

FLORIDA PUBLIC SERVICE COMMISSION

VOTE SHEET

August 23, 2011

Docket No. 100127-WS – Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc.

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

Recommendation: Yes. The quality of service provided by Tradewinds 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 the analysis portion of staff's memorandum dated August 11, 2011.

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures in the majority column, including names like "L. Smith" and "Julie".

Handwritten signature and "#10" in the dissenting column.

REMARKS/DISSENTING COMMENTS:

Chairman Graham dissented on Issue No. 10

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

**Recommendation:** The Utility's water treatment plant, storage tank, wastewater treatment plant, water distribution system, and wastewater collection system are 100 percent used and useful (U&U).

**APPROVED**

**Issue 4:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$15,082 for the water operations and \$22,281 for the wastewater operations.

**APPROVED**

**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 \$559,307 for water and \$170,766 for wastewater.

**APPROVED**

**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.

**APPROVED**

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**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 6.09 percent.

**APPROVED**

**Issue 8:** What are the appropriate annualized revenue adjustments?

**Recommendation:** Using the test year billing determinants, the appropriate annualized revenue adjustments are \$4,120 for water and \$9,121 for wastewater. Accordingly, revenues should be decreased by \$4,120 for water and \$9,121 for wastewater.

**APPROVED**

**Issue 9:** Should any adjustments be made to the Utility's requested pro forma expenses?

**Recommendation:** Yes. Due to the current economic climate, a 3-percent increase in salaries is more reasonable than the proposed increases of 8.6 percent for water and 4.3 percent for wastewater. Accordingly, the salaries should be reduced by \$2,302 for water and \$1,078 for wastewater. Further, based on a 3-year average balance, a representative amount of bad debt expense for ratemaking purposes is \$1,344 for water and \$783 for wastewater. This represents a decrease of \$2,184 for water and a decrease of \$3,255 for wastewater.

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**Issue 10:** What is the appropriate treatment of the wastewater lawsuit settlement that occurred during the test year?

**Recommendation:** As reflected in the Utility's filing, the \$62,500 amount awarded to the petitioner has been appropriately removed from the test year expenses. The remaining costs associated with this litigation should be amortized over 5 years. Further, to recognize the expanded coverage in the Utility's general liability policy, the incremental increase in insurance premiums should be allowed. Accordingly, wastewater O&M expenses should be reduced by \$5,230.

**APPROVED**, *as modified to disallow the legal fees and miscellaneous expenses associated with the litigation (noting that utility did not have the correct insurance to cover the cost);*  
*(Chairman) Graham dissented*

**Issue 11:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense is \$20,752. This expense should be recovered over four years for an annual expense of \$2,594 for water and \$2,594 for wastewater. Thus, Tradewinds' requested annual rate case expense should be reduced by \$31 for both operations.

**APPROVED**

**Issue 12:** 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 \$31,527 for water and a positive net income of \$6,563 for wastewater before any revenue increases.

**APPROVED**

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**Issue 13:** What are the appropriate revenue requirements?

**Recommendation:** The following revenue requirements should be approved:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase/ Decrease</u>	<u>Revenue Requirement</u>	<u>% Change</u>
Water	\$119,414	\$68,666	\$188,080	57.50
Wastewater	\$195,267	\$4,013	\$199,280	2.06

# APPROVED

**Issue 14:** What is the appropriate water rate structure?

**Recommendation:** The appropriate water rate structure for the residential class is a three-tier inclining block rate structure. Staff’s preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgals in the first usage block and all usage in excess of 10 kgals in the second usage block. As discussed in Issue 16, staff did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage at or below 5 kgals per month. This results in a three-tier rate structure for monthly consumption with usage blocks of: a) 0-5 kgals; b) 5.001-10 kgals; and c) all usage in excess of 10 kgals and usage block rate factors of 0.67, 1.0, and 1.25, respectively. The appropriate rate structure for the water system’s non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 36.75 percent.

# APPROVED

**Issue 15:** What is the appropriate wastewater rate structure?

**Recommendation:** The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential BFC should be equal to the rate charged for a 5/8” x 3/4” meter. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. Residential billed consumption should be capped at 10 kgals per month, and the general service wastewater gallonage charge should be set at 1.2 times the corresponding residential gallonage charge.

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**Issue 16:** What are the appropriate repression adjustments?

**Recommendation:** The appropriate repression adjustments result in a reduction of test year residential water kgals sold by 15.6 percent, yielding consumption reduction of 4,440 kgals. Purchased power expense should be reduced by \$1,326, chemicals expense should be reduced by \$153, and regulatory assessment fees (RAFs) should be reduced by \$70. The final post-repression revenue requirement for the water system should be \$182,175. For the wastewater system, test year kgals sold should be reduced by 9.2 percent, resulting in a consumption reduction of 1,592 kgals. Sludge removal expense should be reduced by \$748, purchased power expense should be reduced by \$2,164, chemicals expense should be reduced by \$552, and RAFs should be reduced by \$156. The final post-repression revenue requirement for the wastewater system should be \$195,661. In order to monitor the effect of the changes to 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 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.

**APPROVED**

**Issue 17:** What are the appropriate rates for this Utility?

**Recommendation:** The appropriate monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B of staff's memorandum dated August 11, 2011, respectively. Excluding miscellaneous service charges, the recommended rates should be designed to produce revenues of \$182,175 for the water system and \$195,661 for the wastewater system. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

**APPROVED**

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**Issue 18:** Should the Utility be authorized to revise its miscellaneous service charges, and , if so, what are the appropriate charges?

**Recommendation:** Yes. Tradewinds 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

	<u>Water</u>		<u>Wastewater</u>	
	<u>Bus. Hrs</u>	<u>After Hrs.</u>	<u>Bus. Hrs</u>	<u>After Hrs</u>
Initial Connection	\$21	\$32	\$21	\$32
Normal Reconnection	\$21	\$32	\$21	\$32
Violation Reconnection	\$21	\$32	Actual Cost	
Premises Visit	\$14	N/A	\$14	N/A

**APPROVED**

**Issue 19:** 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 amounts 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. These revised revenue requirements for the interim collection period should be compared to the amount of interim revenue requirement granted. Based on these calculations, the Utility should be required to refund 7.01 percent of water revenues collected under interim rates and 14.39 percent of wastewater revenues collected 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.

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**Issue 20:** 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 Schedules No. 4A and 4B of staff's memorandum dated August 11, 2011, to remove rate case expense of \$2,737 for water and \$2,737 for wastewater, grossed up for RAFs. 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 tariff sheets 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. 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. Tradewinds should provide proof of the date notice was given within 10 days of the date of the notice.

**APPROVED**

**Issue 21:** 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, Tradewinds 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.

**APPROVED**

**Issue 22:** 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. However, the docket should remain open for staff's verification that the appropriate refunds have been made and the revised tariff sheets and customer notices have been filed by the Utility and approved by staff. Upon these actions being completed, the escrow account should be released, and the docket closed administratively.

**APPROVED**