

State of Florida



# Public Service Commission

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

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**DATE:** January 10, 2012 *2013 - ac*

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Cicchetti, Fletcher, Mouring, Prestwood, Springer) *MS*  
 Division of Economics (Daniel, Lingo, Stallcup) *FD*  
 Division of Engineering (Simpson) *JD*  
 Office of the General Counsel (Klancke) *CM*

**RE:** Docket No. 110257-WS – Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

**AGENDA:** *13 - ac* 01/24/12 – Regular Agenda – Proposed Agency Action except for Issues 19 and 20 - Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Brisé

**CRITICAL DATES:** 5-Month Effective Date Waived Through 1/24/13

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\110257.RCM.DOC

*ALM*  
*MC* *Boz* *M* *CP*  
*J.W.D*  
*Case*  
*Meet for JSC*

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### **Case Background**

Sanlando Utilities Corporation (Sanlando or Utility) is a Class A utility providing water and wastewater service to approximately 10,163 water and 8,272 wastewater customers in Seminole County. Water and wastewater rates were last established for this Utility in its 2009 rate case.<sup>1</sup>

On October 31, 2011, Sanlando filed its application for the rate increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The Utility's application did not meet the minimum filing requirements (MFRs). On November 30, 2011, staff sent Sanlando a letter indicating deficiencies in the filing of the MFRs. The Utility responded on December 22, 2011, which corrected its deficiencies, and thus the official filing date has been established as December 22, 2011.

Sanlando requested interim revenue increases of \$365,417 (10.4 percent) for water and \$451,004 (13.5 percent) for wastewater. Sanlando received a Commission approved interim increase of \$488,014 or 14.38 percent for water, and \$382,524 or 10.85 percent for wastewater.<sup>2</sup>

The test year established for final rates is the 13-month average period ended December 31, 2010. The Utility requested final revenue increases of \$475,925 (13.5 percent) for water and \$1,199,705 (34.7 percent) for wastewater. The 5-month effective date has been waived by the utility through January 24, 2013.

This recommendation addresses Sanlando's requested final rates. The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

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<sup>1</sup> See Order No. 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.

<sup>2</sup> See Order No. PSC-12-0029-PCO-WS, issued January 19, 2012, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

## Discussion of Issues

### QUALITY OF SERVICE

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

**Recommendation:** Yes. The quality of service provided by Sanlando is satisfactory. (Simpson)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the quality of service provided by a utility by evaluating three separate components of water and wastewater 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 also considered.

#### Quality of the Utility's Product and Operating Condition of the Plant and Facilities

DEP conducted a sanitary survey of Sanlando's three water treatment plants on July 14, 2010 and found 5 deficiencies concerning operator staffing requirements, cross-connection control program, maximum-day operating capacities, ground storage tank inspections, and sampling for monitoring of coliform bacteria. The Utility responded to the deficiencies on August 20, 2010. Staff contacted DEP regarding the deficiencies and was informed that the Utility's responses were satisfactory.

Sanlando has 2 wastewater treatment facilities - Des Pinar and Wekiva Hunt Club (Wekiva). DEP performed an inspection of the Des Pinar wastewater plant conducted on April 18, 2012 and found minor deficiencies regarding statements of accuracy for thermometers and the location of the certificate of the backflow prevention device. Staff was informed by DEP that Des Pinar is currently in compliance status. The Wekiva facility was inspected on October 12, 2011 and certain deficiencies were noted and subsequently corrected; however, issues relating to DEP's Wekiva Rule concerning effluent treatment and disposal were not.

In 2006, DEP enacted Rule 62-600.550, F.A.C., Wastewater Management Requirements for the Wekiva Study Area (Wekiva Rule), which required compliance by April 13, 2011. The rule was to achieve nitrogen reductions of surface and ground water quality in the Wekiva Study area. To comply with requirements regarding the Wekiva Rule, the Utility investigated several treatment and disposal options and concluded that 2 options were the most feasible. Option one would treat the effluent to a Total Nitrogen (TN) limit that was below 6 parts per million (ppm) using deep bed sand filters for de-nitrification. The other option involved securing a high volume reclaimed water user and thus allowing an increase in the TN to 10 ppm. The Utility decided that the option of sending the reclaimed water to the City of Apopka was considered the best option because of its beneficial effluent use and conserving of potable supply by offsetting the pumping of Apopka's city wells.

The Utility has 3 methods of effluent disposal. Reclaimed water is channeled to the Wekiva Hunt Club Community, 2 golf courses, a plant nursery, and the city of Altamonte Springs for irrigation purposes. The facility also operates on-site rapid infiltration basins and has a surface water discharge to Sweetwater Creek. In the 2010 test year, according to the discharge monitoring reports, 42 percent of the reclaimed water was used for irrigation, and 29 percent for discharge into the Sweetwater Creek, which is approaching the 30 percent limit pursuant to the Wekiva Rule. In addition, the surface water discharge into the Sweetwater Creek was decreased during the repermitting process from 2.9 to 0.87 million gallons per day (mgd) based on the annual average daily flow, in compliance with the Wekiva Rule.

The City of Altamonte Springs permanently modified its water resource management strategy to meet its own reclaimed water demand using the city's own facilities. Therefore, indications are that the demand for reclaimed water from the Wekiva plant by the City of Altamonte Springs will diminish in the future. Staff's review of reclaimed water demand for Altamonte Springs shows a decline in flows of 48 percent from 2010 to 2011.

In order to conserve potable water being used for irrigation, the City of Apopka indicated in the agreement with Sanlando that the city will receive and accept all available reuse water produced from the Wekiva plant on a daily basis. Also, the St. Johns River Water Management District (District) has provided documentation indicating that the District will provide 40 percent funding for the construction of the reuse main. The Utility has requested that the cost of the construction of the reuse main, in addition to 4 other proforma items be considered in this rate case. The proposed additions are addressed in Issue 4. Staff believes that the Utility is making a good faith effort to attain compliance with the Wekiva Rule. In addition, DEP has increased the TN limit to 10 ppm for the on-site rapid infiltration basins based on the agreement between Sanlando and the City of Apopka, thereby approving the proposal and the construction of the reuse main, which is estimated to be placed into service on October 1, 2013. Therefore, staff recommends that the quality of the Utility's product and the operational condition of the plant and facilities be considered satisfactory.

#### The Utility's Attempt to Address Customer Satisfaction

A customer meeting was held on April 17, 2012, in Altamonte Springs, Florida. Representatives of the Utility and the Office of Public Counsel (OPC) were present. Six customers attended and two spoke. The first customer indicated that she did not receive the 2011 consumer confidence report and was worried whether the results were satisfactory, which has been resolved. Staff reviewed the 2011 report, as well as other utility documentation, which revealed that there were no violations for primary and secondary contaminants. The second customer's concern was about the rate increase. Staff informed the customer that the increase was to cover increasing operating costs due to rules enacted by DEP regarding the wastewater treatment plant, as well as for equipment replacements necessary for the optimal functioning of the two systems.

Staff also reviewed the Commission's Consumer Activity Tracking System for the past three years and found seven complaints regarding quality of service and billing issues which have all been resolved. In the Utility's filing, about 400 customer complaints and concerns from customers were noted during the test year. About half of the complaints were related to leaks

which were on the customer side of the meter and therefore not the responsibility of the Utility. The remaining concerns were varied and did not indicate a systemic problem with customer service. All complaints appeared to have been timely resolved. Regarding the wastewater system, the Utility also resolved line blockages and sewer backups in a timely manner. A review of the consumer correspondence shows five customer complaints related to the rate increase and a concern about fire hydrants not working in the Wekiva area. Staff contacted the Utility and was informed that the fire hydrants are tested annually and are in good condition. Based on all the above, staff recommends that the Utility's attempt to address customer satisfaction be found satisfactory.

### Summary

Sanlando is current in its testing and chemical analysis for the water and wastewater systems and therefore the quality of the Utility's product for both systems should be considered satisfactory. DEP, in 2006, enacted the Wekiva Rule to reduce nitrogen concentrations in surface and groundwater sources. Sanlando is in the process of complying with the Wekiva Rule by constructing a reuse main from the Wekiva Plant to the City of Apopka, which will bring the system into compliance. Therefore, staff recommends that the operational condition of the plant, the facilities of the wastewater systems and the Utility's attempt to address customer satisfaction be found satisfactory.

**RATE BASE**

**Issue 2:** Should the audit adjustments to rate base and operating expense to which the Utility and staff agree be made?

**Recommendation:** Yes. Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 and Table 2-3 be made to rate base and net operating expense. (Springer, Cicchetti)

**Staff Analysis:** In its response to the staff's audit report and other correspondence, Sanlando agreed to the audit adjustments as set forth in the tables below.

Table 2-1

| Sanlando Audit Adjustments | Description of Adjustments  |
|----------------------------|---|
| Finding No. 1              | Reflect the appropriate depreciation restatement                            |
| Finding No. 3              | Correct allocations from headquarter – rate base                            |
| Finding No. 6              | Reflect the retirements not booked  |
| Finding No. 7              | Reflect appropriate capitalized items                                       |
| Finding No. 8              | Reflect the appropriate sludge equipment                                    |
| Finding No. 9              | Reflect the appropriate working capital allowance                           |
| Finding No. 10             | Reflect the appropriate common plant allocations                            |
| Finding No. 11             | Reflect the appropriate proforma retirements                                |
| Finding No. 12             | Reflect the appropriate allocation from headquarters - net operating income |
| Finding No. 13             | Reflect the appropriate proforma deferred maintenance                       |
| Finding No. 14             | Reflect the appropriate proforma for pay increase                           |
| Finding No. 15             | Reflect the appropriate removal of operating expenses                       |
| Finding No. 16             | Reflect the appropriate prepaid - other expenses                            |
| Finding No. 17             | Correct error in Utility's benefits adjustment                              |
| Finding No. 18             | Reflect appropriate net operating income adjustment salaries and benefits   |
| Finding No. 19             | Correct error in Utility's overstated expense                               |
| Finding No. 20             | Reflect the appropriate non-allocated expense                               |
| Finding No. 21             | Reflect the appropriate prior rate case amortization                        |
| Finding No. 22             | Reflect the appropriate non-recurring expenses                              |
| Finding No. 23             | Reflect the appropriate regulatory assessment fees                          |
| Finding No. 25             | Reflect the appropriate working capital allowance allocations               |
| Finding No. 26             | Reflect the appropriate deferred maintenance                                |

Based on the audit adjustments agreed to by the Utility, staff recommends that the adjustments set forth in Table 2-2 and Table 2-3 be made to rate base and net operating expense.

Table 2-2

| Water                         |                  |                        |                         |                    |                   |                                   |
|-------------------------------|------------------|------------------------|-------------------------|--------------------|-------------------|-----------------------------------|
| Sanlando<br>Audit Adjustments | Plant            | Accum.<br>Depreciation | Depreciation<br>Expense | Working<br>Capital | O&M<br>Expense    | Taxes Other<br>Than Income (TOTI) |
| Finding No. 3                 | (\$27,018)       | (\$9,122)              |                         | (\$19)             |                   |                                   |
| Finding No. 6                 | (19,057)         | (11,919)               | (821)                   |                    |                   |                                   |
| Finding No. 7                 | (1,100)          | (55)                   | (55)                    |                    |                   |                                   |
| Finding No. 9                 |                  |                        |                         | 29,641             |                   |                                   |
| Finding No. 10                | 40,536           |                        |                         |                    |                   |                                   |
| Finding No. 12                |                  |                        | (2,863)                 |                    | (12,080)          | (449)                             |
| Finding No. 15                |                  |                        |                         |                    | (1,651)           | (741)                             |
| Finding No. 16                |                  |                        |                         |                    | (1,100)           |                                   |
| Finding No. 19                |                  |                        |                         |                    | (1,025)           |                                   |
| Finding No. 20                |                  |                        |                         |                    | (347)             |                                   |
| Finding No. 21                |                  |                        |                         |                    | (8,896)           |                                   |
| Finding No. 22                |                  |                        |                         |                    | (7,912)           |                                   |
| Finding No. 23                |                  |                        |                         |                    |                   | (24,514)                          |
| Finding No. 25                |                  |                        |                         | (3,618)            |                   |                                   |
| Adjustment Totals             | <u>(\$6,639)</u> | <u>(\$21,096)</u>      | <u>(\$3,739)</u>        | <u>\$26,004</u>    | <u>(\$33,011)</u> | <u>(\$25,704)</u>                 |



Table 2-3

| Sanlando<br>Audit Adjustments | Wastewater  |                        |                         |                    |                |            |
|-------------------------------|-------------|------------------------|-------------------------|--------------------|----------------|------------|
|                               | Plant       | Accum.<br>Depreciation | Depreciation<br>Expense | Working<br>Capital | O&M<br>Expense | TOTI       |
| Finding No. 3                 | (\$21,081)  | (\$7,117)              |                         | (\$15)             |                |            |
| Finding No. 6                 | (71,629)    | (43,101)               | (3,825)                 |                    | \$17,290       |            |
| Finding No. 7                 | (2,289)     | (51)                   | (51)                    |                    |                |            |
| Finding No. 8                 | (8,715)     | (214)                  | (214)                   |                    | (38,064)       |            |
| Finding No. 9                 |             |                        |                         | 24,008             |                |            |
| Finding No. 10                | (40,536)    |                        |                         |                    |                |            |
| Finding No. 11                |             | (80,814)               |                         |                    |                |            |
| Finding No. 12                |             |                        | (2,234)                 |                    | (9,446)        | (350)      |
| Finding No. 13                |             |                        |                         |                    | (23,194)       |            |
| Finding No. 15                |             |                        |                         |                    | (1,288)        | (578)      |
| Finding No. 16                |             |                        |                         |                    | (859)          |            |
| Finding No. 17                |             |                        |                         |                    | 1,375          |            |
| Finding No. 18                |             |                        |                         |                    | 10,000         |            |
| Finding No. 19                |             |                        |                         |                    | (799)          |            |
| Finding No. 20                |             |                        |                         |                    | (270)          |            |
| Finding No. 21                |             |                        |                         |                    | (7,096)        |            |
| Finding No. 22                |             |                        |                         |                    | (4,878)        |            |
| Finding No. 23                |             |                        |                         |                    |                | (23,819)   |
| Finding No. 25                |             |                        |                         | 3,618              |                |            |
| Finding No. 26                |             |                        |                         |                    | (2,349)        |            |
| Adjustment Totals             | (\$144,250) | (\$131,297)            | (\$6,324)               | \$27,611           | (\$59,578)     | (\$24,747) |

**Issue 3:** Should any adjustment be made to the Utility's Project Phoenix Financial/Customer Care Billing System (Phoenix Project)?

**Recommendation:** Yes. Plant should be reduced by \$105,531 for water and \$82,347 for wastewater. In addition, accumulated depreciation should be reduced by \$63,729 for water and \$49,729 for wastewater. Depreciation expense should be decreased by \$36,514 for water and \$28,492 for wastewater. Consistent with the Commission's decision in recent Utilities, Inc. (UI) rate cases, Sanlando should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Sanlando's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over 4 years. (Springer, Cicchetti, Fletcher)

**Staff Analysis:** The purpose of the Phoenix Project is to improve the accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. Since 2009, the Commission approved recovery of the cost of the Phoenix Project in 11 UI rate cases.<sup>3</sup> In those cases, UI allocated the Phoenix Project costs based on each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs. In the instant case, UI allocated 7.79 percent of its costs to Sanlando based on the ratio of Sanlando's total ERCs to UI's total ERCs. Based on total Phoenix Project costs of \$21,545,555, Sanlando calculated its allocated share to be \$1,678,399.

#### 2009 Divestitures of UI Subsidiaries

In 2009, UI divested several Florida subsidiaries including Miles Grant Water and Sewer Company, Utilities, Inc. of Hutchinson Island, and Wedgefield Utilities, Inc., as well as other subsidiaries in other states. In Order No. PSC-10-0585-PAA-WS, the Commission found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but it did not believe the Phoenix Project costs previously allocated to the subsequently divested subsidiaries should be reallocated to the surviving utilities.<sup>4</sup> Because no added benefit was realized by the remaining subsidiaries, the Commission found that it was not fair, just, or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, the Commission ruled that the divested subsidiaries' allocation amounts shall be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

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<sup>3</sup> See Docket Nos. 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

<sup>4</sup> See Order No. 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, p. 10.

Staff Affiliate Audit Finding No. 4

In Order No. PSC-10-0407-PAA-SU, the Commission established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of \$19,893,321.<sup>5</sup> In this case, staff auditors determined that the Utility did not make the adjustment for the Phoenix Project that the Commission ordered. According to Affiliate Audit Finding No. 4, Sanlando showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility’s balance and the Commission ordered balance is \$1,652,234 (\$21,545,555 - \$19,893,321). Therefore, UI’s balance for the Phoenix Project should be reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to water and wastewater plant by \$72,296 and \$56,413, respectively. A corresponding adjustment should be made to decrease accumulated depreciation by \$10,844 for water and \$8,462 for wastewater. Depreciation expense should also be decreased by \$7,230 for water and \$5,641 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project as detailed in Affiliate Audit Finding No. 5.

In its response to Affiliate Audit Finding No. 4, Sanlando disagreed with the finding and argued that the full balance of the Phoenix Project should be included at the UI level, with 7.79 percent allocated to Sanlando. The Utility argued that it is incorrect to reduce the Phoenix Project balance for sold companies as none of the Phoenix system was sold in conjunction with the divested companies. Sanlando contended that reducing the Phoenix Project balance for the remaining subsidiaries creates an improper gain on sale situation in the amount of \$1,652,234 because it effectively includes the allocated amount of the Phoenix Project costs with the sale of the divested utilities. The Utility contends such adjustment is contrary to Section 367.0813, F.S. Sanlando maintains that the total Phoenix Project balance is currently in-service and benefiting current ratepayers and it is arbitrary and inappropriate to reduce the balance.

2010 Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries as listed below.

Table 3-1

| <u>Date</u>        | <u>Subsidiary</u>                             | <u>ERCs</u>  |
|--------------------|---|--------------|
| March 15, 2010     | Emerald Point Subdivision (North Carolina)    | 327          |
| July 19, 2010      | River Forest (South Carolina Utilities, Inc.) | 74           |
| July 19, 2010      | Stone Creek (South Carolina Utilities, Inc.)  | 172          |
| September 19, 2010 | Alafaya Utilities, Inc. (Florida)             | <u>8,945</u> |
|                    | Total   | <u>9,518</u> |

<sup>5</sup> See Order No. PSC-10-0407-PAA-SU, issued on September 22, 2010, in Docket No. 090381-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p.6.

The total number of ERCs related to the divested systems is 9,518, or 3.51 percent of the total number of ERCs for UI of 270,889 ( $9,518/270,889 = 3.51$  percent).

To be consistent with prior Commission decisions, the Commission-ordered adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project should also be made for the four subsequent divestitures. As such, staff calculated that the total cost of the Phoenix Project for UI should be reduced by an additional 3.51 percent, or \$678,237 ( $\$21,617,487 \times 3.51$  percent), to account for the divestiture of subsidiaries through 2010. The effect on the filing is a decrease to water and wastewater plant of \$33,235 and \$25,934, respectively. Corresponding adjustments should also be made to decrease both accumulated depreciation and depreciation expense by \$4,452 for water and \$3,474 for wastewater.

#### Amortization / Depreciation Period

In Staff Affiliate Audit Finding No. 5, staff auditors discovered that the Utility did not change the depreciable life for the Phoenix Project from 8 to 10 years as directed in Order No. PSC-10-0407-PAA-SU. In its response to Affiliate Audit Finding No. 5, Sanlando disagreed with staff's finding and argued that the Commission has no basis for changing the Phoenix Project to a 10 year life. The Utility contended that an 8 year life has already been established in previous dockets and is the life used for all other computer software booked to the same account as the Phoenix Project.

In previous UI cases, the Commission approved a 6-year amortization period for the Phoenix Project.<sup>6</sup> In subsequent UI cases, the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude.<sup>7</sup> In 2010, the Commission set the amortization period for the Phoenix Project to 10 years in 5 separate rate cases involving Sanlando sister companies.<sup>8</sup> There were 3 factors the Commission considered in its decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, the Commission concluded that Phoenix Project software will be used for at least 10 years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,<sup>9</sup> UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles

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<sup>6</sup> See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

<sup>7</sup> See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

<sup>8</sup> See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and 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; and 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; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; and PSC-1-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

<sup>9</sup> Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

(GAAP). Similarly, UI stated to this Commission that its own research revealed that computer software could be amortized over a period of anywhere from 4 to 10 years.<sup>10</sup>

Based on the aforementioned, staff recommends that the appropriate depreciation period for Sanlando is 10 years which result in necessary reduction to accumulated depreciation of \$47,900 and \$37,377 for water and wastewater, respectively. Accordingly, depreciation expense should be reduced by \$24,299 for water and \$18,961 for wastewater.

#### Computer Maintenance Expense

In a recent rate case involving Sanlando's sister company, Labrador Utilities, Inc., the Commission recognized the volatility of computer maintenance expense. Further, the Commission determined that a 5-year average is an appropriate basis for ratemaking purposes. In addition, the Commission excluded the portion of Phoenix Project IT maintenance charges associated with UI divested systems, consistent with the Commission's treatment of the Phoenix Project costs per ERC.<sup>11</sup> Based on the 5-year average (2007-2011) and Sanlando's ERC allocation percentage, staff calculated a reduction of \$19,675 for water and \$15,353 for wastewater. In addition, removing the Phoenix Project computer maintenance charges for the divested systems share, staff determined that computer maintenance expense should be further reduced by \$605 and \$472 for water and wastewater, respectively.

#### Regulatory Asset/Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (Sanlando's parent company) with the consent and support of OPC, petitioned this Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project. In that Agreement, the Parties agreed, and this Commission subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility should be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset or liability, at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. The Commission also ordered that the regulatory asset or liability be amortized over four years. Therefore, consistent with the Commission's actions in Docket No. 110153-SU, staff recommends that Sanlando be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Sanlando's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over 4 years.

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<sup>10</sup> See December 2, 2008, Commission Conference Transcript, Page 26, Line 3, through Page 27, Line 19.

<sup>11</sup> See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

Conclusion

Based on the Phoenix Project balance for Sanlando and the adjustment for the divestitures as ordered by the Commission in Docket Nos. 090381-SU, 090462-WS, and 100426-WS, staff believes the total cost of the Phoenix Project for UI should be reduced by \$2,330,471. The resulting UI Phoenix Project balance for ratemaking purposes is \$20,939,250.<sup>12</sup> The appropriate amount of Sanlando's allocated share of the Phoenix Project is \$1,576,726 (\$20,939,250 x 7.53 percent). Staff's recommended adjustments to Sanlando's Phoenix Project balances are summarized in the following table.

Table 3-2

| <u>Description</u>         | <u>Average Plant</u> |                   | <u>Average Accumulated Depreciation</u> |                   | <u>Depreciation Expense</u> |                   |
|----------------------------|----------------------|-------------------|---|-------------------|-----------------------------|-------------------|
|                            | <u>Water</u>         | <u>Wastewater</u> | <u>Water</u>                            | <u>Wastewater</u> | <u>Water</u>                | <u>Wastewater</u> |
| Audit Finding No. 4        | (\$72,296)           | (\$56,413)        | \$10,844                                | \$8,462           | (\$7,230)                   | (\$5,641)         |
| Divestitures               | (\$33,235)           | (\$25,934)        | \$4,452                                 | \$3,474           | (\$4,452)                   | (\$3,474)         |
| <u>Audit Finding No. 5</u> | <u>\$0</u>           | <u>\$0</u>        | <u>\$47,900</u>                         | <u>\$37,377</u>   | <u>(\$24,299)</u>           | <u>(\$18,961)</u> |
| <u>Totals</u>              | <u>(\$105,531)</u>   | <u>(\$82,347)</u> | <u>\$63,792</u>                         | <u>\$49,729</u>   | <u>(\$36,514)</u>           | <u>(\$28,492)</u> |

Accordingly, staff recommends that plant be reduced by \$105,531 for water and \$82,347 for wastewater. In addition, accumulated depreciation should be reduced by \$63,792 for water and \$49,729 for wastewater. Depreciation expense should be decreased by \$36,514 for water and \$28,492 for wastewater. Consistent with the Commission's previous decisions, Sanlando should be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Sanlando's next rate proceeding. Furthermore, the regulatory asset or liability should be amortized over 4 years.

<sup>12</sup> This balance accounts for Commission-ordered adjustments and capitalized plant amounts after December 31, 2008.

**Issue 4:** Should any further adjustments be made to test year rate base?

**Recommendation:** Yes. To correctly reflect prior Commission-ordered adjustments, average water and wastewater plant should be reduced by \$4,152 and \$21,691, respectively. Average water accumulated depreciation should be increased by \$169,796. Average wastewater accumulated depreciation should be decreased by \$30,138. Average water accumulated amortization of CIAC should be reduced by \$1,630. Average wastewater accumulated amortization of CIAC should be increased by \$74,843. Water depreciation expense should be increased by \$37, and wastewater depreciation expense should be decreased by \$638. (Springer, Cicchetti)

**Staff Analysis:** The Utility has booked most of the Commission order adjustments from Order No. PSC-10-0423-PAA-WS.<sup>13</sup> However, in its current filing, the Utility incorrectly calculated the required depreciation restatement adjustments. To correct for this error, the following adjustments should be made. Average water and wastewater plant should be reduced by \$4,152 and \$21,691, respectively. Average water accumulated depreciation should be increased by \$169,796. Average wastewater accumulated depreciation should be decreased by \$30,138. Average water accumulated amortization of CIAC should be reduced by \$1,630. Average wastewater accumulated amortization of CIAC should be increased by \$74,843. Water depreciation expense should be increased by \$37, and wastewater depreciation expense should be decreased by \$638.

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<sup>13</sup> See Order No. 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.

**Issue 5:** Should any adjustments be made to the Utility's pro forma plant?

**Recommendation:** Yes. Plant should be increased by \$9,180 for water and \$615,639 for wastewater. Corresponding adjustments should be made to increase accumulated depreciation and depreciation expense by \$213 and \$14,342 for water and wastewater, respectively. Wastewater CIAC should be increased by \$1,445,252. Also, corresponding adjustments should be made to increase wastewater accumulated amortization of CIAC and CIAC amortization expense both by \$5,704. Finally, Taxes Other Than Income (TOTI) should also be increased by \$8,288 for wastewater. (Springer, Cicchetti, Simpson)

**Staff Analysis:**

Sanlando is in the process of constructing a reuse main from the Wekiva plant to the City of Apopka, which is expected to meet reuse quality standards. Sanlando included a \$120,312 increase for water and an increase of \$3,000,000 for wastewater for pro forma plant in its MFRs related to a reuse main. The total length of this route is approximately 6 miles. Engineering services related to the reuse main were completed on December 21, 2012, and totaled \$125,000. The Utility provided an updated estimate of the cost of the construction to be \$129,492 for water and \$3,613,131 for wastewater. St. Johns River Water Management District will fund 40 percent of the cost of the construction of the reuse main equating to \$1,445,252 that should be treated as CIAC. The Reuse project is estimated to be completed on October 1, 2013.

The Utility has indicated that certain existing facilities were identified for relocation because of Florida Department of Transportation's (FDOT) scheduled widening of State Road (SR) 434 between Interstate 4 and Rangeline Road. Sanlando's cost involves the relocation of 4-inch and 8-inch mains from SR 434 and Raymond Avenue, and some 8-inch main adjustments at Roxboro Road and Slade Road. In addition, the Utility must address certain issues related to pavement and sidewalk restoration, and some pipe fittings. Two bids were provided and staff recommends \$165,000 for the cost of the relocation. This project is estimated to be completed on October 1, 2013.

The Utility replaced 250 feet of 12-inch force main from the Des Pinar Waste Water Treatment Plant (WWTP) to the Wekiva WWTP for \$61,644. The interconnect allows flows to be rerouted in the event of an emergency. The original steel force main was in need of replacement as a result of many years of deterioration. The force main was replaced on September 15, 2011.

The Utility included the replacement of 2 existing traveling bridge sand filters built in 1995 and 1990, respectively, that outlived their service lives. The Utility indicated that the internal components within the existing concrete housings be removed and new components installed. The cost of the replacement is \$496,752. This project was completed on September 7, 2012.



Table 4-1

| <u>Proforma Plant Items</u>                       | <u>Initial MFR</u> | <u>Response from Data Request</u> | <u>Recommended Amount</u> | <u>Documentation</u>                           |
|---|--------------------|-----------------------------------|---------------------------|--|
| 1. FDOT scheduled widening of SR 434              | \$153,312          | \$165,000                         | \$165,000                 | Bids provided                                  |
| 2. Force Main replacement                         | \$61,644           | No change                         | \$61,644                  | Completed                                      |
| 3. Wekiva Hunt Club Filter Replacement            | \$496,752          | No change                         | \$496,752                 | Bids provided                                  |
| 4. Engineering report on Wekiva-Apopka Reuse Main | \$125,000          | No change                         | \$125,000                 | Adequate documentation was provided            |
| 5. Wekiva-Apopka Reuse Main                       | \$3,000,000        | \$3,613,131                       | \$2,167,879               | Bids provided. 40% funding from St. Johns WMD. |

Section 367.081(2)(a)2., F.S., provides that the Commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the Commission, to be used and useful in the public service. Section 367.081(2)(a)2., F.S., also provides that the Commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction. As discussed in Issue 1, Sanlando must achieve nitrogen reductions of surface and ground water quality in the Wekiva Study area pursuant to Rule 62-600.550, F.A.C. Also, as discussed above, the Utility was required to relocate its lines due to the FDOT's road widening project. Thus, in accordance with 367.081(2)(a)2., F.S., staff recommends that the Commission should allow recovery for these projects.

In conclusion, staff is recommending an adjustment to increase plant by \$9,180 for water and \$615,639 for wastewater. Corresponding adjustments should be made to increase

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accumulated depreciation and depreciation expense by \$213 and \$14,342 for water and wastewater, respectively. Wastewater CIAC should be increased by \$1,445,252. Also, corresponding adjustments should be made to increase wastewater accumulated amortization of CIAC and CIAC amortization expense both by \$5,704. Finally, TOTI should also be increased by \$8,288 for wastewater.

**Issue 6:** What are the used and useful percentages of the Utility's water treatment plant, wastewater treatment plant, wastewater collection system, and reuse water system?

**Recommendation:** Sanlando's water and wastewater systems and the reuse facilities are 100 percent used and useful. An adjustment of 0.91 percent should be made to chemicals expense and electricity expense to reflect excessive unaccounted-for-water which results in a reduction of \$5,568. (Simpson)

**Staff Analysis:** The Utility's records for the test year ended December 31, 2010 were used in analyzing the used and usefulness of the water and wastewater facilities.

#### Water Treatment Plant (WTP)

Rule 25-30.4325, F.A.C., provides that the used and useful (U&U) percentage for a water treatment plant is determined by dividing the peak demand, less excessive unaccounted-for-water, plus fire flow, and a growth allowance, by the firm reliable capacity (FRC) of the wells. Since Sanlando's systems have storage facilities, the FRC is based on 16 hours of pumping and the units are referenced in gallons per day (gpd). The Utility's water treatment plants (Wekiva and Woodlands/Des Pinar) are interconnected; therefore, only one used and useful determination is needed since by definition, an interconnected system is one which acts as a single system for U&U purposes. In the last two rate cases, the Commission found that the interconnected water system was 100 percent U&U.

The Utility provided a U&U analysis for the water treatment plant in its filing. Sanlando determined that the U&U percentage for the interconnected system is 100 percent. The Utility relied on a peak day of 13,770,000 gpd, fire flow of 150,000 gpd, excessive unaccounted-for-water of 68,048 gpd, and a FRC of 13,320,960 gpd to arrive at 104 percent concluding that the WTP is 100 percent U&U. The filing indicated that the peak day occurred on September 19, 2010 with no unusual occurrences on that day. According to the application, 2,720,473 kgals of water were produced in the test year, 2,365,112 kgals were sold, and 58,477 kgals were used for other purposes. Therefore, the unaccounted-for-water is 296,885 kgals which represents 10.91 percent. Pursuant to Rule 25-30.4325, F.A.C., unaccounted-for-water in excess of 10 percent of the amount produced is considered excessive unaccounted-for-water (EUW). Therefore, 0.91 percent or 68,048 gpd is considered EUW. The Utility made a 0.91 percent adjustment to reflect excessive amounts in the U&U calculation. However, the adjustment was not made to operation and maintenance (O&M) expenses to reflect EUW. Staff recommends that adjustments be made to chemicals expense and electricity expense. The Utility has indicated that the service area is built out, which is consistent with the last two cases. Therefore, staff recommends that the water treatment plants be considered 100 percent U&U.

The Utility made a proper adjustment to reflect excessive amounts in the U&U calculation. However, no adjustment was made to operation and maintenance expenses to reflect EUW. Therefore, staff is recommending a similar adjustment, 0.91 percent to O&M expenses, which results in a reduction of \$5,568.

### Ground Storage Tanks

Rule 25-30.4325(8) and (9), F.A.C., provides that when usable storage is less than the peak day demand, the U&U percentage for a storage tank shall be considered 100 percent. In its MFRs, the Utility requested that the 6 ground storage tanks be considered 100 percent U&U. The capacity of the 6 tanks is 3,475,000 gallons. However, pursuant to Rule 25-30.4325(9), F.A.C., the usable capacity of the tanks is 90 percent or 3,127,500 gallons. The U&U calculation of the tanks is made by summing the peak day of 13,770,000 gpd, fire flow of 15,000 gpd, and subtracting the EUW of 68,048 gpd, resulting in a calculation of 13,716,952 gpd. Noting that the usable capacity of the storage tanks is 3,127,500 gallons (90 percent) and is less than the resulting calculation above, staff recommends that the ground storage tanks be considered 100 percent U&U, consistent with the rule.

### Wastewater Treatment Plants

Rule 25-30.432, F.A.C., provides that the U&U percentage for a wastewater treatment plant is determined by dividing the customer demand, less excessive infiltration and inflow (I&I), plus a growth allowance, by the permitted capacity of the plant. Customer demand is defined in terms of the permitted capacity of the plant. The rule also contains a provision for consideration of other factors, such as whether the service area is built out, whether the permitted capacity differs from design capacity, and whether flows have decreased due to conservation or reduction in the number of customers.

In the Utility's filing, the Wekiva Plant's daily flows were 1,718,652 gpd based on the annual average daily flow (AADF), growth of 101,431 gpd, and a permitted capacity of 2,900,000 gpd, which gives a U&U percentage of 62.76. The Woodlands/Des Pinar flows were 246,238 gpd based on AADF, no growth, and a permitted capacity of 500,000 gpd, resulting in a U&U percentage of 49.25. The Utility has indicated that the systems are built out which is consistent with the last rate case. Therefore, staff recommends that both systems be considered 100 percent U&U.

### Water Distribution and Wastewater Collection Systems

The U&U calculations for water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the systems with consideration given for growth. In this filing, the Utility indicated that the distribution and collection lines serving customers are totally contributed, which is consistent with the last rate case. Therefore, staff recommends that the water distribution and wastewater collection systems be considered 100 percent U&U.

### Reuse Facilities

As discussed in Issue 4, Sanlando is in the process of constructing a reuse main from the Wekiva plant to the City of Apopka, which is expected to meet reuse quality standards. All reuse facilities are 100 percent U&U, pursuant to Section 367.0817, F.S.; therefore, staff recommends that the Utility's reuse facilities be considered 100 percent U&U.

**Issue 7:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$278,640 for water and \$340,751 for wastewater. As such, the working capital allowance should be increased by \$21,462 for water and \$27,374 for wastewater. (Springer, Cicchetti)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. As addressed in Issue 2, working capital was increased by \$26,004 for water and \$27,611 for wastewater. Staff believes there should be 2 further adjustments regarding deferred rate case expense and materials and supplies.

**Deferred Rate Case Expense**

In its MFRs, Sanlando reflected deferred rate case expense of \$123,176 for water and \$96,057 for wastewater. In the Utility's last rate case, the Commission approved total rate case expense of \$193,088. As discussed in Issue 13, staff is recommending total rate case expense of \$235,820. It is Commission practice to include one-half of the total rate case expense in working capital under the balance sheet method.<sup>14</sup> Consistent with Commission practice, staff calculated deferred rate case expense to include in working capital to be \$120,459 for water and \$93,995 for wastewater. As such, staff recommends that working capital be reduced by \$2,717 for water and \$2,062 for wastewater.

**Materials & Supplies**

In its MFRs, Sanlando reflected materials and supplies of \$12,909 for water and \$13,289 for wastewater. The Utility allocated materials and supplies based on the gross plant of its water and wastewater systems. As a result of staff recommended changes to the gross plant of Sanlando's water and wastewater systems, staff recommends that working capital be decreased by \$1,825 for water and increased by \$1,825 for wastewater.

**Conclusion**

Staff recommends working capital of \$278,640 for water and \$340,751 for wastewater. This reflects an increase of \$21,462 for water and an increase \$27,374 for wastewater to the Utility's requested working capital allowance of \$257,178, and \$313,377 for water and wastewater, respectively.

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<sup>14</sup> See Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

**Issue 8:** What is the appropriate rate base for the test year period ended December 31, 2010?

**Recommendation:** The appropriate 13-month average rate base for the test year ended December 31, 2010, is \$8,924,016 for water and \$13,675,634 for wastewater. (Springer, Cicchetti)

**Staff Analysis:** In its MFRs, the Utility recorded rate base of \$9,096,510 for water and \$14,448,793 for wastewater. Staff has calculated Sanlando's water and wastewater rate bases using the Utility's MFRs with adjustments as recommended in the preceding issues. Accordingly, staff recommends that the appropriate 13-month average rate base for the test year ended December 31, 2010, is \$8,924,016 for water and \$13,675,634 for wastewater. Staff's recommended water and wastewater rate bases are shown on Schedule Nos. 1A and 1B, respectively. The adjustments are shown on Schedule No. 1C.

**COST OF CAPITAL**

**Issue 9:** What is the appropriate return on equity?

**Recommendation:** Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.60 percent with an allowed range of plus or minus 100 basis points. (Springer)

**Staff Analysis:** The ROE included in the Utility's MFRs is 10.60 percent. Based on the current leverage formula in effect and an equity ratio of 46.4 percent, the appropriate ROE is 10.60 percent.<sup>15</sup> Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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<sup>15</sup> 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), F.S.

**Issue 10:** 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, 2010?

**Recommendation:** The appropriate weighted average cost of capital for the test year ended December 31, 2010 is 8.16 percent. (Springer)

**Staff Analysis:** In its filing, the Utility requested an overall cost of capital of 8.16 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, staff agrees with the Utility and recommends a weighted average cost of capital of 8.16 percent. Schedule No. 2 details staff's recommended overall cost of capital.



**NET OPERATING INCOME**

**Issue 11:** Should any adjustment be made to the Utility's salaries and wages expense?

**Recommendation:** Yes. Salaries and wages expense should be decreased by \$223,078 for water and increased \$124,449 for wastewater. In addition, pensions and benefits expense should be decreased by \$57,690 for water and increased by \$32,466 for wastewater. Further, corresponding adjustments should be made to decrease payroll taxes by \$17,065 for water and increase payroll taxes by \$9,520 for wastewater. (Springer, Cicchetti)

**Staff Analysis:** In its MFRs, the Utility reflected water and wastewater salaries and wages of \$695,929 and \$533,013, respectively. In its MFRs, Sanlando included proforma adjustments to water and wastewater salaries and wages expense to reflect a 3 percent salary increase in April 2011. Given the tumultuous state of the economy, and considering how recent the Utility's last rate case was, staff believes that any pay increase at this time should not be borne by the ratepayers. As such, staff recommends the Utility's pro forma pay increase be disallowed. The Commission, however, has previously allowed recovery of O&M expenses that reflect increases associated with inflation, and recognized that reducing expenses back to the amount approved in the Utility's last rate case would effectively remove an increase the Commission has already granted in prior index applications. Therefore, staff recommends allowing recovery of the portion of salary and wages expense associated with previously approved indices. This treatment is consistent with the Commission's recent decisions in the Aqua Utilities Florida, Inc. (AUF), Lake Utility Services, Inc. (LUSI), and Labrador Utilities, Inc. rate cases.<sup>16</sup> An index that was already approved by the Commission in 2011 of 1.18 percent should remain. In Sanlando's last rate case, the Commission approved total salaries and wages expense of \$467,336 and \$649,795 for water and wastewater, respectively. Accounting for the approved price indices results in a total salaries and wages expense of \$472,851 for water and \$657,462 for wastewater. Therefore, staff recommends salaries and wages expense be decreased by \$223,078 (\$472,851-\$695,929) for water and increased by \$124,449 (\$657,462-\$533,013) for wastewater, respectively. In addition, pensions and benefits expense should be increased by \$32,466 for water and reduced by \$57,690 for wastewater.<sup>17</sup> Further, a corresponding adjustment should be made to decrease payroll taxes by \$17,065 for water and increase \$9,520 for wastewater.

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<sup>16</sup> See Order Nos. PSC-11-02-0102-PAA-WS, issued March 5, 2012, in Docket No. 100330-WS, In re: Application for increase in water/wastewater rates in Alachua, Brevard, DeSoto, Hardee, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.; PSC-10-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.; and PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

<sup>17</sup> Staff notes that it utilized the Utility's test year ratio of pensions and benefits to salaries in order to determine the corresponding adjustments for pensions and benefits.

**Issue 12:** Should further adjustments be made to the Utility's O&M expense?

**Recommendation:** Yes. O&M expense should be reduced by \$1,848 to remove duplicative billing costs. (Springer)

**Staff Analysis:** According to Sanlando's MFRs, a total of 378 bills were mailed out to customers that had reuse service. The same customers also receive a separate bill for water and/or wastewater in addition to their reuse bill. In previous UI cases, the Commission has found that the Utility's billing system should be efficient enough to generate one bill per customer. The general body of customers should not have to pay the additional cost of the Utility's duplicative billing.<sup>18</sup> Therefore, staff recommends the costs associated with the mailing of the reuse bills be disallowed. Staff calculated a rate of \$4.89 per reuse bill, using the costs of postage, envelopes, and employee overhead. Accordingly, staff recommends that the cost of mailing 378 duplicate bills in the amount of \$1,848 be removed from water O&M expense.

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<sup>18</sup> 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, at p. 18.

**Issue 13:** What is the appropriate amount of rate case expense?

**Recommendation:** The appropriate amount of rate case expense is \$235,820. This expense should be recovered over four years for an annual expense of \$58,955, or \$33,115 for water and \$25,840 for wastewater. Therefore, annual rate case expense should be reduced by \$7,933 for water and \$6,190 for wastewater from the amounts requested in the Utility’s MFRs. (Springer, Cicchetti)

**Staff Analysis:** In its MFRs, Sanlando requested \$292,311 for current rate case expense. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On December 11, 2012, the Utility submitted a revised rate case expense as of November 20, 2012, through completion of the PAA process of \$368,511.

Table 13-1

|                             | MFR B-10<br><u>Estimated</u> | Actual as of<br><u>11/20/12</u> | Additional<br><u>Estimated</u> | Revised<br><u>Total</u> |
|-----------------------------|------------------------------|---------------------------------|--------------------------------|-------------------------|
| Legal Fees                  | \$80,688                     | \$42,589                        | \$8,885                        | \$51,474                |
| Accounting Consultant Fees  | 65,250                       | 82,375                          | 3,000                          | 85,375                  |
| Engineering Consultant Fees | 8,000                        | 17,100                          | 2,900                          | 20,000                  |
| WSC in-house Fees           | 94,774                       | 106,998                         | 0                              | 106,998                 |
| Filing Fee                  | 9,000                        | 0                               | 9,000                          | 9,000                   |
| WSC Travel                  | 3,200                        | 273                             | 2,927                          | 3,200                   |
| WSC Temp Employee Fees      | 2,000                        | 656                             | 1,3440                         | 2,000                   |
| WSC FedEx/Misc.             | 12,000                       | 80                              | 11,920                         | 12,000                  |
| Notices                     | 17,400                       | 17,791                          | 15,000                         | 32,791                  |
| Mapping                     | <u>0</u>                     | <u>45,673</u>                   | <u>0</u>                       | <u>45,673</u>           |
| Total Rate Case Expense     | <u>\$292,311</u>             | <u>\$264,948</u>                | <u>\$103,562</u>               | <u>\$368,511</u>        |

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. In addition, staff reviewed the Commission Orders in the Utility’s 2006 and 2009 rate cases. Based on its review, staff believes the following adjustments to Sanlando’s rate case expense estimate are appropriate.

**Legal Consultant Fees**

The Utility included in its MFRs \$80,688 in legal fees to complete the rate case. The Utility provided invoices through November 20, 2012, showing legal expenses associated with the rate case totaling \$51,474. Staff recommends an adjustment related to the Utility’s legal consultant fees, resulting in a total reduction of \$306. This adjustment is related to legal expenses incurred to correct deficiencies in the MFRs. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate

filing costs.<sup>19</sup> Staff also recommends an adjustment to the estimated cost to complete this case. Thus, staff is recommending a total reduction of \$306 to legal fees.

#### Engineering Consultant Fees

In its revised rate case expense schedule, Sanlando requested total engineering fees of \$20,000. The estimate to complete the rate case included 52 hours at an hourly rate of \$150. This estimate was revised to reflect the additional engineering that was necessary as a result of the Reuse Project. Based on the documentation provided by the Utility, staff believes the appropriate amount of engineering consultant fees is \$20,000.

#### WSC In-House Employee Fees

In its revised rate case expense estimate, the Utility requested \$106,998 for expenses related to WSC In-House Employees to process the instant case. However, in several cases involving Sanlando's sister companies, the Commission has disallowed WSC In-House Employee fees.<sup>20</sup> The Commission disallowed these fees because WSC In-House Employees are employed to process rate cases. Sanlando reported that the total number of actual hours incurred by WSC in-house employees as of November 20, 2012, was 1,525, and estimated an additional 842 hours to complete the rate case, for a total of 2,367 hours.

In consideration of the aforementioned, staff believes that by requesting rate case expense for the hours WSC in-house employees incurred to process the rate case in addition to the expense for salaries and wages of these same WSC employees, the Utility is seeking double recovery of the allocated compensation for the positions. Therefore, staff recommends that all of the hours associated with WSC in-house fees of \$106,998 related to rate case expense be disallowed.

#### WSC Travel Expenses

In its MFRs, Sanlando estimated \$3,200 for travel. However, the documentation the Utility provided to support this expense did not demonstrate that this expense was related to this rate case. The time of travel on the receipts and invoices did not correlate to the time during which the customer meeting took place. Furthermore, based on several previous UI rates cases, it is staff's experience that for PAA rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference. Therefore, staff recommends that \$3,200 of rate case expense associated with WSC Travel Expense be disallowed.

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<sup>19</sup> See Order Nos. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

<sup>20</sup> See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.  
See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

### WSC Temp Employee Fees

In its revised rate case expense estimate, Sanlando requested WSC temporary employee costs of \$2,000. This has been disallowed in previous Commission decisions with Sanlando's sister companies.<sup>21</sup> Accordingly, staff recommends that \$2,000 be disallowed as unsupported rate case expense.

### WSC FedEx Expenses

The next adjustment relates to WSC expenses for FedEx Corporation (FedEx) and other miscellaneous costs. In its revised estimate of rate case expense, the Utility estimated \$12,000 for these items. This has been disallowed in previous Commission decisions with Sanlando's sister companies.<sup>22</sup> Accordingly, staff recommends that rate case expense associated with FedEx Expenses be disallowed.

### Customer Notices and Postage

In its revised rate case expense schedule, Sanlando reflected actual charges incurred of \$17,791 for customer noticing and postage. Sanlando estimated an additional \$15,391 in costs for a total of \$32,791. In recent UI rate cases, the Commission has allowed expenses of \$0.05 per envelope, \$0.36 for postage, and \$0.10 per copy.<sup>23</sup>

Sanlando is responsible for sending 4 notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, staff estimated the postage cost for the notices to be approximately \$10,885 (10,163 customers x \$0.36 pre-sorted rate x 3 notices). Staff estimates envelope costs to be \$1,524 (10,163 customers x \$0.05 per envelope x 3 notices) and copying costs to be \$12,196 (10,163 customers x \$0.10 per copy x 6 pages).<sup>24</sup> Based on these components, the total cost for customer notices and postage is \$24,605 (\$10,885 + \$1,524 + \$12,196). Thus, staff recommends reducing revised estimate for customer notices and postage expense by \$8,186.

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<sup>21</sup> See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

See Order No. PSC-11-0514-PAA-WS, issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

<sup>22</sup> See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., and Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

<sup>23</sup> See Order No. PSC-11-0514-PAA-WS, Issued November 03, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc., at p. 31.

<sup>24</sup> Staff anticipates that both the interim notice and final notice would be one page each while the combined initial and customer meeting notice would be four pages.

Mapping

The Utility did not request any mapping expenses in its filed MFRs. However, a revised MFR B-10 justified the additional expense of \$45,673 from CPH Engineers, Inc. Staff believes that this expense is justified and should be included as an appropriate rate case expense.

Conclusion

It is the Utility's burden to justify its requested costs.<sup>25</sup> Further, the Commission has broad discretion with respect to the allowance of rate case expense. 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.<sup>26</sup> In summary, staff recommends that Sanlando's requested rate case expense of \$292,311 be decreased by \$56,491 to reflect the Utility's revised request for rate case expense and to remove excessive, unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$235,820. A breakdown of rate case expense is as follows:

Table 13-2

| <u>Description</u>          | <u>Utility</u>                 |   |                                    |                                 |
|-----------------------------|--------------------------------|---|------------------------------------|---------------------------------|
|                             | <u>MFR</u><br><u>Estimated</u> | <u>Revised Actual</u><br><u>&amp; Estimated</u> | <u>Staff</u><br><u>Adjustments</u> | <u>Recomm'd</u><br><u>Total</u> |
| Legal Fees                  | \$80,688                       | \$51,474  | (\$306)                            | \$51,168                        |
| Accounting Consultant Fees  | 65,250                         | 85,375  | 0                                  | 85,375                          |
| Engineering Consultant Fees | 8,000                          | 20,000  | 0                                  | 20,000                          |
| WSC In-house Fees           | 94,774                         | 106,998   | (106,998)                          | 0                               |
| Filing Fee                  | 9,000                          | 9,000   | 0                                  | 9,000                           |
| Travel - WSC                | 3,200                          | 3,200   | (3,200)                            | 0                               |
| Temp Employee Fess - WSC    | 2,000                          | 2,000   | (2,000)                            | 0                               |
| Miscellaneous               | 12,000                         | 12,000  | (12,000)                           | 0                               |
| Notices, Postage            | 17,400                         | 32,791  | (8,186)                            | 24,605                          |
| Mapping                     | 0                              | 45,673  | 0                                  | 45,673                          |
| Total Rate Case Expense     | <u>\$292,311</u>               | <u>\$368,511</u>                                | <u>(\$132,691)</u>                 | <u>\$235,820</u>                |
| Annual Amortization         | <u>\$73,078</u>                | <u>\$92,128</u>                                 | <u>(\$33,173)</u>                  | <u>\$58,955</u>                 |

In conclusion, staff recommends that Sanlando has failed to demonstrate that the requested level of expenses to prepare and process the instant case are reasonable. In its MFRs, Sanlando requested total rate case expense of \$292,311, which amortized over four years is \$73,078, or \$41,048 for water and \$32,030 for wastewater. Based on the adjustments recommended above, total rate case expense should be decreased by \$56,491 (\$292,311-\$235,820), and the annual amortization amounts be decreased by \$7,933 for water and \$6,190 for wastewater.

<sup>25</sup> See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982)

<sup>26</sup> See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), *rev. den.*, 529 So. 2d 694 (Fla. 1988)

**REVENUE REQUIREMENT**

**Issue 14:** What is the appropriate revenue requirement for the test year ended December 31, 2010?

**Recommendation:** The following revenue requirement should be approved.

|            | <u>Test<br/>Year Revenue</u> | <u>\$ Increase</u> | <u>Revenue<br/>Requirement</u> | <u>% Increase</u> |
|------------|------------------------------|--------------------|--------------------------------|-------------------|
| Water      | <u>\$3,516,994</u>           | <u>-\$6,861</u>    | <u>\$3,510,133</u>             | <u>-0.20%</u>     |
| Wastewater | <u>\$3,456,533</u>           | <u>\$1,111,438</u> | <u>\$4,567,971</u>             | <u>32.15%</u>     |

(Springer, Cicchetti)

**Staff Analysis:** In its filing Sanlando, requested revenue requirements to generate annual revenue of \$3,992,919 and \$4,656,239 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$475,925, or approximately 13.53 percent, for water, and \$1,199,706, or approximately 34.71 percent, for wastewater.

Consistent with staff's recommendations concerning rate base, cost of capital, and operating income issues, staff recommends approval of rates designed to generate a water revenue requirement of \$3,510,133 and a wastewater revenue requirement of \$4,567,971. Staff's recommended water revenue requirement of \$3,510,133 is \$6,861 less than staff's adjusted test year revenue of \$3,516,994. Staff's recommended wastewater revenue requirement exceeds staff's adjusted test year revenue by \$1,111,438 or 32.15 percent. These recommended pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.16 percent return on its investment in water and wastewater rate base.

## **RATE STRUCTURE AND RATES**

**Issue 15:** What are the appropriate rate structures for the Utility's water and wastewater systems?

**Recommendation:** The appropriate rate structure for the water system's residential class is a continuation of the base facility charge (BFC)/three-tier inclining-block rate structure. The appropriate usage blocks are for monthly consumption of: a) 0-10,000 gallons; b) 10,001-15,000 gallons; and c) for all usage in excess of 15,000 gallons. The appropriate rate factors are 1.0, 1.5, and 2.0, respectively. As discussed in Issue 16, by restricting any cost recovery due to repression of discretionary usage, an additional fourth tier will be created for nondiscretionary monthly usage of 6,000 gallons or less. The appropriate rate structure for the water system's nonresidential classes is a continuation of the BFC/uniform gallonage rate structure. The BFC cost recovery percentage for the water system should be set at 22.25 percent. In addition, \$750,000 in wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap for billed usage should continue at 10,000 gallons, and the multi-residential and general service gallonage charge should be set at 1.2 times the corresponding residential rate. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. (Lingo)

**Staff Analysis:** The Utility's current water system rate structure for the residential class consists of a BFC/three-tier inclining block rate structure. The BFC cost recovery percentage for the water system is 25.65 percent, with usage blocks of: a) 0-10,000 gallons; b) 10,001-15,000 gallons; and c) all usage in excess of 15,000 gallons per month. By restricting any cost recovery due to repression of discretionary usage, an additional fourth tier exists for nondiscretionary monthly usage of 6,000 gallons or less. The current rate structure for the water system's nonresidential classes is a BFC/uniform gallonage charge.<sup>27</sup>

Sanlando is located in Seminole County within the St. Johns River Water Management District (SJRWMD or District). The entire District has been designated a water resource caution area. Furthermore, many areas of the SJRWMD, including the Sanlando service area, are identified as priority water resource caution areas. These are areas where existing and reasonably anticipated sources of water and water conservation efforts may not be adequate to supply water for all existing legal uses and anticipated future needs, or to sustain the water resources and related natural systems. In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy.

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<sup>27</sup> See Order No. 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.



**Water Rates** Base facility test year rates for all 5/8" x 3/4" meter customers was \$4.43 per month. The corresponding residential gallonage charges per 1,000 gallons of consumption were: a) \$0.76 for consumption of 0–6,000 gallons; b) \$0.80 for consumption of 6,001–10,000 gallons; c) \$1.01 for consumption of 10,001–15,000 gallons; and d) \$1.41 for monthly consumption in excess of 15,000 gallons. The gallonage charge prior to filing for the remaining rate classes was \$1.10 per 1,000 gallons used. Based on a detailed analysis of the Utility's billing data, staff believes it is appropriate to continue the current inclining block rate structure for this utility's residential rate class. During the 2010 test year, average residential consumption was approximately 17,500 gallons per month, with approximately 17 percent of residential customers consuming over 30,000 gallons per month. This level of usage is indicative of a very high level of discretionary, nonessential usage that is relatively sensitive to price increases. Therefore, in light of the SJRWMD's desire to reduce water consumption in this area, staff believes that it is appropriate to continue an inclining block rate structure for this utility in order to encourage water conservation.

Staff performed additional analyses of the Utility's residential 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 MOU with the state's Water Management Districts.

To increase the water-conserving nature of the rate structure, staff recommends that the entire water system revenue requirement increase be allocated to the gallonage charge, and that the BFC remain unchanged at \$4.43 for a 5/8" x 3/4" meter customer. By shifting cost recovery to the water system gallonage charge while holding the BFC constant, staff is able to design a more effective water conserving rate structure. The current rate factors for the two residential usage blocks above 10,000 gallons per month are 1.25 (for monthly usage of 10,001 to 15,000 gallons) and 1.75 (for monthly usage exceeding 15,000 gallons per month). In order to send more aggressive conservation signals to customers whose monthly consumption exceeds 10,000 gallons, staff recommends increasing the rate factors in the upper two usage blocks to 1.5 and 2.0, respectively. This also has the effect of minimizing the price increases for those customers whose monthly usage is 10,000 gallons or less.

The traditional BFC/uniform gallonage charge rate structure has been the Commission's water rate structure of choice for nonresidential customer classes. The uniform gallonage charge should be calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This should be the same methodology used to determine the general and multi-residential service gallonage charge in this case. With this methodology, those customers would continue to pay their fair share of the cost of service.<sup>28</sup>

**Allocation of Reuse Costs** Traditionally, costs associated with the provision of water service are allocated to the water customers, and those associated with the provision of wastewater service are allocated to the wastewater customers. The evolution of reuse of

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<sup>28</sup> Id. 1.

reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirements. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

Section 367.0817, F.S., sets forth the Commission's authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. Specifically, Section 367.0817(3), F.S., states:

All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

The revenue requirement associated with the reuse system exceeds \$750,000. Determining how much of the wastewater system's revenue requirement should be allocated to the water customers is difficult given the discretionary nature of Section 367.0817, F.S. Although the statute acknowledges that reuse benefits water, wastewater and reuse customers, there is no guidance in the statute as to how to measure these benefits. In addition, the statute does not state when it is appropriate to undertake such an allocation or how much should be allocated. These decisions are left solely to the Commission's discretion.<sup>29</sup> Different criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: 1) recognition of perceived benefit, 2) average usage of the water customers, 3) the level of water rates, 4) the magnitude of the wastewater revenue increases, and 5) the need to send a stronger price signal to achieve water conservation.<sup>30</sup>

Due to the Utility's high average monthly usage per residential customer, low rates, and the need to send stronger price signals to achieve conservation, staff recommends that \$750,000 of the wastewater system revenue requirement associated with the reuse facilities be shifted to the gallonage charge portion of the water rate structure. Doing so enables staff to design a more aggressive water conservation rate structure geared to target residential users with high levels of discretionary consumption. The Commission has taken similar approaches in prior cases involving shifting a portion of reuse revenues to the water system.<sup>31</sup>

In addition to the recommended rate structure described above, staff also evaluated two alternative rate structures. The first alternative rate structure consists of the same three-tiered

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<sup>29</sup> See Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS, In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division).

<sup>30</sup> See Order No. PSC-02-1111-PAA-WS, issued August 13, 2002, in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley.

<sup>31</sup> See Orders Nos. PSC-07-0535-AS-WS, issued June 26, 2007, and PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.; Id. 1.

rate structure described above, but shifting \$625,000 from the wastewater revenue requirement to the water system revenue requirement. This leads to a slight decline in water system revenue requirements, and a reduction of \$1.16 in a residential customer’s average bill when compared to an average bill under staff’s recommended rate structure. The second alternative rate structure shifts \$500,000 from the wastewater revenue requirement to the water system revenue requirement. This alternative is similar to the rate structure approved by the Commission in Sanlando’s last rate case, wherein \$546,558 was shifted from the wastewater revenue requirement to the water system revenue requirement.<sup>32</sup> This scenario results in an average bill reduction of \$2.32 when compared to staff’s recommended rate structure. These rate structures and their resulting bills are shown on Table 15-1.

**TABLE 15-1**

| <b>SANLANDO UTILITIES CORPORATION<br/>STAFF’S RECOMMENDED AND ALTERNATIVE RATE STRUCTURES FOR TYPICAL<br/>RESIDENTIAL WATER SYSTEM CUSTOMERS ON 5/8” x 3/4” METERS<br/>POST-REPRESSION ANALYSIS</b> |         |  |         |
|---|---------|--|---------|
| <b>Current Rate Structure and Rates</b>   |         | <b>Recommended Rate Structure and Rates</b>  |         |
| BFC with uniform gallonage (gal) charge   |         | \$750,000 shift from the wastewater system and 100 percent of Revenue Requirement Increase Recovered Through the Gal Chg BFC = 22.25 percent |         |
| BFC   | \$4.43  | BFC  | \$4.43  |
| 0-6,000 gals (no repression adj)  | \$0.76  | 0-6,000 gals (no repression adj)   | \$0.92  |
| 6,001-10,000 gals   | \$0.80  | 6,001-10,000 gals  | \$1.00  |
| 10,001-15,000 gals  | \$1.01  | 10,001-15,000 gals   | \$1.51  |
| In excess of 15,000 gals  | \$1.41  | In excess of 15,000 gals   | \$2.01  |
| <b>Typical Monthly Bills</b>  |         | <b>Typical Monthly Bills</b>   |         |
| <b>Cons (gals)</b>  |         | <b>Cons (gals)</b>   |         |
| 0   | \$4.43  | 0  | \$4.43  |
| 5,000   | \$8.23  | 5,000  | \$9.03  |
| 10,000  | \$12.19 | 10,000   | \$13.95 |
| 15,000  | \$17.24 | 15,000   | \$21.50 |
| 20,000  | \$24.29 | 20,000   | \$31.55 |
| 30,000  | \$38.39 | 30,000   | \$51.65 |
| <b>Alternative 1</b>  |         | <b>Alternative 2</b>   |         |
| \$625,000 shift from the wastewater system and 100 percent of Revenue Requirement Increase Recovered Through the Gal Chg BFC= 22.90 percent   |         | \$500,000 shift from the wastewater system and 100 percent of Revenue Requirement Increase Recovered Through the Gal Chg BFC = 23.55 percent |         |
| BFC   | \$4.43  | BFC  | \$4.43  |
| 0-6,000 gals (no repression adj)  | \$0.88  | 0-6,000 gals (no repression adj)   | \$0.85  |
| 6,001 gals-10 kgals   | \$0.95  | 6,001 gals-10,000 gals   | \$0.89  |
| 10,001 gals-15,000 gals   | \$1.42  | 10,001 gals - 15,000 gals  | \$1.33  |
| In excess of 15,000 gals  | \$1.89  | In excess of 15,000 gals   | \$1.78  |
| <b>Typical Monthly Bills</b>  |         | <b>Typical Monthly Bills</b>   |         |
| <b>Cons (gals)</b>  |         | <b>Cons (gals)</b>   |         |
| 0   | \$4.43  | 0  | \$4.43  |
| 5,000   | \$8.83  | 5,000  | \$8.68  |
| 10,000  | \$13.51 | 10,000   | \$13.09 |
| 15,000  | \$20.61 | 15,000   | \$19.74 |
| 20,000  | \$30.06 | 20,000   | \$28.64 |
| 30,000  | \$48.96 | 30,000   | \$46.44 |

<sup>32</sup> Id. 1.

**Wastewater Rates** The Utility's current wastewater system rate structure consists of a BFC/gallage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$12.35 per month. The corresponding monthly gallage charge for residential service was \$1.63 per 1,000 gallons of usage, with billed consumption capped at 10,000 gallons of usage per month. The gallage charge rate for general service and multi-residential service was approximately 1.2 times greater than the residential charge, at \$1.98 per 1,000 gallons of usage, with no monthly usage cap.

A consequence of shifting \$750,000 of the wastewater system revenue requirement to the water system, and removing revenues generated through reuse sales, is that the resulting increase to the wastewater system was decreased from approximately 33 percent to approximately 11 percent. Staff recommends a continuation of the current BFC/gallage charge rate structure for the wastewater system, with the BFC set at 50 percent. The residential wastewater monthly gallage cap for billed usage should continue at 10,000 gallons, and the general service gallage charge should be set at 1.2 times the corresponding residential rate.

Therefore, appropriate rate structure for the water system's residential class is a continuation of the base facility charge (BFC)/three-tier inclining-block rate structure. The appropriate usage blocks are for monthly consumption of: a) 0-10,000 gallons; b) 10,001-15,000 gallons; and c) for all usage in excess of 15,000 gallons. The appropriate rate factors are 1.0, 1.5, and 2.0, respectively. As discussed in Issue 16, by restricting any cost recovery due to repression of discretionary usage, an additional fourth tier will be created for nondiscretionary monthly usage of 6,000 gallons or less. The appropriate rate structure for the water system's nonresidential classes is a continuation of the BFC/uniform gallage rate structure. The BFC cost recovery percentage for the water system should be set at 22.25 percent. In addition, \$750,000 in wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallage charge rate structure. The residential wastewater monthly gallage cap for billed usage should continue at 10,000 gallons, and the multi-residential and general service gallage charge should be set at 1.2 times the corresponding residential rate. The BFC cost recovery percentage for the wastewater system should be set at 50 percent.

**Issue 16:** Are repression adjustments for the Utility's water system appropriate in this case, and, if so, what are the appropriate adjustments to make, what are the corresponding expense adjustments to make, and what is the final revenue requirement for the water system?

**Recommendation:** Yes, a repression adjustment to the water system is appropriate for this utility. For the water system, test year gallons sold should be reduced by 149,029,000 gallons, purchased power expense should be reduced by \$28,247, chemicals expenses should be reduced by \$9,949 and regulatory assessment fees (RAFs) should be reduced by \$1,719. The final post-repression revenue requirement for the water system should be \$4,170,216. Staff does not recommend making repression adjustments to wastewater systems due to the nondiscretionary nature of residential wastewater usage. Therefore, no wastewater repression adjustment is appropriate.

In order to monitor the effect of the rate structure and rate changes, the Utility should 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 quarterly 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 file a revised monthly report for that month within 30 days of any revision. (Lingo)

**Staff Analysis:** The appropriate pre-repression revenue requirements, excluding miscellaneous service charges and including a \$750,000 revenues shift from the wastewater system, is \$4,210,131 for the water system. The corresponding pre-repression revenue requirement, after shifting \$750,000 to the water system and excluding miscellaneous service revenues, is \$3,793,494 for the wastewater system. 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 a very small portion (approximately 7 percent) of the residential bills rendered during the test year were for consumption levels at 1,000 gallons or less per month. This indicates that the bulk of the customer base of the Utility are full time residents. This analysis also showed that average residential consumption per residential customer was approximately 17,500 gallons per month. This level of consumption indicates that there is a very high level of discretionary, or non-essential, consumption of approximately 11,500 gallons per customer per month. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based on 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. Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 149,029,000 gallons, purchased power expense should be reduced by \$28,247, chemicals expenses should be reduced by \$9,949 and RAFs should be reduced by \$1,719. The final post-repression revenue requirement for the water system should be \$4,170,216. Staff recommends no repression

adjustment to the wastewater system because of the nondiscretionary nature of wastewater consumption. The final revenue requirement for the wastewater system should be \$3,820,177.

In order to monitor the effect of the rate changes, the Utility should 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 quarterly 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 file a revised monthly report for that month within 30 days of any revision.

**Issue 17:** What are the appropriate monthly rates for the water, wastewater and reuse systems for the utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule No. 4-A. The appropriate wastewater monthly rates are shown on Schedule No. 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$4,170,216. Excluding miscellaneous service charges, the recommended wastewater and reuse rates produce revenues of \$3,820,177. The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. 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 10 days after the date of the notice. (Lingo, Springer)

**Staff Analysis:** The appropriate pre-repression revenue requirements, excluding miscellaneous service charges, are \$4,210,131 for the water system and \$3,820,177 for the wastewater system. As discussed in Issue 15, staff recommends that the appropriate rate structure for the water system's residential class is a three-tier inclining-block rate structure, with monthly usage blocks of 0-10,000 gallons for the first block, 10,001-15,000 gallons for the second block, and usage in excess of 15,000 gallons for the third block. The usage block rate factors should be 1.0, 1.5 and 2.0, respectively. By restricting any cost recovery due to repression of discretionary usage, an additional fourth tier will be created for nondiscretionary monthly usage of 6,000 gallons or less. As also discussed in Issue 15, the appropriate rate structure for the water system's nonresidential classes is a continuation of the BFC/uniform gallonage. In addition, \$750,000 in wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system. As discussed in Issue 16, staff recommends that a repression adjustment be made to the water system. The BFC cost recovery percentage should be set at 22.25 percent, causing the Utility's BFC for a 5/8" x 3/4" meter customer to remain unchanged from the corresponding rate prior to filing.

As also discussed in Issue 15, the appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap for billed usage should continue at 10,000 gallons, and the general service gallonage charge should be set at 1.2 times the corresponding residential rate. The BFC cost recovery percentage for the wastewater system should be set at 50 percent. Applying these rate designs and repression adjustments to the recommended pre-repression revenue requirements of the water and wastewater systems results in the final rates contained in Schedules No. 4-A and No. 4-B. These rates are designed to recover a post-repression revenue requirement for the water system of \$4,170,216, and a revenue requirement for the wastewater system of \$3,820,177.

The Utility should file revised water and wastewater 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 approved wastewater rates should not be

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implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's original rates, requested rates, and staff's recommended water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively.



## **OTHER ISSUES**

**Issue 18:** In determining whether any portion of the interim water and wastewater revenue 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. The total net difference between the combined water and wastewater interim revenue requirements granted and the combined interim collection period revenue should be used because of the reallocation of wastewater revenues. No refund is required because the total interim revenue requirement collection period revenue calculated is greater than the total interim revenue requirement granted. Further, the surety bond should be released. (Springer, Cicchetti)

**Staff Analysis:** The Commission authorized Sanlando to collect interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of \$3,882,411 represented an increase of \$488,014 or 14.38 percent. The approved interim revenue requirement for wastewater of \$3,907,536, represented an increase of \$382,524 or 10.85 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 establishment of interim and final rates is the 12-month period ended December 31, 2010. Sanlando'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 lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, staff has calculated an adjusted interim period revenue requirements 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 interim test year revenue requirements of \$3,882,411 for water and \$3,907,536 for wastewater, granted in Order PSC-10-0018-PCO-WS, are greater than the revenue requirement for water by 10.15 percent and less than the revenue requirement for wastewater by 16.64 percent. This would result in a 10.15 percent water refund and no refund for wastewater.

However, as stated in Issue 15 above, staff is recommending that wastewater revenues of \$750,000 related to the Utility's reuse system be shifted and reallocated to the water system. Because of the reallocation of these revenues, staff recommends using Sanlando's total company revenue requirement be used for determining whether an interim refund is warranted. This methodology is consistent with the Commission's decision in the Utility's last rate case.<sup>33</sup> No

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<sup>33</sup> See Order No. PSC-10-0423-PAA-WS, pp. 30-31

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refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. Further, the surety bond should be released.

**Issue 19:** 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 as required by Section 367.0816, Florida Statutes?

**Recommendation:** The rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove \$40,332 for water and \$31,472 for wastewater related the annual rate case expense, grossed-up for 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. (Springer, Cicchetti)

**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 revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$40,332 for water and \$31,472 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

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. Sanlando 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.

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**Issue 20:** Should the Utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) associated with the Commission approved adjustments?

**Recommendation:** Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, Sanlando should provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made. (Springer, Cicchetti)

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

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**Issue 21:** Should this docket be closed?

**Recommendation:** No. 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 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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Klancke, Springer)

**Staff Analysis:** 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 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, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

| Sanlando Utilities Corporation<br>Schedule of Water Rate Base<br>Test Year Ended 12/31/10 |                             |                             | Schedule No. 1A<br>Docket No. 110257-WS |                           |                                |
|---|-----------------------------|-----------------------------|---|---------------------------|--------------------------------|
| Description   | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility    | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year |
| 1 Plant in Service  | \$24,623,945                | (\$2,082,422)               | \$22,541,523                            | (\$107,142)               | \$22,434,381                   |
| 2 Land and Land Rights  | 128,519                     | (31,363)                    | 97,156                                  | 0                         | 97,156                         |
| 3 Non-U&U Components  | 0                           | 0                           | 0                                       | 0                         | 0                              |
| 4 Accumulated Depreciation  | (12,371,122)                | 1,025,527                   | (11,345,595)                            | (85,184)                  | (11,430,779)                   |
| 5 CIAC  | (11,942,826)                | 522,723                     | (11,420,103)                            | 0                         | (11,420,103)                   |
| 6 Amortization of CIAC  | 9,038,180                   | (71,829)                    | 8,966,351                               | (1,630)                   | 8,964,721                      |
| 7 Construction Work in Progress   | 10,151                      | (10,151)                    | 0                                       | 0                         | 0                              |
| 8 Acquisition Adjustments   | 0                           | 0                           | 0                                       | 0                         | 0                              |
| 9 Working Capital Allowance   | <u>0</u>                    | <u>257,178</u>              | <u>257,178</u>                          | <u>21,462</u>             | <u>278,640</u>                 |
| 10 <b>Rate Base</b>   | <u>\$9,486,847</u>          | <u>(\$390,337)</u>          | <u>\$9,096,510</u>                      | <u>(\$172,494)</u>        | <u>\$8,924,016</u>             |

| Sanlando Utilities Corporation<br>Schedule of Wastewater Rate Base<br>Test Year Ended 12/31/10 |                             |                             | Schedule No. 1B<br>Docket No. 110257-WS |                           |                                |
|--|-----------------------------|-----------------------------|---|---------------------------|--------------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility    | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year |
| 1 Plant in Service   | \$25,530,759                | \$4,691,232                 | \$30,221,991                            | \$367,351                 | \$30,589,342                   |
| 2 Land and Land Rights   | 203,894                     | 166                         | 204,060                                 | 0                         | 204,060                        |
| 3 Non-U&U Components   | 0                           | 0                           | 0                                       | 0                         | 0                              |
| 4 Accumulated Depreciation   | (12,371,122)                | 1,025,527                   | (13,837,951)                            | 196,822                   | (13,641,129)                   |
| 5 CIAC   | (11,942,826)                | 643,365                     | (12,558,761)                            | (1,445,252)               | (14,004,013)                   |
| 6 Amortization of CIAC   | 9,038,180                   | 98,999                      | 10,106,077                              | 80,547                    | 10,186,624                     |
| 7 Working Capital Allowance  | 0                           | 313,377                     | 313,377                                 | 27,374                    | 340,751                        |
| 8 <b>Rate Base</b>   | <u>10,151</u>               | <u>\$5,261,366</u>          | <u>\$14,448,793</u>                     | <u>(\$773,159)</u>        | <u>\$13,675,634</u>            |

| Sanlando Utilities Corporation          |   | Schedule No. 1C      |                      |
|---|---|----------------------|----------------------|
| Adjustments to Rate Base                |   | Docket No. 110257-WS |                      |
| Test Year Ended 12/31/10                |   |                      |                      |
| Explanation                             | Water   | Wastewater           |                      |
| <u>Plant In Service</u>                 |   |                      |                      |
| 1                                       | Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | (\$6,639)            | (\$144,250)          |
| 2                                       | Reflect appropriate adjustments for Phoenix Project. (Issue 3)                          | (105,531)            | (82,347)             |
| 3                                       | Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4) | (4,152)              | (21,691)             |
| 4                                       | Reflect the appropriate pro forma plant. (Issue 5)                                      | 9,180                | 615,639              |
|   | Total   | <u>(\$107,142)</u>   | <u>\$367,351</u>     |
| <u>Accumulated Depreciation</u>         |   |                      |                      |
| 1                                       | Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | \$21,096             | \$131,297            |
| 2                                       | Reflect appropriate adjustments for Phoenix Project. (Issue 3)                          | 63,729               | 49,729               |
| 3                                       | Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4) | (169,796)            | 30,138               |
| 4                                       | Reflect the appropriate pro forma accumulated depreciation. (Issue 5)                   | (213)                | (14,342)             |
|   | Total   | <u>(\$85,184)</u>    | <u>\$196,822</u>     |
| <u>CIAC</u>                             |   |                      |                      |
|   | Reflect contribution from SJRWMD. (Issue 5)   | <u>\$0</u>           | <u>(\$1,445,252)</u> |
| <u>Accumulated Amortization of CIAC</u> |   |                      |                      |
| 1                                       | Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4) | (\$1,630)            | \$74,843             |
| 2                                       | Reflect contribution from SJRWMD. (Issue 5)   | 0                    | 5,704                |
|   | Total   | <u>(\$1,630)</u>     | <u>\$80,547</u>      |
| <u>Working Capital</u>                  |   |                      |                      |
| 1                                       | Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | \$26,004             | \$27,611             |
| 2                                       | Reflect appropriate working capital per Rule 25-30.433, F.A.C. (Issue 7)                | (4,542)              | (237)                |
|   | Total   | <u>\$21,462</u>      | <u>\$27,374</u>      |



| Sanlando Utilities Corporation<br>Capital Structure - 13-Month Average<br>Test Year Ended 12/31/10 |                      |                              |                                 |                             |                                       |                | Schedule No. 2<br>Docket No. 110257-WS |                  |  |
|--|----------------------|------------------------------|---------------------------------|-----------------------------|---------------------------------------|----------------|--|------------------|--|
| Description  | Total<br>Capital     | Specific<br>Adjust-<br>ments | Subtotal<br>Adjusted<br>Capital | Prorata<br>Adjust-<br>ments | Capital<br>Reconciled<br>to Rate Base | Ratio          | Cost<br>Rate                           | Weighted<br>Cost |  |
| <b>Per Utility</b>   |                      |                              |                                 |                             |                                       |                |  |                  |  |
| 1 Long-term Debt   | \$180,000,000        | \$0                          | \$180,000,000                   | (168,703,068)               | \$11,296,932                          | 47.98%         | 6.65%                                  | 3.19%            |  |
| 2 Short-term Debt  | 16123077             | 0                            | 16123077                        | (15,110,692)                | 1012385                               | 4.30%          | 3.88%                                  | 0.17%            |  |
| 3 Preferred Stock  | 0                    | 0                            | 0                               | 0                           | 0                                     | 0.00%          | 0.00%                                  | 0.00%            |  |
| 4 Common Equity  | 169,648,509          | 0                            | 169,648,509                     | (159,001,247)               | 10,647,262                            | 45.22%         | 10.60%                                 | 4.79%            |  |
| 5 Customer Deposits  | 53,649               | 0                            | 53,649                          | 0                           | 53,649                                | 0.23%          | 6.00%                                  | 0.01%            |  |
| 6 Deferred Income Taxes  | <u>535,073</u>       | <u>0</u>                     | <u>535,073</u>                  | <u>0</u>                    | <u>535,073</u>                        | <u>2.27%</u>   | 0.00%                                  | <u>0.00%</u>     |  |
| 7 <b>Total Capital</b>   | <u>\$366,360,308</u> | <u>\$0</u>                   | <u>\$366,360,308</u>            | <u>(342,815,007)</u>        | <u>\$23,545,301</u>                   | <u>100.00%</u> |  | <u>8.16%</u>     |  |
| <b>Per Staff</b>   |                      |                              |                                 |                             |                                       |                |  |                  |  |
| 8 Long-term Debt   | \$180,000,000        | \$0                          | \$180,000,000                   | (\$169,168,194)             | \$10,831,806                          | 47.93%         | 6.65%                                  | 3.19%            |  |
| 9 Short-term Debt  | 16123077             | 0                            | 16123077                        | (15,152,843)                | 970,234                               | 4.29%          | 3.88%                                  | 0.17%            |  |
| 10 Preferred Stock   | 0                    | 0                            | 0                               | 0                           | 0                                     | 0.00%          | 0.00%                                  | 0.00%            |  |
| 11 Common Equity   | 169,648,509          | 0                            | 169,648,509                     | (159,439,621)               | 10,208,888                            | 45.17%         | 10.60%                                 | 4.79%            |  |
| 12 Customer Deposits   | 53,649               | 0                            | 53,649                          | 0                           | 53,649                                | 0.24%          | 6.00%                                  | 0.01%            |  |
| 13 Deferred Income Taxes   | <u>535,073</u>       | <u>0</u>                     | <u>535,073</u>                  | <u>0</u>                    | <u>535,073</u>                        | <u>2.37%</u>   | 0.00%                                  | <u>0.00%</u>     |  |
| 14 <b>Total Capital</b>  | <u>\$366,360,308</u> | <u>\$0</u>                   | <u>\$366,360,308</u>            | <u>(\$343,760,658)</u>      | <u>\$22,599,650</u>                   | <u>100.00%</u> |  | <u>8.16%</u>     |  |
|  |                      |                              |                                 |                             |                                       | <b>LOW</b>     | <b>HIGH</b>                            |                  |  |
| RETURN ON EQUITY   |                      |                              |                                 |                             |                                       | <u>9.60%</u>   | <u>11.60%</u>                          |                  |  |
| OVERALL RATE OF RETURN   |                      |                              |                                 |                             |                                       | <u>7.71%</u>   | <u>8.61%</u>                           |                  |  |

| Sanlando Utilities Corporation<br>Statement of Water Operations<br>Test Year Ended 12/31/10 |                             |                             |                                      |                           |                                | Schedule No. 3A<br>Docket No. 110257-WS |                        |
|---|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---|------------------------|
| Description   | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase                     | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>  | <u>\$3,281,289</u>          | <u>\$711,630</u>            | <u>\$3,992,919</u>                   | <u>(\$475,925)</u>        | <u>\$3,516,994</u>             | <u>(\$6,861)</u><br>-0.20%              | <u>\$3,510,133</u>     |
| <b>Operating Expenses</b>   |                             |                             |                                      |                           |                                |   |                        |
| 2 Operation & Maintenance   | \$2,131,700                 | \$106,134                   | \$2,237,834                          | (349,408)                 | 1,888,426                      |   | 1,888,426              |
| 3 Depreciation  | 112,219                     | 150,333                     | 262,552                              | (40,003)                  | 222,549                        |   | 222,549                |
| 4 Amortization  | 0                           | 0                           | 0                                    | 0                         | 0                              |   | 0                      |
| 5 Taxes Other Than Income   | 473,115                     | 4,767                       | 477,882                              | (64,186)                  | 413,696                        | (309)                                   | 413,387                |
| 6 Income Taxes  | <u>79,778</u>               | <u>192,599</u>              | <u>272,377</u>                       | <u>(12,070)</u>           | <u>260,307</u>                 | <u>(2,466)</u>                          | <u>257,841</u>         |
| 7 <b>Total Operating Expense</b>  | <u>2,796,812</u>            | <u>453,833</u>              | <u>3,250,645</u>                     | <u>(465,668)</u>          | <u>2,784,977</u>               | <u>(2,774)</u>                          | <u>2,782,203</u>       |
| 8 <b>Operating Income</b>   | <u>\$484,477</u>            | <u>\$257,797</u>            | <u>\$742,274</u>                     | <u>(\$10,257)</u>         | <u>\$732,017</u>               | <u>(\$4,087)</u>                        | <u>\$727,930</u>       |
| 9 <b>Rate Base</b>  | <u>\$9,486,847</u>          |                             | <u>\$9,096,510</u>                   |                           | <u>\$8,924,016</u>             |   | <u>\$8,924,016</u>     |
| 10 <b>Rate of Return</b>  | <u>5.11%</u>                |                             | <u>8.16%</u>                         |                           | <u>8.20%</u>                   |   | <u>8.16%</u>           |

| Sanlando Utilities Corporation<br>Statement of Wastewater Operations<br>Test Year Ended 12/31/10 |                             |                             |                                      |                           |                                | Schedule No. 3B<br>Docket No. 110257-WS |                        |
|--|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--------------------------------|---|------------------------|
| Description  | Test Year<br>Per<br>Utility | Utility<br>Adjust-<br>ments | Adjusted<br>Test Year<br>Per Utility | Staff<br>Adjust-<br>ments | Staff<br>Adjusted<br>Test Year | Revenue<br>Increase                     | Revenue<br>Requirement |
| 1 <b>Operating Revenues:</b>   | <u>\$3,602,240</u>          | <u>\$1,053,999</u>          | <u>\$4,656,239</u>                   | <u>(\$1,199,706)</u>      | <u>\$3,456,533</u>             | <u>\$1,111,438</u><br>32.15%            | <u>\$4,567,971</u>     |
| <b>Operating Expenses</b>  | 0                           | 0                           | 0                                    |                           |                                |   |                        |
| 2 Operation & Maintenance  | \$2,189,391                 | \$127,362                   | \$2,316,753                          | 75,323                    | 2,392,076                      |   | 2,392,076              |
| 3 Depreciation   | -75,463                     | 688,392                     | 612,929                              | (26,815)                  | 586,114                        |   | 586,114                |
| 4 Amortization   | 0                           | 0                           | 0                                    | 0                         | 0                              |   | 0                      |
| 5 Taxes Other Than Income  | 383,202                     | 129,488                     | 512,690                              | (60,925)                  | 451,765                        | 50,015                                  | 501,779                |
| 6 Income Taxes   | <u>64,616</u>               | <u>-29,770</u>              | <u>34,846</u>                        | <u>(461,776)</u>          | <u>(426,930)</u>               | <u>399,414</u>                          | <u>(27,516)</u>        |
| 7 <b>Total Operating Expense</b>   | <u>2,561,746</u>            | <u>915,472</u>              | <u>3,477,218</u>                     | <u>(474,194)</u>          | <u>3,003,024</u>               | <u>449,428</u>                          | <u>3,452,453</u>       |
| 8 <b>Operating Income</b>  | <u>\$1,040,494</u>          | <u>\$138,527</u>            | <u>\$1,179,021</u>                   | <u>(\$725,512)</u>        | <u>\$453,509</u>               | <u>\$662,010</u>                        | <u>\$1,115,519</u>     |
| 9 <b>Rate Base</b>   | <u>\$9,187,427</u>          |                             | <u>\$14,448,793</u>                  |                           | <u>\$13,675,634</u>            |   | <u>\$13,675,634</u>    |
| 10 <b>Rate of Return</b>   | <u>11.33%</u>               |                             | <u>8.16%</u>                         |                           | <u>3.32%</u>                   |   | <u>8.16%</u>           |

| <b>Sanlando Utilities Corporation</b>   |                    | <b>Schedule No. 3C</b>      |  |
|---|--------------------|-----------------------------|--|
| <b>Adjustment to Operating Income</b>   |                    | <b>Docket No. 110257-WS</b> |  |
| <b>Test Year Ended 12/31/10</b>   |                    |                             |  |
| <b>Explanation</b>  | <b>Water</b>       | <b>Wastewater</b>           |  |
| <u>Operating Revenues</u>   |                    |                             |  |
| Remove requested final revenue increase.  | <u>(\$475,925)</u> | <u>(\$1,199,706)</u>        |  |
| <u>Operation and Maintenance Expense</u>  |                    |                             |  |
| 1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | (\$33,011)         | (\$59,578)                  |  |
| 2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)                          | (20,280)           | (15,825)                    |  |
| 3 Excessive Unaccounted for Water Adjustment. (Issue 6)                                   | (5,568)            | 0                           |  |
| 4 Reflect the appropriate amount of salaries and benefits. (Issue 11)                     | (280,768)          | 156,915                     |  |
| 5 Remove duplicative billing costs. (Issue 12)  | (1,848)            | 0                           |  |
| 6 Reflect the appropriate rate case expense. (Issue 13)                                   | <u>(7,933)</u>     | <u>(6,190)</u>              |  |
| Total   | <u>(\$349,408)</u> | <u>\$75,323</u>             |  |
| <u>Depreciation Expense - Net</u>   |                    |                             |  |
| 1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | (\$3,739)          | (\$6,324)                   |  |
| 2 Audit Finding No. 5 - Reflect the depreciation life Project Phoenix. (Issue 3)          | (36,514)           | (28,492)                    |  |
| 3 Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4) | 37                 | (638)                       |  |
| 4 Reflect the appropriate pro forma depreciation expense. (Issue 5)                       | 213                | 14,342                      |  |
| 5 Reflect contribution from SJRWMD. (Issue 5)   | 0                  | <u>(5,704)</u>              |  |
| Total   | <u>(\$40,003)</u>  | <u>(\$26,815)</u>           |  |
| <u>Taxes Other Than Income</u>  |                    |                             |  |
| 1 RAFs on revenue adjustments above.  | (\$21,417)         | (\$53,987)                  |  |
| 2 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)                     | (25,704)           | (24,747)                    |  |
| 3 Reflect the appropriate pro forma property taxes. (Issue 5)                             | 0                  | 8,288                       |  |
| 4 Reflect the appropriate amount of payroll taxes. (Issue 11)                             | <u>(17,065)</u>    | <u>9,520</u>                |  |
| Total   | <u>(\$64,186)</u>  | <u>(\$60,925)</u>           |  |

| <b>Sanlando Utilities Corporation</b>  |                                      | <b>Schedule No. 4-A</b>                    |  |                                    |                                      |
|--|--------------------------------------|--|--|------------------------------------|--------------------------------------|
| <b>Water Monthly Service Rates</b>   |                                      | <b>Docket No. 110257-WS</b>                |  |                                    |                                      |
| <b>Test Year Ended 12/31/10</b>  |                                      |  |  |                                    |                                      |
|  | <b>Rates<br/>Prior to<br/>Filing</b> | <b>Commission<br/>Approved<br/>Interim</b> | <b>Utility<br/>Requested<br/>Final</b> | <b>Staff<br/>Recomm.<br/>Final</b> | <b>4-Year<br/>Rate<br/>Reduction</b> |
| <b><u>Residential, General Service, Bulk Service and Multi-Residential</u></b>                 |                                      |  |  |                                    |                                      |
| Base Facility Charge by Meter Size:  |                                      |  |  |                                    |                                      |
| 5/8"   | \$4.41                               | \$5.08                                     | \$4.94                                 | \$4.43                             | \$0.05                               |
| 3/4"   | \$6.63                               | \$7.62                                     | \$7.41                                 | \$6.65                             | \$0.08                               |
| 1"   | \$11.04                              | \$12.70                                    | \$12.35                                | \$11.08                            | \$0.13                               |
| 1-1/2"   | \$22.09                              | \$25.41                                    | \$24.70                                | \$22.15                            | \$0.25                               |
| 2"   | \$35.35                              | \$40.65                                    | \$39.52                                | \$35.44                            | \$0.41                               |
| 3"   | \$70.69                              | \$81.28                                    | \$74.10                                | \$70.88                            | \$0.81                               |
| 4"   | \$110.46                             | \$127.01                                   | \$123.50                               | \$110.75                           | \$1.27                               |
| 6"   | \$220.92                             | \$254.01                                   | \$247.00                               | \$221.50                           | \$2.55                               |
| 8"   | \$353.47                             | \$406.43                                   | \$395.20                               | \$398.70                           | \$4.58                               |
| <u>Residential Gallonage Charge, per 1,000 Gallons</u>   |                                      |  |  |                                    |                                      |
| 0-6,000 Gallons  | \$0.75                               | \$0.87                                     | \$0.84                                 | \$0.92                             | \$0.01                               |
| 6,001-10,000 Gallons   | \$0.79                               | \$0.92                                     | \$0.88                                 | \$1.00                             | \$0.01                               |
| 10,001-15,000 Gallons  | \$1.01                               | \$1.16                                     | \$1.13                                 | \$1.51                             | \$0.02                               |
| Over 15,000 Gallons  | \$1.41                               | \$1.62                                     | \$1.57                                 | \$2.01                             | \$0.02                               |
| <u>General Service, Bulk Service and Multi-Residential Gallonage Charge, per 1,000 Gallons</u> |                                      |  |  |                                    |                                      |
| Gallonage Charge, per 1,000 Gallons  | \$1.10                               | \$1.26                                     | \$1.23                                 | \$1.46                             | \$0.02                               |
| <b><u>Private Fire Protection</u></b>  |                                      |  |  |                                    |                                      |
| Base Facility Charge by Meter Size:  |                                      |  |  |                                    |                                      |
| 1.5"   | \$1.84                               | \$2.12                                     | \$2.06                                 | \$1.85                             | \$0.02                               |
| 2"   | \$2.95                               | \$3.39                                     | \$3.30                                 | \$2.95                             | \$0.03                               |
| 4"   | \$9.20                               | \$10.58                                    | \$10.30                                | \$9.23                             | \$0.11                               |
| 6"   | \$18.42                              | \$21.18                                    | \$20.63                                | \$18.46                            | \$0.21                               |
| 8"   | \$29.46                              | \$33.87                                    | \$33.00                                | \$33.23                            | \$0.38                               |
| <b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>                                      |                                      |  |  |                                    |                                      |
| 3,000 Gallons  | \$6.66                               | \$7.69                                     | \$7.46                                 | \$7.19                             |                                      |
| 5,000 Gallons  | \$8.16                               | \$9.43                                     | \$9.14                                 | \$9.03                             |                                      |
| 10,000 Gallons   | \$12.07                              | \$13.97                                    | \$13.50                                | \$13.95                            |                                      |

| <b>Sanlando Utilities Corporation</b>  |                 | <b>SCHEDULE NO. 4-B</b>     |                   |                |              |                  |
|--|-----------------|-----------------------------|-------------------|----------------|--------------|------------------|
| <b>Wastewater Monthly Service Rates</b>  |                 | <b>Docket No. 110257-WS</b> |                   |                |              |                  |
| <b>Test Year Ended 12/31/10</b>  |                 | <b>Rates</b>                | <b>Commission</b> | <b>Utility</b> | <b>Staff</b> | <b>Four-year</b> |
|  | <b>Prior to</b> | <b>Approved</b>             | <b>Requested</b>  | <b>Recomm.</b> | <b>Rate</b>  | <b>Reduction</b> |
|  | <b>Filing</b>   | <b>Interim</b>              | <b>Final</b>      | <b>Final</b>   |              |                  |
| <b><u>Residential (RS)</u></b>   |                 |                             |                   |                |              |                  |
| Base Facility Charge All Meter Sizes:  | \$12.37         | \$13.70                     | \$16.30           | \$12.29        | \$0.08       |                  |
| Gallonge Charge - Per 1,000<br>gallons (10,000 gallon cap)                       | \$1.63          | \$1.81                      | \$2.14            | \$1.96         | \$0.01       |                  |
| <b><u>General Service (GS), Bulk Service (BS) and Multi-Residential (MS)</u></b> |                 |                             |                   |                |              |                  |
| Base Facility Charge by Meter Size:  |                 |                             |                   |                |              |                  |
| 5/8" x 3/4"  | \$12.37         | \$12.29                     | \$16.30           | \$12.29        | \$0.08       |                  |
| 3/4"   | \$18.56         | \$18.43                     | \$24.45           | \$18.43        | \$0.13       |                  |
| 1"   | \$30.92         | \$30.72                     | \$40.75           | \$30.72        | \$0.21       |                  |
| 1-1/2"   | \$61.81         | \$61.44                     | \$81.50           | \$61.44        | \$0.42       |                  |
| 2"   | \$98.89         | \$98.31                     | \$130.40          | \$98.31        | \$0.68       |                  |
| 3"   | \$197.77        | \$196.62                    | \$244.50          | \$196.62       | \$1.35       |                  |
| 4"   | \$309.01        | \$307.22                    | \$407.50          | \$307.22       | \$2.12       |                  |
| 6"   | \$618.08        | \$614.45                    | \$815.00          | \$614.45       | \$4.23       |                  |
| 8"   | \$988.90        | \$1,106.01                  | \$1,304.00        | \$1,106.01     | \$7.62       |                  |
| Gallonge Charge, per 1,000 Gallons   | \$1.98          | \$2.20                      | \$2.61            | \$2.35         | \$0.02       |                  |
| RS, GS & MR Wholesale Rate   | \$26.17         | \$28.98                     | \$34.50           | \$26.00        | \$0.18       |                  |
| <b><u>Reuse Service</u></b>  |                 |                             |                   |                |              |                  |
| RS Base Facility Charge  | \$3.81          | \$4.20                      | \$5.02            | \$4.43         | \$0.03       |                  |
| Gallonge Charge - Per 1,000 Gallons  | \$0.41          | \$0.45                      | \$0.54            | \$0.46         | \$0.00       |                  |
| <b><u>Typical Residential Bills 5/8" x 3/4" Meter</u></b>                        |                 |                             |                   |                |              |                  |
| 3,000 Gallons  | \$17.26         | \$19.13                     | \$22.72           | \$18.17        |              |                  |
| 5,000 Gallons  | \$20.52         | \$22.75                     | \$27.00           | \$22.09        |              |                  |
| 10,000 Gallons   | \$28.67         | \$31.80                     | \$37.70           | \$31.89        |              |                  |
| (Wastewater Gallonge Cap - 10,000 Gallons)                                       |                 |                             |                   |                |              |                  |