excess of 3 kgals	$11.72		
Typical Monthly Bills		**Typical Monthly Bills**	
Cons (kgal)		Cons (kgal)	
0	$11.87	0	$17.66
1	$15.91	1	$20.54
3	$19.95	3	$26.32
5	$39.61	5	$32.09
10	$94.29	10	$46.52
15	$152.86	15	$60.96
20	$211.44	20	$75.39
25	$270.02	25	$89.83
30	$328.60	30	$104.26

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for general service customer classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total number of gallons attributable to all rate classes. This should be the same methodology used to determine the general service gallonage charge in this case. With this methodology, the general service customers would continue to pay their fair share of the cost of service.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a two-tier inclining-block rate structure. Staff's preliminary rate design called for a continuation of the monthly base facility charge (BFC)/uniform gallonage charge rate structure. However, as discussed in Issue 14, by restricting any cost recovery due to repression being applied to non-discretionary usage, an additional tier is necessary for non-discretionary usage below 3 kgals per month. This results in a two-tier rate structure for monthly consumption with usage blocks of: a) 0-3 kgal and b) all usage in excess of 3 kgals in the second usage block, and usage block rate factors of 0.54 and 1.0, respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 45 percent.

Issue 14: What is the appropriate repression adjustment?

Recommendation: A repression adjustment is appropriate for this Utility. Test year residential kgals sold should be reduced by 1,793 kgal to 6,664 kgals, purchased power expense should be reduced by $501, chemical expense should be reduced by $232, and regulatory assessment fees (RAFs) should be reduced by $34. The final post-repression revenue requirement should be $76,422.

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

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that about 38 percent of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This analysis also showed that average residential consumption per customer was 3.287 kgal per month.

Using the database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this Utility based upon the recommended increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases.[12] This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption less than 3 kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption above 3 kgals per month).

Therefore, based on this methodology, staff calculated that test year residential consumption for this Utility should be reduced by 1,793 kgal, purchased power expense should be reduced by $501, chemical expense should be reduced by $232 and RAFs should be reduced by $34. The final post-repression revenue requirement should be $76,422. In order to monitor the effect of the rate changes, the Utility should be ordered to file reports detailing the number of bills rendered, the consumption billed, and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with staff, on a semi-annual basis, for a period of two years beginning with the

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[12] See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; Order No. PSC-10-0117-PAA-WU, issued February 26, 2010, in Docket No. 080695-WU, In re: Application for general rate increase by Peoples Water Service Company of Florida, Inc; Order No. PSC-09-0623-PAA-WS, issued September 15, 2009, in Docket No. 080597-WS, In re: Application for general rate increase in water and wastewater systems in Lake County by Southlake Utilities, Inc.

first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 15: What are the appropriate rates for this Utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4. Excluding miscellaneous service charges, the recommended water rates produce revenues of $76,422. The Utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water system. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than ten days of the date of the notice. (Thompson, Fletcher)

Staff Analysis: The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is $76,422. As discussed in Issue 13, staff recommends that the appropriate rate structure for the water system's residential class is a continuation of the Utility's BFC/uniform gallonage charge. The BFC cost recovery percentage should be set at 45 percent. Staff recommends a continuation of the traditional BFC/uniform gallonage charge rate structure be applied to the general service rate class as well. As discussed in Issue 14, staff recommends that a repression adjustment be made. Applying these rate designs and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedule No. 4. These rates are designed to recover a post-repression revenue requirement of $76,422.

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

Issue 16: Should the Utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

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

Miscellaneous Service Charges

	Bus. Hrs	After Hrs
Initial Connection	$11	$16
Normal Reconnection	$16	$24
Violation Reconnection	$21	$31
Premises Visit	$16	N/A

(Thompson)

Staff Analysis: The Utility believes that its miscellaneous service charges should be updated to reflect current costs. Staff agrees with this request. As a follow up to staff's discovery, C.F.A.T. provided the cost estimates for the expenses associated with initial connection, normal reconnection, violation reconnection, and premises visit fees during business hours and after hours. These cost justifications included $16 for transportation expense for each service, $30 per hour clerk labor ($45 after hours), and $8 of overhead for each service. The after hours charges are based on a factor of 1.5 times the business hours charges rounded down to the nearest whole dollar to reflect the cost of overtime associated with after hours services. The cost justifications ranged between $56 and $71. While staff believes the cost justifications are excessive, the proposed charges shown in C.F.A.T.'s MFRs are reasonable and lower than fees the Commission has approved for other utilities.[13] Below is a depiction of the current and proposed amounts for the miscellaneous charges.

	Current Charges		Proposed Charges	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$10	$12	$11	$16
Normal Reconnect	$15	$20	$16	$24
Violation Reconnect	$20	$25	$21	$31
Premises Visit	$15	N/A	$16	N/A

[13] See Order Nos. PSC-08-0827-PAA-WS, issued December 22, 2008, in Docket No. 070694-WS, In re: Application for increase in water and wastewater rates in Orange County by Wedgefield Utilities, Inc. and PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company

Therefore, staff recommends that C.F.A.T. be allowed to implement initial connection fee for work performed during business hours of $11 and after business hours of $16 and normal reconnection fees for work performed during business hours of $16 and after business hours of $24. Also, C.F.A.T. should be allowed to implement a violation reconnection fee of $21 during business hours and $31 after business hours and premises visit fee for work performed during business hours of $16. C.F.A.T. should be allowed to implement the requested MFR charges because the increased charges are reasonable and lower than charges approved in prior Commission decisions.[14] The Utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the Utility should be required to provide notice of the tariff changes to all customers. C.F.A.T. should provide proof the customers have received notice within ten days of the date the notice was sent. Below is a breakdown of the Utility's current and staff recommended miscellaneous service charges:

Table 16-1

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$10	$12	$11	$16
Normal Reconnection	$15	$20	$16	$24
Violation Reconnection	$20	$25	$21	$31
Premises Visit	$15	N/A	$16	N/A

[14] Ibid.

Issue 17: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on this calculation, the Utility should be required to refund 17.25 percent of water revenues under interim rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made. (Fletcher)

Staff Analysis: By Order No. PSC-10-0739-PCO-WU, the Commission authorized the collection of interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is $86,882 for water which represents an increase of $42,792 or 97.06 percent.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for the establishment of interim and final rates is the 12-month period ended December 31, 2009. C.F.A.T.'s approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, the $86,882 water revenue requirement granted in Order No. PSC-10-0739-PCO-WU for the interim test year is greater than the revenue requirement for the interim collection period of $71,891. This results in a 17.25 percent refund of interim rates, after miscellaneous revenues have been removed. The Utility should be required to refund 17.25 percent of the water revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account should be released upon staff's verification that the required refunds have been made.

Issue 18: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense?

Recommendation: The rates should be reduced as shown on Schedule No. 4 to remove $5,338 for rate case expense, grossed-up for Regulatory Assessment Fees (RAFs), which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is $5,338. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4.

The Utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. C.F.A.T. should provide proof of the date notice was given within 10 days of the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

Issue 19: Should the Utility be required to provide proof that it has adjusted its books for all Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, C.F.A.T. should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made. (Fletcher)

Staff Analysis: To ensure that the Utility adjusts its books in accordance with the Commission's decision, C.F.A.T. should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Issue 20: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the surety bond released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff. (Young, Fletcher)

Staff Analysis: If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the surety bond released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff.

C.F.A.T. H20, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09						Schedule No. 1-A Docket No. 100126-WU
	Description	**Test Year Per Utility**	**Utility Adjust-ments**	**Adjusted Test Year Per Utility**	**Staff Adjust-ments**	**Staff Adjusted Test Year**
1	Plant in Service	$537,632	$0	$537,632	($25,880)	$511,752
2	Land and Land Rights	19,500	0	19,500	0	19,500
3	Non-used and Useful Components	0	0	0	(73,770)	(73,770)
4	Accumulated Depreciation	(127,972)	0	(127,972)	24,247	(103,725)
5	CIAC	(114,421)	0	(114,421)	(10,512)	(124,933)
6	Amortization of CIAC	55,292	0	55,292	(756)	54,536
7	Acquisition Adjustment	46,269	(46,269)	0	0	0
8	Working Capital Allowance	0	5,909	5,909	(662)	5,247
9	**Rate Base**	$416,300	($40,360)	$375,940	($87,333)	$288,607

C.F.A.T. H20, Inc. Adjustments to Rate Base Test Year Ended 12/31/09	Schedule No. 1-B Docket No. 100126-WU
Explanation	**Water**
Plant In Service Agreed upon Audit Adjustments. (Issue 2)	($25,880)
Non-used and Useful To reflect net non-used and useful adjustment. (Issue 3)	($73,770)
Accumulated Depreciation Agreed upon Audit Adjustments. (Issue 2)	$24,247
CIAC Agreed upon Audit Adjustments. (Issue 2)	($10,512)
Accumulated Amortization of CIAC Agreed upon Audit Adjustments. (Issue 2)	($756)
Working Capital Reflect appropriate working capital allowance. (Issue 4)	($662)

C.F.A.T. H20, Inc.
Capital Structure-Simple Average
Test Year Ended 12/31/09

Schedule No. 2
Docket No. 100126-WU

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$388,880	$0	$388,880	($140,893)	$247,987	65.96%	5.69%	3.75%
2	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	127,483	0	127,483	(46,188)	81,295	21.62%	10.85%	2.35%
5	Customer Deposits	18,167	0	18,167	(6,582)	11,585	3.08%	6.00%	0.18%
6	Shareholder Loan	55,000	0	55,000	(19,927)	35,073	9.33%	0.00%	0.00%
7	**Total Capital**	$589,530	$0	$589,530	($213,590)	$375,940	100.00%		6.28%
Per Staff									
8	Long-term Debt	$388,880	($3,200)	$385,680	($125,636)	$260,044	90.10%	5.69%	5.13%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	127,483	(112,064)	15,419	(5,023)	10,396	3.60%	11.16%	0.40%
12	Customer Deposits	18,167	0	18,167	0	18,167	6.29%	6.00%	0.38%
13	Shareholder Loan	55,000	(55,000)	0	0	0	0.00%	0.00%	0.00%
14	**Total Capital**	$589,530	($170,264)	$419,266	($130,659)	$288,607	100.00%		5.91%

	LOW	HIGH
RETURN ON EQUITY	10.16%	12.16%
OVERALL RATE OF RETURN	5.87%	5.94%

C.F.A.T. H20, Inc. Statement of Water Operations Test Year Ended 12/31/09								Schedule No. 3-A Docket No. 100126-WU
	Description	**Test Year Per Utility**	**Utility Adjust- ments**	**Adjusted Test Year Per Utility**	**Staff Adjust- ments**	**Staff Adjusted Test Year**	**Revenue Increase**	**Revenue Requirement**
1	**Operating Revenues:**	$43,579	$51,500	$95,079	($51,500)	$43,579	$33,611 77.13%	$77,190
	Operating Expenses							
2	Operation & Maintenance	$38,235	$9,037	$47,272	($5,297)	$41,975		$41,975
3	Depreciation	18,923	0	18,923	(5,055)	13,868		13,868
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	2,957	2,318	5,275	(2,487)	2,788	1,513	4,301
6	Income Taxes	0	0	0	0	0	0	0
7	**Total Operating Expense**	60,115	11,355	71,470	(12,838)	58,632	1,513	60,144
8	**Operating Income**	($16,536)	$40,145	$23,609	($38,662)	($15,053)	$32,099	$17,046
9	**Rate Base**	$416,300		$375,940		$288,607		$288,607
10	**Rate of Return**	-3.97%		6.28%		-5.22%		5.91%

C.F.A.T. H20, Inc. Adjustment to Operating Income Test Year Ended 12/31/09		Schedule No. 3-B Docket No. 100126-WU
	Explanation	**Water**
	Operating Revenues	
	Remove requested final revenue increase.	($51,500)
	Operation and Maintenance Expense	
1	Agreed upon-audit adjustments. (Issue 2)	($2,862)
2	Reflect appropriate Pro Forma Salary. (Issue 8)	(1,511)
3	Reflect appropriate Pro Forma Bad Debt Expense. (Issue 8)	1,429
4	To reflect appropriate allocated costs. (Issue 9)	(2,163)
5	Reflect appropriate rate case expense. (Issue 10)	(189)
	Total	($5,297)
	Depreciation Expense - Net	
	Remove net depreciation on non-U&U adjustment above. (Issue 3)	($5,055)
	Taxes Other Than Income	
1	RAFs on revenue adjustments above.	($2,318)
2	Remove property taxes on non-U&U adjustment above. (Issue 3)	(169)
	Total	($2,487)

C.F.A.T. H20, Inc. **Water Monthly Service Rates** **Test Year Ended 12/31/09**				**Schedule No. 4** **Docket No. 100126-WU**	
	Rates Prior to Filing	**Commission Approved Interim**	**Utility Requested Final**	**Staff Recomm. Final**	**Four-Year Rate Reduction**
Residential					
Base Facility Charge All Meter Sizes:	$9.97	$19.65	$21.48	$11.87	$0.82
Gallonage Charge - Per 1,000gallons	$1.63	$3.21	$3.51		
Gallonage Charge 0-3kgals				$4.60	$0.32
Gallonage Charge Over 3kgals				$8.58	$0.59
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$9.97	$19.65	$21.48	$11.87	$0.82
1"	$24.93	$49.13	$53.77	$29.68	$2.05
1-1/2"	$49.86	$98.25	$107.42	$59.35	$4.10
2"	$79.78	$157.21	$171.89	$94.96	$6.57
3"	$159.58	$314.46	$343.80	$189.92	$13.13
4"	$249.33	$491.32	$519.73	$296.75	$20.52
Gallonage Charge, per 1,000 Gallons	$1.63	$3.21	$3.51	$5.56	$0.38
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$14.86	$29.28	$32.01	$25.67	
5,000 Gallons	$18.12	$35.71	$39.03	$42.83	
10,000 Gallons	$26.27	$51.77	$56.58	$85.73	