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April 10, 2014

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Item 1

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Office of the General Counsel (Corbari) *KFC H*
Office of Consumer Assistance and Outreach (Forsman) *ref.*
Division of Engineering (Graves) *ref.*

RE: Docket No. 130290-EI – Initiation of formal proceedings of Complaint No. 1115382E of Brian J. Ricca against Florida Power & Light, for failing to provide reasonable service.

AGENDA: 04/10/14 – Regular Agenda – Motion to Dismiss – Oral Argument Not Requested – Participation at Commission's Discretion

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

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COMMISSION
CLERK

Case Background

On May 6, 2013, Brian Ricca purchased an unfinished, residential home in North Port, Florida. At the time Mr. Ricca purchased the home, Mr. Ricca was aware the structure was neither substantially complete nor possessed electric utility service.¹ After purchasing the home, Mr. Ricca contacted FPL and began discussions for the installation of new electric service to the home. FPL initially advised Mr. Ricca that the installation costs for providing electric service to the home would be approximately \$60,000.

¹ See, Document No. 07469-13, in Docket No. 130290-EI, Informal Complaint No. 1115382E CATS notes, p. 4 and 17.

On July 8, 2013, Mr. Ricca contacted the Commission's Consumer Assistance Bureau and lodged a complaint against Florida Power & Light Company (FPL) concerning the estimate of contribution-in-aid-of-construction (CIAC) required by FPL to provide new overhead electric service to the unfinished home. Mr. Ricca stated that FPL's quote of \$60,000 was excessive and that, because FPL was the only electric utility and his home was the first and only structure built in the neighborhood, he should not have to pay the cost of providing electric service to the home.²

On or about July 11, 2013, FPL provided the Commission and Mr. Ricca with a written estimate in the amount of \$55,325.59, for the CIAC cost for installing new overhead electric service to the home.³ Mr. Ricca was not satisfied with FPL's estimate, believing the estimate to be excessive.⁴ Mr. Ricca requested Commission staff review the estimate and assist him in getting FPL to reduce the CIAC costs, and continued to dispute the estimates with FPL.⁵

On or about August 5, 2013, FPL provided Mr. Ricca with two additional written estimates for the CIAC costs of installing new electric service to the home. One estimate was a revised estimate for the CIAC cost for installing new overhead electric service to the home using a different route than the route previously estimated by FPL in July 2013. The CIAC estimate for the alternate overhead route was \$40,706.16.⁶ The second estimate was for the CIAC cost for installing new underground electric service to the home in the amount of \$31,850.85.⁷

After receiving three different estimates for the cost of installing new service, Mr. Ricca continued to be dissatisfied with FPL's estimates, asserting that the estimates were obviously erroneous, and requested the Commission review the estimates. In addition, Mr. Ricca consulted with Mr. William D'Onofrio, a Certified Public Accountant in Ohio with utility experience, concerning the FPL estimates.⁸ Based on his utility experience in Union County Ohio, Mr. D'Onofrio concurred with Mr. Ricca that FPL's estimates were "excessive."⁹ Commission staff reviewed the three estimates provided by FPL and determined the estimates were calculated in accordance with Commission rules and applicable tariffs.¹⁰ Despite Commission staff's review, Mr. Ricca continued to believe the estimates were erroneous, FPL had committed a violation by providing an erroneous estimate, and requested Commission staff order FPL to waive or drastically reduce the CIAC costs.¹¹

At Mr. Ricca's request, a formal review of Mr. Ricca's complaint was also performed by Commission staff, pursuant to Rule 25-22.032, Florida Administrative Code (F.A.C.). During

² Id., p. 2.

³ Id., p. 4.

⁴ Id., p. 5.

⁵ Id., p. 5-6.

⁶ Id., p. 10-12.

⁷ Id.; Staff notes that the CIAC cost for installing underground service to Mr. Ricca's was less than the cost of both overhead routes. The reason is because FPL provides the customer with the option of performing the trenching and PVC installation. Thus, the CIAC estimate for underground service FPL provided to Mr. Ricca included a \$12,324.48 credit for performing the trenching and PVC installation himself.

⁸ Id., p. 18-19.

⁹ Id., p. 23-24.

¹⁰ Id., p. 26-33.

¹¹ Id., p. 5-6, 18-20, 26-33, 35-36.

the formal review, staff discovered no evidence FPL violated any rule or statute and that the CIAC estimates provided to Mr. Ricca were calculated in accordance with Rule 25-6.064, F.A.C., and FPL's Commission-approved tariff.¹² A copy of Rule 25-6.064, F.A.C., "Contribution-in-Aid-of-Construction for Installation of New or Upgraded Facilities" and FPL's Tariff Sheet 6.199 Section 11 CIAC are attached hereto as Attachments 1 and 2.

On December 2, 2013, Mr. Ricca's informal complaint was closed. Mr. Ricca was advised that, if he remained unsatisfied with staff's findings on his informal complaint, he could file a formal complaint with the Commission, pursuant to Rule 25-22.036, F.A.C. On December 5, 2013, Mr. Ricca filed a formal complaint against FPL and requested a formal hearing.¹³

The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes.

¹² Id.

¹³ See, Document No. 07305-13, in Docket No. 130290-EI, Mr. Ricca request formal hearing, dated December 5, 2013, lodging violation and complaint against FPL.

Discussion of Issues

Issue 1: Should Florida Power & Light Company's Motion to Dismiss be granted?

Recommendation: Yes. Staff recommends that the Commission grant FPL's Motion to Dismiss and dismiss the complaint without prejudice because the complaint fails to demonstrate a cause of action upon which relief can be granted. (Corbari, Forsman, Graves)

Staff Analysis:

Standard of Review

A motion to dismiss challenges the legal sufficiency of the facts alleged in a petition to state a cause of action.¹⁴ In order to sustain a motion to dismiss, the moving party must show that, accepting all allegations as true, the petition still fails to state a cause of action for which relief may be granted.¹⁵ The moving party must specify the grounds for the motion to dismiss, and all material allegations must be construed against the moving party in determining if the petitioner has stated the necessary allegations.¹⁶ A sufficiency determination should be confined to the petition and documents incorporated therein, and the grounds asserted in the motion to dismiss.¹⁷ Thus, "the trial court may not look beyond the four corners of the complaint, consider any affirmative defenses raised by the defendant, nor consider any evidence likely to be produced by either side."¹⁸ All allegations in the petition must be viewed as true and in the light most favorable to the petitioner in order to determine whether there is a cause of action upon which relief may be granted.¹⁹ Finally, pursuant to Section 120.569(2)(c), F.S., a petition shall be dismissed at least once without prejudice unless it conclusively appears from the face of the petition that the defect cannot be cured.²⁰

Mr. Ricca's Complaint

On December 5, 2013, Mr. Ricca filed a one-page letter requesting a formal hearing, alleging FPL violated Section 366.03, F.S., by providing "inefficient service due to internal errors within the original quote for CIAC charges."²¹ Mr. Ricca asserts that he discovered a

¹⁴ Meyers v. City of Jacksonville, 754 So. 2d 198, 202 (Fla. 1st DCA 2000); Varnes v. Dawkins, 624 So. 2d 349, 350 (Fla. 1st DCA 1993).

¹⁵ Varnes v. Dawkins, 624 So. 2d at 350.

¹⁶ Matthews v. Matthews, 122 So. 2d 571 (Fla. 2nd DCA 1960).

¹⁷ Barbado v. Green and Murphy, P.A., 758 So. 2d 1173 (Fla. 4th DCA 2000); Varnes v. Dawkins, 624 So. 2d at 350; and Rule 1.130, Florida Rules of Civil Procedure.

¹⁸ Varnes v. Dawkins, 624 So. 2d at 350.

¹⁹ See, e.g. Ralph v. City of Daytona Beach, 471 So. 2d 1, 2 (Fla. 1983); Orlando Sports Stadium, Inc. v. State of Florida ex rel Powell, 262 So. 2d 881, 883 (Fla. 1972); Kest v. Nathanson, 216 So. 2d 233, 235 (Fla. 4th DCA, 1986); Ocala Loan Co. v. Smith, 155 So. 2d 711, 715 (Fla. 1st DCA, 1963).

²⁰ See also, Kiralla v. John D. and Catherine T. MacArthur Found, 534 So. 2d 774, 775 (Fla. 4th DCA 1988)(stating that a dismissal with prejudice should not be ordered without giving the plaintiff an opportunity to amend the defective pleading, unless it is apparent that the pleading cannot be amended to state a cause of action); and Order No. PSC-11-0285-FOF-EI, issued June 29, 2011, in Docket No. 110069-EI, In re: Complaint of Rosario Rojo against Florida Power & Light Company.

²¹ See, Document No. 07305-13, in Docket No. 130290-EI, Mr. Ricca request formal hearing, dated December 5, 2013, lodging violation and complaint against FPL.

shorter and cheaper route for providing service to his home. Mr. Ricca claims that, had he not discovered the shorter and cheaper route and paid the original quote provided by FPL, he would have “overpaid by a large sum,” which is an unacceptable error.²² Mr. Ricca argues the “law requires the utility to provide reasonable efficient service which would not only mean the shortest route but also timely service . . . [and] such a large delay and the risk of overpayment” is not reasonable.²³ Therefore, Mr. Ricca seeks “compensation such that the utility company’s requested CIAC charges be waived or drastically reduced.”²⁴

FPL’s Motion to Dismiss with Prejudice

On January 7, 2014, FPL filed a motion to dismiss Mr. Ricca’s complaint, seeking dismissal of Mr. Ricca’s request for formal hearing with prejudice.²⁵ In its motion, FPL asserts several grounds for dismissing Mr. Ricca’s complaint.

First, FPL argues that Mr. Ricca’s complaint fails to meet the pleading requirements of a complaint, pursuant to Rule 25-22.036, F.A.C.²⁶ Specifically, FPL asserts that Mr. Ricca’s complaint: (1) “fails to identify, with any specificity, the rule, order, or statute that allegedly has been violated or the actions that constitute the violation;” (2) fails to “provide any statement, or include any documentation that shows an act or omission [by FPL] that violates any” statute, rule or order; (3) “fails to show any injury suffered as a result of the alleged actions or omissions by FPL;” and (4) is “vague as to both the operative facts and the law” for which relief is sought that it is impossible for FPL to formulate a response and “would be impossible for the Commission to properly render a decision on the complaint.”²⁷

Second, FPL argues that Mr. Ricca’s complaint fails to state a cause of action upon which relief can be granted.²⁸ Specifically, FPL asserts that the relief sought by Mr. Ricca is not such that can be granted by the Commission. Mr. Ricca’s complaint requests that the Commission order FPL to drastically reduce or waive the CIAC cost that FPL has calculated, in accordance with Rule 25.6.064, F.A.C., and its CIAC Tariff, in order to extend service to Mr. Ricca’s home.

²² Id.

²³ Id.

²⁴ Id.

²⁵ See, Document No. 00098-14, in Docket No. 130290-EI, Florida Power & Light Company’s Motion to Dismiss Request for Formal Hearing of Brian J. Ricca With Prejudice, filed January 7, 2014.

²⁶ FPL cites Order No. PSC-11-0285-FOF-EI, issued June 29, 2011, in Docket No. 110069-EI, In re: Complaint of Rosario Rojo against Florida Power & Light Company.; and Rule 25-22.036, F.A.C., which states in part that each complaint must contain:

1. The rule, order, or statute that has been violated;
2. The actions that constitute the violation;
3. The name and address of the person against whom the complaint is lodged;
4. The specific relief requested, including any penalty sought.

²⁷ See, Florida Power & Light Company’s Motion to Dismiss Request for Formal Hearing of Brian J. Ricca With Prejudice, pgs. 3-6.

²⁸ FPL cites Order No. PSC-08-0380-PCO-EI, issued June 9, 2008, in Docket No. 080039-EI, In re: Complaint of Sallijo A. Freeman Against Florida Power & Light Co. for Violation of Rule 25-6.105, F.A.C.

FPL asserts Mr. Ricca's complaint does not cite any "statute, rule, or tariff that requires FPL to reduce or waive the CIAC" because there is "no such statute, rule or tariff."²⁹

Finally, FPL argues that Mr. Ricca's complaint should be dismissed with prejudice because re-pleading could not state a cause of action for which relief could be granted.³⁰ FPL asserts that, because the relief sought by Mr. Ricca is not available, Mr. Ricca's complaint "cannot be re-plead in a way that states a cause of action for which such relief can be granted."³¹

Mr. Ricca's Response to FPL's Motion to Dismiss

On January 8, 2014, Mr. Ricca filed a response to FPL's motion to dismiss.³² Mr. Ricca argues his complaint is sufficient based on "the docket being established" by the "PSC filing clerk . . . according to the law and their jurisdiction."³³ Mr. Ricca asserts that FPL told him that "if the PSC finds that a violation has occurred, and the PSC makes the recommendation for the ciac [sic] charges to be waived, they would likely comply."³⁴ Mr. Ricca claims FPL violated the law by providing estimates for new service that were "so outrageous and obviously incorrect" because FPL is required to provide service.³⁵ As a result of FPL's actions, Mr. Ricca has suffered "unnecessary hassle, loss of time and financial consequences within daily business activities . . . [and] took way from my family time and daily business routine."³⁶ Finally, Mr. Ricca argues the "FPSC is fully within their right and jurisdiction to hear cases in which excessive fees are being charged, and also to grant relief for such cases" because the "FPSC is in place for providing relief to the public amongst utility matters . . ."³⁷

Analysis

The Commission grants a motion to dismiss upon a finding that the pleading failed to state a cause of action upon which relief can be granted.³⁸ Rule 25-22.036(2), F.A.C., outlines the procedure for filing a formal complaint.³⁹ A pleading that conforms to this rule outlines the

²⁹ See, Florida Power & Light Company's Motion to Dismiss Request for Formal Hearing of Brian J. Ricca With Prejudice, pgs. 6-8.

³⁰ FPL cites Order No. PSC-11-0285-FOF-EI, issued June 29, 2011, in Docket No. 110069-EI, In re: Complaint of Rosario Rojo against Florida Power & Light Company, p. 4.

³¹ See, Florida Power & Light Company's Motion to Dismiss Request for Formal Hearing of Brian J. Ricca With Prejudice, p. 8.

³² See, Document No. 00112-14, in Docket No. 130290-EI, Mr. Ricca's Response to Florida Power & Light's Motion to Dismiss Request, filed January 8, 2014.

³³ Id.

³⁴ Id.

³⁵ Id.

³⁶ Id.

³⁷ Id.

³⁸ See Order No. PSC-11-0285-FOF-EI, issued June 29, 2011, in Docket No. 110069-EI, In re: Complaint of Rosario Rojo against Florida Power & Light Company; and Order No. PSC-11-0117-FOF-PU, issued on February 17, 2011, in Docket No. 100312-EI, Complaint against Florida Power & Light Company for alleged violations of various sections of Florida Administrative Code, Florida Statutes, and FPL tariffs pertaining to billing of charges and collection of charges, fees, and taxes (granting motion to dismiss with prejudice).

³⁹ See Rule 25-22.036, F.A.C., Initiation of Formal Proceedings; Complaints, states:

act or omission that constitutes the violation, the statute that is violated, injury suffered, and remedy or penalty sought.⁴⁰ Here, Mr. Ricca's complaint fails to comply with the requirements of Rule 25-22.036(2), F.A.C., as there was no assertion of an act or omission by FPL that resulted in a violation affecting Mr. Ricca's substantive interest.

Mr. Ricca asserts that FPL violated Section 366.03, F.S., by failing to provide him with efficient service "due to internal errors within the original quote for CIAC charges."⁴¹ Section 366.03, F.S., provides for the "General Duties of Public Utility," requiring public utilities to furnish "reasonably sufficient, adequate, and efficient service upon terms as required by the commission" to each person applying for service.⁴² The statute does not require utilities to install new service free of charge. The statute only requires the service be sufficient, adequate and efficient and comply with Commission requirements.

Commission Rule 25-6.064, F.A.C., outlines the procedures and terms utilities must follow in determining CIAC costs for providing new service. Subsection 6 provides that CIAC cost calculations are "based on estimated work order jobs" and "each utility shall use its best judgment" Per Mr. Ricca's request and pursuant to Rule 25-6.064(9), F.A.C., Staff reviewed all the CIAC estimates provided by FPL and believed the estimates were calculated in accordance with Commission rules and FPL's Commission-approved, tariff provision. Furthermore, staff notes that both Rule 25-6.064(6), F.A.C., and FPL's Tariff provide for a true-up procedure for determining the actual CIAC costs. Rule 25-6.064(6), F.A.C., and FPL's Tariff permit a customer to request a review of CIAC costs paid for new or upgraded service within "12 months following the in-service date of the new or upgraded facilities."⁴³ FPL's Tariff Sheet 6.199, Section 11.1.2, provides that "if the true-up calculation result is different from the paid CIAC amount, the Company will either issue a refund or an invoice for the difference."⁴⁴

In Order No. PSC-99-1054-FOF-EI, this Commission determined that a petitioner must show the elements of the substantive law violated and properly allege the cause of action.⁴⁵

(2) Complaints. A complaint is appropriate when a person complains of an act or omission by a person subject to Commission jurisdiction which affects the complainant's substantial interests and which is in violation of a statute enforced by the Commission, or of any Commission rule or order.

(3) Form and Content.

(a) Application. An application shall be governed by the statute or rules applicable to applications for authority. In the absence of a specific form and content, the application shall conform to this rule.

(b) Complaint. Each complaint, in addition to the requirements of paragraph (a) above shall also contain:

1. The rule, order, or statute that has been violated;
2. The actions that constitute the violation;
3. The name and address of the person against whom the complaint is lodged;
4. The specific relief requested, including any penalty sought.

⁴⁰ See Order No. PSC-11-0285-FOF-EI, issued June 29, 2011, in Docket No. 110069-EI, In re: Complaint of Rosario Rojo against Florida Power & Light Company.

⁴¹ See, Mr. Ricca's request for formal hearing, dated December 5, 2013.

⁴² See, Section 366.03, F.S.

⁴³ See, Rule 25-6.064, F.A.C., and FPL Tariff Sheet 6.199, Section 11, attached hereto as Attachments 1 and 2.

⁴⁴ See, Attachment 2, FPL Tariff Sheet 6.199, Section 11.1.2.

⁴⁵ See Order No. PSC-99-1054-FOF-EI, issued May 24, 1999, in Docket No. 981923-EI, In re: Complaint and petition of John Charles Heekin against Florida Power & Light Co., (noting that a determination of a petition's cause of action requires examining the substantive law elements and stating that the improper allegation of the "elements

Here, Mr. Ricca states that FPL violated Section 366.03, F.S., by providing “inefficient service due to internal errors within the original quote for CIAC charges;” however, his complaint fails to describe or provide documentation of what errors occurred or describe how the errors violated any requirement. As a result, staff believes Mr. Ricca’s complaint fails to state the required elements of a cause of action.

Staff is sensitive to Mr. Ricca’s circumstances, and despite the lack of a legally sufficient pleading, has attempted to determine whether amendment of the complaint could lead to a situation where the Commission would have jurisdiction to grant Mr. Ricca some relief. Commission Rule 25-6.064, F.A.C., outlines the procedures and terms utilities must follow in determining CIAC costs for providing new service. In particular, subsection 7 provides that a utility “may elect to waive all or any portion of the CIAC for customers . . .” (emphasis added).⁴⁶ The Rule provides the utility with discretion to waive CIAC costs for a customer. While the Commission has authority under 366.03 and 366.05, F.S., to ensure that all rates and charges are fair and reasonable, there is no provision in Rule 25-6.064, F.A.C., or any other statute or rule that provides the Commission with authority to order a utility to waive CIAC costs for a customer. In this instance, staff believes that Mr. Ricca’s requested relief, of a waiver or “drastic” reduction of the CIAC costs as damages for the alleged violation and delay of service, is not within the Commission’s jurisdiction.⁴⁷ Finally, Rule 25-6.064, F.A.C., reflects the “Commission’s long-standing policy that, where practical, the person who ‘cause’ costs to be incurred should bear the burden of those costs.”⁴⁸ As a result, staff believes Mr. Ricca’s complaint seeks relief that is not within the Commission’s authority to grant.

Staff recommends that the Commission grant FPL’s motion to dismiss because when viewed within the “four corners of the complaint” exclusive of all affirmative defenses/responses, assuming all alleged facts are true, and in a light most favorable to Mr. Ricca, the complaint fails to state a cause of action that would invoke the Commission’s jurisdiction or permit the Commission to grant the relief requested. Mr. Ricca has not plead specific facts or produced documentation to support FPL violated any Commission statute, rule or order. In addition, Mr. Ricca requests relief that cannot be granted by the Commission.

of the cause of action that seeks affirmative relief” is sufficient grounds for dismissal, citing Kislak v. Kredian, 95 So. 2d 510 (Fla. 1957)).

⁴⁶ See, Rule 25-6.064(7), F.A.C.

⁴⁷ See, Southern Bell Telephone and Telegraph Company v. Mobile America Corporation, Inc., 291 So. 2d 199, 202 (Fla. 1974) [“Nowhere in Ch. 364 is the PSC granted authority to enter an award of money damages (if indicated) for past failures to provide telephone service meeting the statutory standards; this is a judicial function within the jurisdiction of the circuit court pursuant to Art. V, section 5(b), Fla. Const.”]; Florida Power & Light Company v. Glazer, 671 So. 2d 211 (3rd DCA 1996) (affirming the application of Southern Bell to a tort claim against FPL); Order No. PSC-99-1054-FOF-EI, issued May 24, 1999, in Docket No. 981923-EI, In re: Complaint and petition of John Charles Heekin against Florida Power & Light Company (finding that the Commission lacked subject matter jurisdiction to award monetary damages for alleged property damage to a customer’s gate, and therefore dismissal of the complaint was appropriate because the requested relief could not be granted by the Commission).

⁴⁸ See Order No. PSC-05-1033-PAA-EI, issued October 21, 2005, in Docket No. 040789-EI, In re: Complaint of Wood Partners against Florida Power & Light Company concerning contributions-in-aid-of-construction charges for underground distribution facilities (finding FPL properly charged Wood Partners the CIAC cost of facilities consistent with FPL’s approved tariff and Commission policy that cost causer pays cost of such facilities).

Staff recommends, however, that Mr. Ricca's complaint be dismissed without prejudice in accordance Section 120.569(2)(c), F.S., and Mr. Ricca be permitted to file an amended complaint. Should Mr. Ricca choose to file an amended complaint, staff recommends that the complaint conform to the pleading requirements of Rule 28-106.201, F.A.C., and seek relief within the Commission's jurisdiction.

Conclusion

Staff recommends that the Commission grant FPL's Motion to Dismiss and dismiss the complaint without prejudice because the complaint fails to demonstrate a cause of action upon which relief can be granted.

Issue 2: Should the docket be closed?

Recommendation: No. If the Commission agrees with staff regarding Issue 1, then Mr. Ricca's request for formal hearing complaint should be dismissed without prejudice, and Mr. Ricca be permitted to file an amended complaint. Should Mr. Ricca fail to timely file an amended complaint, the docket should be closed, ^{administratively} ~~and a Consummating Order should be issued.~~ (Corbari)

Staff Analysis: If the Commission agrees with staff regarding Issue 1, then Mr. Ricca's request for formal hearing complaint should be dismissed without prejudice, and Mr. Ricca be permitted to file an amended complaint. Should Mr. Ricca fail to timely file an amended complaint, the docket should be closed, ~~and a Consummating Order should be issued.~~

administratively ~~and~~

Rule 25-6.064, F.A.C. – Contribution-in-Aid-of-Construction for Installation of New or Upgraded Facilities.

(1) Application and scope. The purpose of this rule is to establish a uniform procedure by which investor-owned electric utilities calculate amounts due as contributions-in-aid-of-construction (CIAC) from customers who request new facilities or upgraded facilities in order to receive electric service, except as provided in Rule 25-6.078, F.A.C.

(2) Contributions-in-aid-of-construction for new or upgraded overhead facilities (CIAC_{OH}) shall be calculated as follows:

CIAC _{OH}	=	Total estimated work order job cost of installing the facilities	-	Four years expected incremental base energy revenue	-	Four years expected incremental base demand revenue, if applicable
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(a) The cost of the service drop and meter shall be excluded from the total estimated work order job cost for new overhead facilities.

(b) The net book value and cost of removal, net of the salvage value, for existing facilities shall be included in the total estimated work order job cost for upgrades to those existing facilities.

(c) The expected annual base energy and demand charge revenues shall be estimated for a period ending not more than 5 years after the new or upgraded facilities are placed in service.

(d) In no instance shall the CIAC_{OH} be less than zero.

(3) Contributions-in-aid-of-construction for new or upgraded underground facilities (CIAC_{UG}) shall be calculated as follows:

CIAC _{UG}	=	CIAC _{OH}	+	Estimated difference between cost of providing the service underground and overhead
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(4) Each utility shall apply the formula in subsections (2) and (3) of this rule uniformly to residential, commercial and industrial customers requesting new or upgraded facilities at any voltage level.

(5) The costs applied to the formula in subsections (2) and (3) shall be based on the requirements of Rule 25-6.0342, F.A.C., Electric Infrastructure Storm.

(6) All CIAC calculations under this rule shall be based on estimated work order job costs. In addition, each utility shall use its best judgment in estimating the total amount of annual revenues which the new or upgraded facilities are expected to produce.

(a) A customer may request a review of any CIAC charge within 12 months following the in-service date of the new or upgraded facilities. Upon request, the utility shall true-up the CIAC to reflect the actual costs of construction and actual base revenues received at the time the request is made.

(b) In cases where more customers than the initial applicant are expected to be served by the new or upgraded facilities, the utility shall prorate the total CIAC over the number of end-use customers expected to be served by the new or upgraded facilities within a period not to exceed 3 years, commencing with the in-service date of the new or upgraded facilities. The utility may require a payment equal to the full amount of the CIAC from the initial customer. For the 3-year period following the in-service date, the utility shall collect from those customers a prorated share of the original CIAC amount, and credit that to the initial customer who paid the CIAC. The utility shall file a tariff outlining its policy for the proration of CIAC.

(7) The utility may elect to waive all or any portion of the CIAC for customers, even when a CIAC is found to be applicable. If however, the utility waives a CIAC, the utility shall reduce net plant in service as though the CIAC had been collected, unless the Commission determines that there is a quantifiable benefit to the general body of ratepayers commensurate with the waived CIAC. Each utility shall maintain records of amounts waived and any subsequent changes that served to offset the CIAC.

(8) A detailed statement of its standard facilities extension and upgrade policies shall be filed by each utility as part of its tariffs. The tariffs shall have uniform application and shall be nondiscriminatory.

(9) If a utility and applicant are unable to agree on the CIAC amount, either party may appeal to the Commission for a review.

Specific Authority 366.05(1), 350.127(2) FS. Law Implemented 366.03, 366.05(1), 366.06(1) FS. History—New 7-29-69, Amended 7-2-85, Formerly 25-6.64, Amended 2-1-07.

FLORIDA POWER & LIGHT COMPANY

Original Sheet No. 6.199

11.0 INSTALLATION OF NEW OR UPGRADED FACILITIES

SECTION 11.1 GENERAL

In accordance with F.A.C. Rule 25-6.064 this tariff section applies to requests for new or upgraded facilities. Nothing herein shall alter the charges or provisions outlined in sections 10 and 13 of this tariff.

An Applicant can be any person, corporation, or entity capable of complying with the requirements of this tariff that has made a request for new or upgraded facilities in accordance with this tariff.

11.1.1 CONTRIBUTION-IN-AID OF CONSTRUCTION (CIAC)

A CIAC shall be required from Applicants requesting new or upgraded facilities prior to construction of the requested facilities based on the formulas presented below.

(a) The CIAC for new or upgraded overhead facilities ($CIAC_{OH}$) shall be calculated as follows:

$$CIAC_{OH} = \begin{array}{l} \text{Total estimated work} \\ \text{order job cost of} \\ \text{installing the facilities} \end{array} - \begin{array}{l} \text{Four years expected} \\ \text{incremental base} \\ \text{energy revenue} \end{array} - \begin{array}{l} \text{Four years expected} \\ \text{incremental base} \\ \text{demand revenue, if} \\ \text{applicable} \end{array}$$

(i) The cost of the service drop and meter shall be excluded from the total estimated work order job cost for new overhead facilities.

(ii) The net book value and cost of removal, net of the salvage value, for existing facilities shall be included in the total estimated work order job cost for upgrades to those existing facilities.

(iii) The expected annual base energy and demand charge revenues shall be estimated for a period ending not more than 5 years after the new or upgraded facilities are placed in service.

(iv) In no instance shall the $CIAC_{OH}$ be less than zero.

(b) The CIAC for new or upgraded underground facilities ($CIAC_{UG}$) shall be calculated as follows:

$$CIAC_{UG} = CIAC_{OH} + \begin{array}{l} \text{Estimated difference between the cost of providing} \\ \text{the service underground and overhead} \end{array}$$

11.1.2 CIAC True-Up

An Applicant may request a one-time review of a paid CIAC amount within 12 months following the in-service date of the new or upgraded facilities. Upon receiving a request, which must be in writing, the Company shall true-up the CIAC to reflect the actual construction costs and a revised estimate of base revenues. The revised estimate of base revenues shall be developed from the actual base revenues received at the time the request is made. If the true-up calculation result is different from the paid CIAC amount, the Company will either issue a refund or an invoice for this difference. This CIAC review is available only to an initial Applicant who paid the original full CIAC amount, not to any other Applicants who may be required to pay a pro-rata share as described in section 11.1.3.

(Continued On Sheet No. 6.200)

Issued by: S. E. Romig, Director, Rates and Tariffs
Effective:

JUN 13 2007

FLORIDA POWER & LIGHT COMPANY

Fourth Revised Sheet No. 6.200
Cancels Third Revised Sheet No. 6.200

(Continued From Sheet No. 6.199)

11.1.3 Proration of CIAC

CIAC is prorable if more Applicants than the Initial Applicant are expected to be served by the new or upgraded facilities ("New Facilities") within the three-year period following the in-service date. The Company shall collect the full CIAC amount from the Initial Applicant. Thereafter, the Company shall collect, and pay to the Initial Applicant, a pro-rata share of the CIAC from each additional Applicant to be served from these New Facilities until the three-year period has expired, or until the number of Applicants served by the New Facilities equals the number originally expected to be served during the three-year period, whichever comes first. Any CIAC or pro-rata share amount due from an Applicant shall be paid prior to construction. For purposes of this tariff, the New Facilities' in-service date is defined as the date on which the New Facilities are installed and service is available to the Initial Applicant, as determined by the Company.

SECTION 11.2 INSTALLATION OF UNDERGROUND ELECTRIC DISTRIBUTION FACILITIES
FOR NEW CONSTRUCTION

11.2.0 Distribution System

Electric service facilities consisting of primary and secondary conductors, service drops, service laterals, conduits, transformers and necessary accessories and appurtenances for the furnishing of electric power at utilization voltage.

11.2.1 Application

This tariff section applies to all requests for underground electric distribution facilities where the facilities requested will constitute new construction, other than those requests covered by sections 10, 12 and 13 of this tariff. Any Applicant may submit a request as follows. Requests shall be in writing and must specify in detail the proposed facilities that the Applicant desires to be installed as underground electric distribution facilities in lieu of overhead electric distribution facilities. Upon receipt of a written request FPL will determine the non-refundable deposit amount necessary to secure a binding cost estimate and notify the applicant of said amount. Where system integrity would be compromised by the delay of a system improvement due to the time allowances specified below, said time allowances shall be reduced such that all terms and conditions of this tariff must be met 30 days prior to the date that construction must begin to allow the underground facility to be completed and operable to avert a system compromise.

11.2.2 Contribution-in-Aid-Of-Construction (CIAC)

Upon the payment of a non-refundable deposit by an Applicant, FPL shall prepare a binding cost estimate specifying the contribution-in-aid-of-construction (CIAC) required for the installation of the requested underground distribution facilities in addition to any CIAC required for facilities extension, where the installation of such facilities is feasible, and provide said estimate to the Applicant upon completion of the estimate along with an Underground Distribution Facilities Installation Agreement. The CIAC may be subject to increase or refund if the project scope is enlarged or reduced at the request of the Applicant, or the CIAC is found to have a material error prior to the commencement of construction. The binding cost estimate provided to an Applicant shall be considered expired if the Applicant does not enter into an Underground Distribution Facilities Installation Agreement and pay the CIAC amount specified for the installation of the requested underground electric distribution facilities within 180 days of delivery of the binding cost estimate to the Applicant by FPL.

11.2.3 Non-Refundable Deposits

The non-refundable deposit for a binding cost estimate for a direct buried cable in conduit underground electric distribution system shall be determined by multiplying the number of proposed trench feet for new underground electric distribution facilities to be installed by \$0.75. The deposit must be paid to FPL to initiate the estimating process. The deposit will not be refundable, however, it will be applied in the calculation of the CIAC required for the installation of underground distribution facilities. The deposit and the preparation of a binding cost estimate are a prerequisite to the execution of an Underground Distribution Facilities Installation Agreement. If the request for underground electric distribution facilities involves less than 250 proposed trench feet then no deposit will be required for a binding cost estimate, provided, however, that all other requirements of this tariff shall still apply.

(Continued on Sheet No. 6.210)

Issued by: S. E. Romig, Director, Rates and Tariffs

Effective: JUN 13 2007

Item 2

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Buys, Cicchetti, Prestwood)
Office of the General Counsel (Gilcher)

RE: Docket No. 140033-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 8.16% to 6.47%, effective January 1, 2014, by Tampa Electric Company.

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\140033.RCM.DOC

Case Background

Tampa Electric Company's (Tampa Electric or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 8.16 percent was approved by Order No. PSC-09-0798-PAA-EI.¹ On February 12, 2014, Tampa Electric filed the required schedules and requested a decrease in its AFUDC rate from 8.16 percent to 6.47 percent, effective January 1, 2014. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-09-0798-PAA-EI, issued December 2, 2009, in Docket No. 090446-EI, In re: Request for approval of change rate used to account for allowance for funds during construction (AFUDC) from 7.79% to 8.17% effective May 1, 2009, by Tampa Electric Company, consummated by Order No. PSC-10-0025-CO-EI, issued January 2, 2010.

Discussion of Issues

Issue 1: Should the Commission approve Tampa Electric's request to decrease its AFUDC rate from 8.16 percent to 6.47 percent?

Recommendation: No. The appropriate AFUDC rate for Tampa Electric is 6.46 percent based on a 13-month average capital structure for the period ending December 31, 2013. (Buys)

Staff Analysis: Tampa Electric has requested a decrease in its AFUDC rate from 8.16 percent to 6.47 percent. Rule 25-6.0141, Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of the requested AFUDC rate of 6.47 percent, Tampa Electric provided its calculations and capital structure as Schedules A and B attached to its petition. Staff reviewed these calculations and determined that the requested rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. However, due to a rounding error involving the relative percentages of the capital components, the correct AFUDC rate is 6.46 percent as shown on Schedule 1. In its calculation of the capital component ratios, the Company used percentages carried out to two decimal places. Staff performed the same calculation using ratios carried out to three decimal places, which changed the weighted average cost of capital downward by one basis point. This is the same scenario that occurred in Tampa Electric's last request for a change in its AFUDC rate in Docket No. 090446-EI. In that docket, the Commission approved staff's recommended methodology and adjustment of one basis point.

The primary driver behind the decrease in the requested AFUDC rate is a decrease in the cost rates for long-term debt, common equity, and customer deposits. The cost rates of long-term debt, common equity, and customer deposits decreased from 6.81 percent to 5.61 percent, 11.25 percent to 10.25 percent, and 6.11 percent to 2.24 percent, respectively. In addition, the relative percentage of zero cost deferred income taxes in the capital structure increased from 9.47 percent to 18.20 percent, which resulted in lower relative percentages of long-term debt and common equity.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 8.16 percent to 6.47 percent is not appropriate. Instead, staff recommends that 6.46 percent is the appropriate AFUDC rate.

Issue 2: What is the appropriate monthly compounding rate to achieve the staff recommended 6.46 annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 6.46 percent is 0.523023 percent. (Buys)

Staff Analysis: Tampa Electric has requested a monthly compounding rate of 0.523810 percent to achieve an annual AFUDC rate of 6.47 percent. In support of the requested monthly compounding rate of 0.523810 percent, the Company provided its calculations as Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Based on staff's recommendation in Issue 1 to reduce Tampa Electric's requested annual AFUDC rate of 6.47 percent to 6.46 percent, the appropriate monthly compounding rate is 0.523023 percent as shown on Schedule 2. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.523023 percent be approved.

Issue 3: Should the Commission approve Tampa Electric's requested effective date of January 1, 2014, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2014, for all purposes. (Buys)

Staff Analysis: Tampa Electric's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2013. Rule 25-6.0141(5), F.A.C., provides that:

The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

The Company's requested effective date of January 1, 2014, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.

Issue 4: Should this docket be closed?

Recommendation: 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, this docket should be closed upon the issuance of a consummating order. (Gilcher)

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, this docket should be closed upon the issuance of a consummating order.

SCHEDULE 1

TAMPA ELECTRIC COMPANY
CAPITAL STRUCTURE USED FOR THE REQUESTED AFDUC RATE
AS OF DECEMBER 31, 2013

COMPANY AS FILED				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.29%	5.61%	2.04%
SHORT TERM DEBT	-	0.000%	0.60% *	0.00%
CUSTOMER DEPOSITS	107,365,922	2.70%	2.24% *	0.06%
COMMON EQUITY	1,693,609,735	42.60%	10.25%	4.37%
DEFERRED INCOME TAXES	723,674,109	18.20%	0.00%	0.00%
INVESTMENT TAX CREDITS	8,177,269	0.21%	0.00%	0.00%
TOTAL	\$ 3,975,330,161	100.00%		6.47%
STAFF ADJUSTED BASIS				
<u>CAPITAL COMPONENTS</u>	<u>JURISDICTIONAL AVERAGE</u>	<u>CAPITAL RATIO</u>	<u>COST OF CAPITAL</u>	<u>WEIGHTED COST OF CAPITAL</u>
LONG TERM DEBT	\$ 1,442,503,126	36.286%	5.61%	2.036%
SHORT TERM DEBT	-	0.000%	0.60% *	0.000%
CUSTOMER DEPOSITS	107,365,922	2.701%	2.24% *	0.060%
COMMON EQUITY	1,693,609,735	42.603%	10.25%	4.367%
DEFERRED INCOME TAXES	723,674,109	18.204%	0.00%	0.000%
INVESTMENT TAX CREDITS	8,177,269	0.206%	0.00%	0.000%
TOTAL	\$ 3,975,330,161	100.00%		6.46%

* 13-MONTH AVERAGE

SCHEDULE 2

**TAMPA ELECTRIC COMPANY
METHODOLOGY FOR COMPOUNDING AFUDC RATE
AS OF DECEMBER 31, 2013**

COMPANY AS FILED

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.0052381	0.0052381
2	1.0052381	0.0052655	0.0105036
3	1.0105036	0.0052931	0.0157967
4	1.0157967	0.0053208	0.0211176
5	1.0211176	0.0053487	0.0264663
6	1.0264663	0.0053767	0.0318430
7	1.0318430	0.0054049	0.0372479
8	1.0372479	0.0054332	0.0426811
9	1.0426811	0.0054617	0.0481427
10	1.0481427	0.0054903	0.0536330
11	1.0536330	0.0055190	0.0591520
12	1.0591520	0.0055479	0.0647000

Annual Rate (R) = 0.0647

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.0052381$

STAFF ADJUSTED BASIS

<u>MONTHS</u>	<u>AFUDC BASE</u>	<u>MONTHLY AFUDC RATE</u>	<u>CUMULATIVE AFUDC RATE</u>
1	1.0000000	0.00523023	0.00523023
2	1.0052302	0.00525758	0.01048781
3	1.0104878	0.00528508	0.01577288
4	1.0157729	0.00531272	0.02108561
5	1.0210856	0.00534051	0.02642611
6	1.0264261	0.00536844	0.03179455
7	1.0317946	0.00539652	0.03719107
8	1.0371911	0.00542474	0.04261581
9	1.0426158	0.00545312	0.04806893
10	1.0480689	0.00548164	0.05355057
11	1.0535506	0.00551031	0.05906087
12	1.0590609	0.00553913	0.06460000

Annual Rate (R) = 0.0646

Monthly Rate = $((1+R)^{(1/12)})-1 = 0.00523023$

Item 3

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Buys, Cicchetti, Prestwood)
Office of the General Counsel (Brownless) *DB MC CP CBB W*

RE: Docket No. 140035-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.52% to 6.34%, effective January 1, 2014, by Florida Power & Light Company. *BB JSC*

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\140035.RCM.DOC

Case Background

Florida Power & Light Company's (FPL or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.52 percent was approved on April 22, 2013, by Order No. PSC-13-0163-PAA-EI.¹ On February 17, 2013, FPL filed the required schedules and requested a decrease in its AFUDC rate from 6.52 percent to 6.34 percent, effective January 1, 2014. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-13-0163-PAA-EI, issued April 23, 2013, in Docket No. 130051-EI, In re: Request for approval of change of allowance for funds during construction (AFUDC), by Florida Power and Light Company, consummated by Order No. PSC-13-0199-CO-EI, issued May 16, 2013.

Discussion of Issues

Issue 1: Should the Commission approve FPL's request to decrease its AFUDC rate from 6.52 percent to 6.34 percent?

Recommendation: Yes. The appropriate AFUDC rate for FPL is 6.34 percent based on a 13-month average capital structure for the period ended December 31, 2013. (Buys)

Staff Analysis: FPL requested a decrease in its AFUDC rate from 6.52 percent to 6.34 percent. Rule 25-6.0141(2), F.A.C., Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of the requested AFUDC rate of 6.34 percent, FPL provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed the schedules and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease in the AFUDC rate is due principally to a slight decrease in the cost rates of long term debt and customer deposits, and a slightly lower ratio of common equity in the capital structure. The cost of equity remained at 10.5 percent return on equity, which was approved by the Commission in Order No. PSC-13-0023-S-EI.²

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.52 percent to 6.34 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends that it be approved.

² Order No. PSC-13-0023-S-EI, issued January 14, 2013, in Docket No. 120015-EI, In re: Petition for increase in rates by Florida Power & Light Company.

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 6.34 percent annual AFUDC rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 6.34 percent is 0.513575 percent. (Buys)

Staff Analysis: FPL requested a monthly compounding rate of 0.513575 percent to achieve an annual AFUDC rate of 6.34 percent. In support of the requested monthly compounding rate of 0.513575 percent, FPL provided its calculations as Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff reviewed the Company's calculations and determined that they comply with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.513575 percent be approved.

Issue 3: Should the Commission approve FPL's requested effective date of January 1, 2014, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2014, for all purposes. (Buys)

Staff Analysis: FPL's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ended December 31, 2013. Rule 25-6.0141(5), F.A.C., provides that:

The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

The Company's requested effective date of January 1, 2014, complies with the requirement that the effective date does not precede the period used to calculate the rate, and therefore should be approved.³

³ Due to changes made to Section 366.93, F.S., during the 2013 Legislative Session, Rule 25-6.0423, F.A.C., was amended in January 2014 to provide that for the purposes of nuclear or integrated gasification combined cycle power plant cost recovery, carrying costs pursuant to the rule shall be calculated using the utility's most recently approved pretax AFUDC rate at the time an increment of cost recovery is sought. Prior to the amendment, the rule had provided that for power plant need petitions submitted on or before December 31, 2010, the associated carrying costs would be computed based on the pretax AFUDC rate in effect on June 12, 2007. Therefore, staff recommends that a single AFUDC rate should be effective for all purposes, including for computing carrying costs for cost recovery sought pursuant to Section 366.93, F.S.

Issue 4: Should this docket be closed?

Recommendation: 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, this docket should be closed upon the issuance of a consummating order. (Brownless)

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, this docket should be closed upon the issuance of a consummating order.

Item 4

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Buys, Cicchetti, Prestwood)
Office of the General Counsel (Gilcher) *JB MC CP CEBB*

RE: Docket No. 140046-EI – Request for approval of change in rate used to capitalize allowance for funds used during construction (AFUDC) from 6.26% to 5.73%, effective January 1, 2014, by Gulf Power Company. *JA JSC*

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\AFD\WP\140046.RCM.DOC

Case Background

Gulf Power Company's (Gulf or the Company) current Allowance for Funds Used During Construction (AFUDC) rate of 6.26 percent was approved in Order No. PSC-12-0482-PAA-EI.¹ On March 3, 2014, Gulf filed the required schedules and requested a decrease in its AFUDC rate from 6.26 percent to 5.73 percent, effective January 1, 2014. The Commission has jurisdiction over this matter pursuant to Chapter 366, Florida Statutes (F.S.), including Sections 366.04, 366.05, and 366.06, F.S.

¹ Order No. PSC-12-0482-PAA-EI, issued September 19, 2012, in Docket No. 120179-EI, In re: Request for approval to capitalize allowance for funds used during construction (AFUDC) from 7.65% to 6.26%, effective May 1, 2012, by Gulf Power Company, consummated by Order No. PSC-12-0545-CO-EI, issued October 15, 2012.

Discussion of Issues

Issue 1: Should the Commission approve Gulf's request to decrease its AFUDC rate from 6.26 percent to 5.73 percent?

Recommendation: Yes. The appropriate AFUDC rate for Gulf is 5.73 percent based on a 13-month average capital structure for the period ending December 31, 2013. (Buys)

Staff Analysis: Gulf has requested a decrease in its AFUDC rate from 6.26 percent to 5.73 percent. Rule 25-6.0141, Florida Administrative Code (F.A.C.), Allowance for Funds Used During Construction, provides the following guidance:

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

In support of its requested AFUDC rate of 5.73 percent, Gulf provided its calculations and capital structure as Schedules A and B attached to its request. Staff reviewed these calculations and determined that the proposed rate was calculated in accordance with Rule 25-6.0141(2), F.A.C. The requested decrease is due principally to a reduction in both the cost rate and the relative percentage of long-term debt in the capital structure, which resulted in a decrease in the weighted cost rate from 2.07 percent to 1.73 percent, or 34 basis points. The other main contributor to the lower AFUDC rate is a decrease in the relative percentage of common equity in the capital structure, which is due to an increase in the relative percentage of deferred taxes. The weighted cost rate of common equity decreased from 3.88 percent to 3.73 percent, or 15 basis points. In addition, the cost rate for customer deposits decreased from 6.26 percent to 2.38 percent, which lowered the weighted cost rate by 6 basis points.

Based on its review, staff believes that the requested decrease in the AFUDC rate from 6.26 percent to 5.73 percent is appropriate, consistent with Rule 25-6.0141, F.A.C., and recommends that it be approved.

Issue 2: What is the appropriate monthly compounding rate to achieve the requested 5.73 percent annual rate?

Recommendation: The appropriate monthly compounding rate to maintain an annual rate of 5.73 percent is 0.465400 percent. (Buys)

Staff Analysis: Gulf has requested a monthly compounding rate of 0.465400 percent to achieve an annual AFUDC rate of 5.73 percent. In support of the requested monthly compounding rate of 0.465400 percent, the Company provided its calculations as Schedule C attached to its request. Rule 25-6.0141(3), F.A.C., provides a formula for discounting the annual AFUDC rate to reflect monthly compounding. The rule also requires that the monthly compounding rate be calculated to six decimal places.

Staff has reviewed the Gulf's calculations and has determined that they are in compliance with the requirements of Rule 25-6.0141(3), F.A.C. Therefore, staff recommends that a discounted monthly AFUDC rate of 0.465400 percent be approved.

Issue 3: Should the Commission approve Gulf's requested effective date of January 1, 2014, for implementing the revised AFUDC rate?

Recommendation: Yes. The revised AFUDC rate should be effective as of January 1, 2014, for all purposes. (Buys)

Staff Analysis: Gulf's proposed AFUDC rate was calculated using a 13-month average capital structure for the period ending December 31, 2013. Rule 25-6.0141(5), F.A.C., provides that:

The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

The Company's requested effective date of January 1, 2014, complies with the requirement that the effective date not precede the period used to calculate the rate, and therefore should be approved.²

² Due to changes made to Section 366.93, F.S., during the 2013 Legislative Session, Rule 25-6.0423, F.A.C., was amended in January 2014 to provide that for the purposes of nuclear or integrated gasification combined cycle power plant cost recovery, carrying costs pursuant to the rule shall be calculated using the utility's most recently approved pretax AFUDC rate at the time an increment of cost recovery is sought. Prior to the amendment, the rule had provided that for power plant need petitions submitted on or before December 31, 2010, the associated carrying costs would be computed based on the pretax AFUDC rate in effect on June 12, 2007. Therefore, staff recommends that a single AFUDC rate should be effective for all purposes, including for computing carrying costs for cost recovery sought pursuant to Section 366.93, F.S.

Issue 4: Should this docket be closed?

Recommendation: Yes. 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, this docket should be closed upon the issuance of a consummating order. (Gilcher)

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, this docket should be closed upon the issuance of a consummating order.

Item 5

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Accounting and Finance (Lester, Mouring)

Division of Economics (Bruce, Hudson)

Division of Engineering (Watts, Lewis, Vickery)

Office of the General Counsel (Tan)

RE: Docket No. 130210-WS – Application for staff-assisted rate case in Polk County by CHC VII, Ltd.

AGENDA: 04/10/14 - Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 01/05/15 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

Discussion of Issues**Table of Contents**

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Case Background

CHC VII, Ltd. (CHC or Utility) is a Class C water and wastewater utility serving 894 water customers and 873 wastewater customers in Polk County. The service territory is located in the Southwest Florida Water Management District. According to the Utility's 2012 annual report, operating revenues were \$94,223 for water and \$91,244 for wastewater. Operating expenses were \$99,026 for water and \$171,122 for wastewater. Combined net operating income was a loss of \$84,681.

Polk County came under the Commission's jurisdiction on July 11, 1996, and the Commission subsequently granted grandfather certificate Nos. 609-W and 525-S to CHC in 1999.¹ CHC filed for a staff-assisted rate case during 2007 in Docket No. 070415-WS. The staff's preliminary report from that case indicated net overearnings and recommended the over-earnings be applied to an aggressive meter change-out program. On February 8, 2008, the Company withdrew its application for staff assistance and the docket was closed.

In this docket, CHC filed its application for a SARC on August 5, 2013, and completed the Commission's filing requirements on October 4, 2013, which is the official filing date.

Staff engineers reviewed the company's operations and quality of service. Staff auditors conducted an audit and filed a report on November 7, 2013. Staff filed a preliminary report addressing quality of service and rates on January 14, 2014. Staff held a customer meeting on February 4, 2014, at the Chain of Lakes Complex in Winter Haven and ten customers attended and three customers spoke. Since the meeting, the Commission has received a large number of letters from customers regarding the rates in staff's preliminary report and the quality of service provided by the company. The Office of Public Counsel (OPC) filed a letter on March 3, 2014, (OPC letter) regarding the rates in staff's report and the quality of service. In this recommendation, staff addresses the concerns expressed by the customers and OPC.

The Commission has jurisdiction pursuant to Sections 367.0814, Florida Statutes (F.S.).

¹ See Order No. PSC-99-1235-PAA-WS, issued June 22, 1999, in Docket No. 981341-WS, In re: Application for grandfather certificates to operate water and wastewater utility in Polk County by CHC VII, Ltd.

Discussion of Issues

Issue 1: Should the quality of service provided by CHC be considered satisfactory?

Recommendation: Yes, the overall quality of service for the CHC system in Polk County is satisfactory. (Watts)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials, as well as customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities.

CHC is a Class C utility serving 869 residential water and wastewater customers, 4 general service water and wastewater customers, and 21 irrigation customers in Polk County. CHC's service area is located at Swiss Golf and Tennis Club Mobile Home Park (MHP) and Hidden Golf Club MHP, in Winter Haven, Florida. The raw water source is ground water, which is obtained from one main well, and a golf course irrigation well is used as a back-up source. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject liquid chlorine, pressurize in a hydropneumatic tank, and distribute. Wastewater service is provided via wastewater treatment plant with percolation ponds and spray fields. The Utility is located within the Southwest Florida Water Management District (SWFWMD).

Staff reviewed the Utility's and DEP records. In Polk County, the Polk County Health Department (PCHD) regulates the potable water program. The PCHD's May 10, 2013, sanitary survey of the water treatment plant's condition found it to be in compliance (i.e. no deficiencies found), but the report contained a reminder that the double check valve on the irrigation line will need to be upgraded if it needs repairs. According to the PCHD inspector, the finished water product complies with regulatory standards. Staff recommends the quality of the finished water product is satisfactory.

In the last wastewater DEP Compliance Evaluation Inspection, dated April 5, 2012, no deficiencies were listed. However, the report noted that the current reduced pressure zone backflow prevention device certification was dated April 12, 2011, and instructed the Utility to ensure it was recertified as soon as possible. During staff's engineering field investigation on February 4, 2014, staff noted the device had been recertified on April 12, 2012. According to DEP, the Utility's wastewater finished product complies with regulatory standards. Based on the above, staff recommends that the operating conditions of the wastewater and water treatment facilities are satisfactory.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's complaint records and there were no complaints recorded during the last three years. A request was made to the Utility for copies of complaints that were handled in house during the test year. The Utility's response indicated that it did not receive any complaints during the test year. Further, staff reviewed DEP's records and found no customer complaints on file.

Staff conducted a customer meeting on February 4, 2014. This meeting gave the customers an opportunity to express specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints raised following the customer meeting were investigated and were taken into consideration during the preparation of staff's final recommendation.

The customer meeting was held in Winter Haven. Ten customers attended the meeting and three customers spoke with concerns about the Utility. The customers asked 1) for clarification of the proposed rates and how they would be applied; 2) about the water being used to irrigate the golf course and if the cost was being recovered in their rates; and 3) whether part-time residents should have to pay for wastewater charges when they are away and only using water for irrigation.

As of March 21, 2014, one hundred sixty-one customers have sent comments to the Commission regarding this rate case. Most of the customers stated they were opposed to a rate increase. Other concerns were about excessive unaccounted for water (EUW), watering the golf course and common areas, and the park mandate to keep their yards irrigated, especially for part-time residents. Some of the customers stated they had heard the Utility had a high rate of EUW, some citing as much as 40 percent. Staff's preliminary investigation suggested an EUW of 27.3 percent. However, as discussed in Issue 5, staff found that some general service meters were not being read, and imputed gallonage significantly reduced the EUW (see Issue 2).

Many customers expressed the belief that the water used to irrigate the golf course and common areas was included in their rates or was contributing to the EUW. According to the Utility, the golf course is irrigated from a non-potable well, which is not an asset of the Utility. Further, none of the expenses related to operating and maintaining that well are included in the expenses of the Utility's system. During its field investigation, staff verified that power to the golf course is provided through a separate meter that is not included in the electric invoices for the Utility, and is serviced by non-Utility staff. Thus, none of the expenses incurred in maintaining the golf course are included in the rate base for the Utility. The common areas are metered separately and billed to the mobile home park.

In other areas of concern, customers stated that most residents are seasonal, on fixed incomes, and would not water their lawns if there is a rate increase. Twenty-seven customers mentioned the poor quality of water with respect to odor and taste. The water provided by the Utility is meeting applicable DEP primary and secondary standards.

Summary

Staff recommends that quality of the finished water and wastewater products are satisfactory since the Utility is current in meeting water quality standards for all required chemical analyses and the water provided by the Utility is meeting applicable primary and secondary standards as prescribed in the rules of the DEP. In addition, staff recommends the conditions of the wastewater and water treatment facilities are satisfactory since no deficiencies were reported by DEP. Based on the analysis above, it appears the Utility has provided adequate customer service. Therefore, the overall quality of service for the CHC system in Polk County is satisfactory.

Issue 2: What are the used and useful percentages of the Utility's water treatment plant (WTP), water distribution, wastewater treatment plant (WWTP) and wastewater collection systems?

Recommendation: CHC's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful (U&U). Staff recommends that a 6.1 percent adjustment to operation and maintenance expenses should be made for excessive unaccounted for water (EUW). No adjustment is recommended for excessive infiltration and inflow (I&I). (Watts, Lester)

Staff Analysis: CHC has one WTP with one 8-inch well, AAJ2901,² operating at a depth of 530 feet and rated at a total capacity of 600 gallons per minute (gpm). It is equipped with a 75 horsepower (hp) vertical turbine pump. CHC also has a second well, AAJ2900, used solely to provide untreated water for golf course irrigation. Although to date it has not been necessary, the second well is available as a backup to CHC's potable water system. However, as stated in Issue 1, since its usage, electricity and personnel are not charged to the utility and it is, therefore, not a Utility asset, staff's used and useful analysis will consider only well AAJ2901. The raw water pumped from well AAJ2901 is treated with liquid chlorine, which is injected prior to entry into the 20,000-gallon hydropneumatic tank. The treated water from the tank is then pumped into the water distribution system.

The distribution system is a composite network consisting of approximately 9,060 linear feet of 6-inch PVC pipe, 1,740 linear feet of 4-inch PVC pipe, and 8,760 linear feet of 2-inch PVC pipe. The distribution system supports 40 fire hydrants.

The WWTP capacity is permitted by DEP at 0.176 million gallons per day (MGD) per Three Month Average Daily Flow (3MADF). The plant is a Type II, extended aeration domestic wastewater treatment plant that consists of one flow equalization basin of 70,821 gallons, two aeration basins of 140,814 total gallons, two clarifiers of 25,264 total gallons with a total of 536 square feet of surface area, three dual media sand filters with 200 square feet of filter surface area, two chlorine contact chambers of 4,908 total gallons and two digesters of 10,988 total gallons. This plant is operated to provide secondary treatment with liquid chlorine basic disinfection. The Utility's land application for effluent disposal consists of a percolation pond and two spray fields.

The collection system is made up of approximately 28,105 linear feet of 8-inch PVC pipe. There are 84 four-inch brick manholes and 8 lift stations. The 8 lift stations transfer the influent by force mains to the wastewater treatment plant.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that is not metered, which includes but is not

² DEP Florida Unique Well ID Number

limited to, line flushing, hydrant testing, street cleaning, and theft.³ The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year. CHC pumped a total of 83,370,027 gallons, used 514,700 gallons for flushing, and sold 69,454,318 gallons to customers, including 8,370,228 gallons imputed for unbilled usage as discussed in Issue 5. Thus, CHC'S unaccounted for water for the test year is 16.1 percent, with an EUW of 6.1 percent of the total gallons pumped (which is equal to 9.6 gpm).

Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary. The Utility's records indicated that there was no excessive I&I for the test year.

Used and Useful (U&U)

Pursuant to Rule 25-30.432(4), F.A.C., a WTP is considered 100 percent used and useful if the system is served by a single well. Since the Utility's assets include only one potable well, staff recommends the WTP should be considered 100 percent U&U.

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the wastewater treatment plant was calculated by taking the 3MADF plus the growth allowance minus the excessive inflow and infiltration, and dividing the sum by 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. CHC's service area consists of 873 lots (869 residential and 4 general service) with no vacant lots and no further phases to be built in the development. When the CHC WWTP began serving customers in 1986, the development had an additional 82 lots. In 1990, prior to CHC's certification as a water and wastewater utility in 1998, the city of Winter Haven annexed those 82 lots.

³ See Order No. PSC-93-0455-NOR-WS, p. 101 and 102, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

The Utility's test year 3MADF was 102,855 gallons per day (gpd). There has been no growth in the past five years; therefore, the growth allowance is 0 gpd. In addition, the excess I&I is calculated to be zero percent. The WWTP's permitted capacity is 0.176 MGD per 3MADF. The calculation reflected 58.4 percent U&U. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission.

CHC began serving customers in 1986. The wastewater treatment plant-in-service is significantly, but not fully depreciated. Staff's adjusted test year plant-in-service for wastewater is \$532,269. Total accumulated depreciation is \$397,582 which is 74.7 percent. There has been no customer growth in the five years prior to the filing of this SARC. It appears there is no room for expansion; therefore, the wastewater treatment plant should be considered 100 percent U&U.

Staff reviewed the service territory and believes the current mains are providing service for the existing customers only. Because the service territory the system is designed to serve is deemed built out and there is no potential for expansion of the service territory, staff recommends the water distribution and wastewater collection system be considered 100 percent U&U.

Summary

Based on the analysis above, staff recommends CHC's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff recommends that a 6.1 percent adjustment to operation and maintenance expenses should be made for EUW. No adjustment is recommended for excessive I&I.

Issue 3: What is the appropriate average test year rate base for CHC?

Recommendation: The appropriate average test year rate base for CHC is \$178,442 for water and \$159,299 for wastewater. (Lester)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended June 30, 2013, for this rate case. A summary of each component of rate base and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS of \$546,362 for water and \$1,523,928 for wastewater. Staff's adjustments to UPIS are identified in Table 3-1 below.

Table 3-1
Rate Base Adjustments

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect original cost study balances as of 12/31/2006	(\$104,153)	(\$997,535)
2. To reflect staff audit adjustments from Dkt. 070715-WS report	8,173	7,020
3. To reflect plant additions and retirements	(47,476)	(9,032)
4. To reflect simple average		1,971
5. To add pro forma plant - master meter (AF12) and blower motor	565	253
6. To add back-up chlorinator	1,037	
7. To add rebuilt pump	2,649	
8. To capitalize meters	2,067	
9. To capitalize pumps		5,664
Total	<u>(\$137,138)</u>	<u>(\$991,659)</u>

In its letter dated March 3, 2014, OPC noted invoices in materials and supplies expense that should be capitalized. Staff reviewed these items and agrees with OPC. The adjustments above include capitalization of meters and pumps. The adjustments also include an increase in UPIS to reflect a rebuilt pump for water, which was done after the test year.

Staff's net adjustments to UPIS are decreases of \$137,138 and \$991,659 for water and wastewater, respectively. Staff's recommended UPIS balance is \$409,224 (\$546,362 - \$137,138) for water and \$532,269 (\$1,523,928 - \$991,659) for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$11,313 for water and \$18,166 for wastewater. Staff reduced these balances by \$8,148 and \$13,084 for water and wastewater, respectively, to reflect the original cost of utility land. The appropriate land balances are \$3,165 for water and \$5,082 for wastewater.

Non-Used and Useful Plant: As discussed in Issue 2, CHC's water treatment plant and distribution system, and the wastewater treatment plant and collection system should be considered 100 percent used and useful. As a result, no additional adjustments are necessary.

Contributions In Aid of Construction (CIAC): CHC did not record CIAC on its books. The service area consists of lots rented by the affiliated developer. The Utility records do not include CIAC because the developer still owns the lots. Staff considers this as evidence that the Utility does not have to impute CIAC pursuant to Rule 25-30.570, F.A.C. Therefore, staff recommends no adjustment to CIAC.

Accumulated Depreciation: CHC recorded a balance for accumulated depreciation of \$391,733 and \$1,364,710 for water and wastewater, respectively. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions and retirements. The balances should be decreased by \$144,177 for water and by \$967,128 for wastewater. Staff recommends an accumulated depreciation balances of \$247,556 for water and \$397,582 for wastewater.

Accumulated Amortization of CIAC: As the utility does not have any CIAC, no amortization of CIAC is necessary.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$13,609 for water (based on O&M expense of \$108,868/8), and \$19,530 for wastewater (based on O&M expense of \$156,238/8).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$178,442 for water and \$159,299 for wastewater. Rate base is shown on Schedule No. 1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for CHC?

Recommendation: The appropriate return on equity (ROE) is 11.16 percent with a range of 10.16 percent to 12.16 percent. The appropriate overall rate of return is 4.18 percent. (Lester)

Staff Analysis: CHC VII, Ltd. consists of two mobile home parks, a golf course, and the Utility. The Utility does not have a separate capital structure. CHC's capital structure consists of long-term debt of \$46,423,502 and negative common equity of \$24,084,441. Consistent with prior Commission orders, staff set the common equity balance at zero.⁴ Using the Commission-approved leverage formula currently in effect, staff calculated the appropriate ROE to be 11.16 percent.⁵ The Utility does not have customer deposits. The Utility's capital structure has been reconciled with staff's recommended rate base.

Staff recommends an ROE of 11.16 percent, with a range of 10.16 percent to 12.16 percent. Based on a capital structure of 100 percent debt, the appropriate overall rate of return is 4.18 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order No. PSC-08-0652-PAA-WS, issued October 6, 2008, in Docket No. 070722-WS, In re: Application for staff-assisted rate case in Palm Beach County by W.P. Utilities, Inc.

⁵ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 120006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What are the appropriate test year revenues for the Utility's water and wastewater systems?

Recommendation: The appropriate test year revenues for CHC's water and wastewater systems are \$100,066 and \$92,287, respectively. (Bruce)

Staff Analysis: CHC recorded total test year revenues of \$183,614, including water service revenues of \$93,547 and wastewater service revenues of \$90,067. The Utility's current tariff reflects a monthly base facility charge (BFC) of \$15.71 for both water and wastewater service, which includes an allotment of 8,000 gallons per month. The Utility bills the BFC monthly and allocates it equally between water and wastewater service. Customer usage is billed quarterly and allocated equally between both services.

During the test year, the Utility had several billing errors. The Utility billed irrigation customers the entire BFC rather than the portion allocated for water. The general service and irrigation customers were billed one BFC per quarter rather than a BFC for each month of the quarter. The Utility recorded service revenues for general service usage to water rather than allocating it equally between water and wastewater. Finally, the Utility did not bill 14 irrigation customers during the test year.

The Utility began reading the meters of the 14 irrigation customers in May of 2013 and has provided staff nine months of billed consumption. To determine the appropriate gallons to impute for test year billing determinants, staff annualized the consumption data. Staff determined that the water consumption should be increased by 8,370,228 gallons to reflect annualized usage. Staff corrected the billing errors, adjusted test year billing determinants, and applied the Utility's rates in effect during the test year to test year billing determinants. Based on staff's analysis, test year service revenues should be increased by \$6,519 for water and \$2,220 for wastewater. Based on the above, staff recommends the appropriate test year revenues for CHC's water and wastewater systems are \$100,066 and \$92,287, respectively.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expense for CHC is \$125,963 for water and \$175,914 for wastewater. (Lester)

Staff Analysis: CHC recorded operating expense of \$86,398 for water and \$165,804 for wastewater for the test year ended June 30, 2013. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) - CHC recorded \$5,812 for water salaries and \$45,431 for wastewater salaries in these accounts. However, the company had not allocated the cost of employees from the parent company. Staff increased water salaries by \$27,125 and wastewater salaries by \$4,225 to cover management, administrative, and operations activities done for the utility by managing partner employees.

Since the managing partner manages other water and wastewater utilities, these salaries were allocated on the basis of lots. OPC expressed concern that employee time is not being allocated to other affiliated businesses. Staff believes that allocating the costs based on lots properly allocates salaries to all businesses and is reasonable.

Staff did not include a management fee since the fee was unsupported and the salary allocation covers management activities. The resulting amounts for salaries are \$32,937 for water and \$49,656 for wastewater.

Purchased Power (615/715) - CHC recorded \$16,439 for purchased power expense for water and \$19,104 for wastewater. Staff reduced these amounts \$62 and \$146 for water and wastewater, respectively, because the Utility had included late fees. Staff further reduced the amount for water by \$1,003 due to excessive unaccounted-for water (6.1 percent), as recommended in Issue 2. For wastewater, staff removed \$302 for a purchased power bill associated with a different utility. Staff recommends purchased power expense of \$15,374 for water and \$18,656 for wastewater.

Chemicals (618/718) - CHC recorded \$10,175 for chemicals expense for water and \$9,390 in chemicals expense for wastewater. For water, staff reduced the expense by \$621 due to excessive unaccounted for water. Based on OPC's letter, staff removed \$314 for an invoice associated with an affiliated company and \$14 due to late fees. For wastewater, staff removed \$28 associated with late fees. The resulting balances are \$9,226 for water and \$9,362 for wastewater.

Materials and Supplies (620/720) - For materials and supplies, the Utility recorded \$10,308 and \$15,766 for water and wastewater, respectively. For water, staff reduced the amount by \$1,098 to eliminate a double booking of expense. For wastewater, staff reduced the amount by \$4,921 to reclassify expenses as wastewater plant, consisting of \$2,095 for flow measuring plant, \$1,044 as pumping equipment, and \$1,781 as other plant and equipment. Staff added \$94 for water use at the wastewater treatment plant.

In response to OPC's letter, staff capitalized \$2,067 for water meters booked as expense and \$5,664 for wastewater pumps booked as materials and supplies. The resulting amounts for water and wastewater are \$7,143 and \$5,275, respectively.

Contractual Services - Billing (630/730) - The total cost for the change to monthly billing provided by CHC was \$30,321. To reflect just the incremental billing expenses, staff reduced this amount to \$21,132 and divided it equally between water and wastewater. The resulting amounts for incremental monthly billing expense are \$10,566 for water and \$10,566 for wastewater.

Contractual Services - Professional (631/731) - For this account, CHC booked \$13,352 for water and \$5,599 for wastewater. For water and wastewater, staff allocated \$3,627 for administrative and accounting salaries (bookkeeping, receptionist, regulatory accounting). The resulting amounts for contractual services - professional are \$16,979 for water and \$9,226 for wastewater.

Contractual Services - Testing (635/735) - The Utility recorded \$2,757 for water and \$10,011 for wastewater for testing expense. For water, staff decreased the amount by \$363 to reflect the required copper and lead testing that occurs every three years. For wastewater, staff increased the amount by \$200 to reflect the annual cost of quarterly monitoring of groundwater at the wastewater treatment plant. Staff recommends contractual services - testing expense of \$2,394 for water and \$10,211 for wastewater.

Rents (640/740) - CHC did not record any rent expense for water and wastewater. The Company requested that staff consider the cost of leasing a mini-excavator. The Company noted that this would be safer for employees and reduce overtime. The annual lease expense is \$6,984. On an annual basis, staff allocated 30 percent of the lease expense to CHC and split this amount evenly, \$1,048 each for water and for wastewater. Staff reduced this expense by \$315 for water and wastewater to reflect estimated savings based on use of the mini-excavator. In addition, staff allocated \$1,937 for water office rent and \$1,937 for wastewater office rent. For rent expense, staff recommends \$2,670 for water and \$2,670 for wastewater.

Transportation Expense (650/750) - In response to OPC's letter, staff removed \$99 from water and \$99 from wastewater due to out of period gasoline invoices. The resulting balances for water and wastewater transportation expense are \$4,862 and \$4,854, respectively.

Regulatory Commission Expense (665/765) - CHC recorded \$0 for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For postage, printing, and envelopes for these notices, staff has estimated \$904 for the customer meeting and \$643 for the final rates notice. The Utility paid a \$1,000 rate case filing fee for the water utility, and a \$1,000 rate case filing fee for the wastewater utility. Staff allowed legal fees of \$10,541. This covers responding to data requests, reviewing staff's report and recommendation, and attending the customer meeting and agenda conference. Staff reviewed the billing rates and hours for this expense. Based on this review, this expense is appropriate. The total rate case expense including postage, notices, envelopes, consulting fee,

and filing fee is \$14,088. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$1,761 for water and \$1,761 for wastewater.

Operation and Maintenance Expenses (O&M) Summary - Total adjustments to O&M expense result in an increase of \$40,108 for water and \$11,983 for wastewater. Staff's recommended O&M expense is \$108,868 for water and \$156,238 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC) - The Utility recorded depreciation expense of \$12,347 for water and \$15,755 for wastewater during the test year. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$10,146 for water and \$9,587 for wastewater.

Taxes Other Than Income (TOTI) - The Utility recorded \$5,291 for water and \$5,794 for wastewater for TOTI. Staff increased the amount for water by \$157 and wastewater by \$147 to reflect property taxes on plant additions. Staff also increased the amount for wastewater by \$85 to reflect the correct amount for regulatory assessment fees. With the increase in revenue, staff recommends TOTI of \$6,649 for water and \$10,089 for wastewater.

Operating Expenses Summary - The application of staff's recommended adjustments to CHC's adjusted test year operating expenses results in staff's recommended operating expenses of \$125,963 for water and \$175,914 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$133,422 for water and \$182,573 for wastewater, resulting in an annual increase of \$33,356 for water (33.33 percent), and an annual increase of \$90,286 for wastewater (97.83 percent). (Lester)

Staff Analysis: CHC should be allowed an annual increase of \$33,356 for water (33.33 percent) and \$90,286 for wastewater (97.83 percent). This will allow the Utility the opportunity to recover its expenses and earn a 4.18 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$178,442
Rate of Return	x .0418
Return on Rate Base	\$7,459
Adjusted O&M expense	108,868
Depreciation expense	10,146
Amortization	0
Taxes Other Than Income	6,949
Income Taxes	0
Revenue Requirement	\$133,422
Less Test Year Revenues	100,066
Annual Increase	\$33,356
Percent Increase/(Decrease)	33.33%

Table 7-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$159,299
Rate of Return	x .0418
Return on Rate Base	\$6,659
Adjusted O&M expense	156,238
Depreciation expense	9,587
Amortization	0
Taxes Other Than Income	10,089
Income Taxes	0
Revenue Requirement	\$182,573
Less Test Year Revenues	92,287
Annual Increase	\$90,286
Percent Increase/(Decrease)	97.83%

Issue 8: What are the appropriate rate structures and rates for CHC's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the 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 and the notice has been received by the customers. Along with the customer notice, the Utility should provide customers their most recent three months usage. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Bruce)

Staff Analysis: The CHC water system is located in Polk County within the SWFWMD. The Utility provides service to 869 residential customers, 4 general service customers, and 21 irrigation customers. The Utility's customer base is seasonal; however, because customers irrigate year round, the billing data indicates that only 4 percent of the residential customer bills during the test year had zero gallons. According to the Utility, while seasonal customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 5,635 gallons per month during the test period. The average water demand, excluding zero gallon bills, was 5,865 gallons per month.

Currently, the Utility's rate structure consists of a single monthly BFC of \$15.71 for water and wastewater service, which includes an allotment of 8,000 gallons per month. Water usage above the 8,000 gallon monthly allotment is billed at \$1.31 for 8,001 to 10,000 gallons and \$2.09 for usage above 10,000 gallons. As previously discussed, the BFC is billed monthly, but usage in excess of 8,000 gallons per month is billed quarterly. The approved rate for irrigation service is a monthly BFC of \$7.86, which includes an allotment of 8,000 gallons and a usage charge of \$.65 per 1,000 gallons. These rates and rate structure have been in effect since the utility was granted grandfather certificates in 1999, following Polk County turning over jurisdiction over privately owned water and wastewater utilities to the Commission.

The current rate structure is not considered conservation oriented because the 8,000 gallon allotment does not encourage conservation and billing on a quarterly basis for usage does not give customers a timely price signal. Many of the customers have expressed their concern that they were not aware of their past consumption history. The Utility did not provide the customers a quarterly bill if their consumption was within the allotment of 24,000 gallons per quarter. Therefore, in order to promote conservation, the allotment should be eliminated and the Utility should bill on a monthly basis.

Water Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's

customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Staff recommends that 40 percent of the water revenues should be generated from the BFC. This will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. The average persons per household served by the Utility is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service and irrigation customers should be billed a BFC and uniform gallonage charge. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4-A.

Based on the customer billing data provided by the Utility, approximately 57 percent of total residential consumption is discretionary and therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 33.33 percent, the residential discretionary consumption can be expected to decline by 10,701,000 gallons resulting in anticipated average residential demand of 4,609 gallons per month. Staff recommends an 18.2 percent reduction in total residential consumption and corresponding reductions of \$2,369 for purchased power, \$1,421 for chemicals, and \$179 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$129,453.

Wastewater Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, the Commission's practice is to allocate at least 50 percent of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Therefore, staff recommends a BFC allocation of 50 percent. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater.⁶ Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants

⁶ See Order Nos. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated and Order No. PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 7,470,000 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 15.4 percent reduction in total residential consumption and corresponding reductions of \$1,437 for chemicals, \$2,933 for purchased power, \$3,378 for sludge removal expense, and \$349 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$174,477. Currently, the Utility does not have a gallonage cap for residential wastewater customers. The cap creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's billing analysis, the 8,000 gallon level is where approximately 80 percent of the water demand is captured. Therefore, staff recommends the gallonage cap for residential wastewater customers should be set at 8,000 gallons. The gallonage charge for general service customers should be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice. Staff's recommended rate design for the wastewater system is shown on Schedule No. 4-B.

Summary

Based on the foregoing, staff recommends that 40 percent of the water revenues be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional block for the non-discretionary usage threshold of 3,000 gallons should be approved for residential water customers. An 18.2 percent reduction in total residential consumption and corresponding reductions of \$2,369 for purchased power, \$1,421 for chemicals, and \$179 for RAFs should be made to reflect the anticipated repression. General service and irrigation customers should be billed a BFC based on meter size and uniform gallonage charge.

Staff recommends that 50 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. A 15.4 percent reduction in total residential consumption and corresponding reductions of \$1,437 for chemicals, \$2,933 for purchased power, \$3,378 for sludge removal expense, and \$349 for RAFs. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed in the Quality of Service issue, many customers expressed concern about their previous consumption history. The Utility has indicated that the current billing system makes it difficult to provide the last twelve month's data on a mass basis in a timely manner. The Utility has offered to provide the past twelve month's billing history upon written request of a customer. In order to make customers aware of their usage patterns, staff recommends that the Utility provide the customers their most recent three months usage along with the customer notice for the Commission-approved rates.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should

be effective for services rendered on or after the stamped approval date on the 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 and the notice has been received by the customers. Along with the customer notice, the Utility should provide customers their most recent three months usage. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 9: 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, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. CHC 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. 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 the reduction in the rates due to the amortized rate case expense. (Lester, Bruce)

Staff Analysis: Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions are \$1,854 for both water and wastewater.

The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. CHC 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. 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 the reduction in the rates due to the amortized rate case expense.

Issue 10: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. CHC should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Lester)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. CHC should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

CHC should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$82,455. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If CHC chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If CHC chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to CHC VII, Ltd.;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by CHC VII, Ltd., an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

CHC VII, Ltd. should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount

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of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 11: 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 applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

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

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

Issue 12: 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 should 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. Once these actions are complete, this docket should be closed administratively. (Tan)

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 should 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. Once these actions are complete, this docket should be closed administratively.

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 130210-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$546,362	(\$137,138)	\$409,224
2. LAND & LAND RIGHTS	11,313	(8,148)	3,165
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(391,733)	144,177	(247,556)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,609</u>	<u>13,609</u>
8. WATER RATE BASE	<u>\$165,942</u>	<u>\$12,500</u>	<u>\$178,442</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 130210-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,523,928	(\$991,659)	\$532,269
2. LAND & LAND RIGHTS	18,166	(13,084)	5,082
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(1,364,710)	967,128	(397,582)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>19,530</u>	<u>19,530</u>
8. WASTEWATER RATE BASE	<u>\$177,384</u>	<u>(\$18,085)</u>	<u>\$159,299</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 130210-WS PAGE 1 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect original cost study balances as of 12/31/2006	(\$104,153)	(\$997,535)
2.	To reflect staff audit adjustments from Dkt. 070715-WS report	8,173	7,020
3.	To reflect plant additions and retirements	(47,476)	(9,032)
4.	To reflect simple average	0	1,971
5.	To add pro forma plant - master meter (AF12) and blower motor	565	253
6.	To add back-up chlorinator	1,037	0
7.	To add rebuilt pump	2,649	0
8.	To capitalize meters	2,067	0
9.	To capitalize pumps	0	5,664
	Total	<u>(\$137,138)</u>	<u>(\$991,659)</u>
<u>CWIP</u>		<u>\$0</u>	<u>\$0</u>
<u>LAND</u>			
1.	To reflect land at original cost per audit in Dkt. 070715-WS	<u>(\$8,148)</u>	<u>(\$13,084)</u>
<u>NON-USED AND USEFUL PLANT</u>			
	Not applicable	<u>\$0</u>	<u>\$0</u>
<u>CIAC</u>		<u>\$0</u>	<u>\$0</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 130210-WS PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>ACCUMULATED DEPRECIATION</u>			
1.	To reflect the appropriate test year accumulated depreciation (AF5)	\$135,582	\$966,625
2.	To reflect retirement associated with pro forma plant	1,563	692
3.	To reflect depreciation associated with the back-up chlorinator	(148)	0
4.	To reflect retirement associated with the rebuilt pump	7,241	0
5.	To reflect depreciation associated with meters	(61)	0
6.	To reflect depreciation associated with pumps	<u>0</u>	<u>(189)</u>
	Total	<u>\$144,177</u>	<u>\$967,128</u>
<u>AMORTIZATION OF CIAC</u>		<u>\$0</u>	<u>\$0</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
1.	To reflect 1/8 of test year O&M expenses.	<u>\$13,609</u>	<u>\$19,530</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF CAPITAL STRUCTURE					SCHEDULE NO. 2 DOCKET NO. 130210-WS			
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	(\$24,084,441)	\$24,084,441	\$0					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
TOTAL COMMON								
5. EQUITY	(\$24,084,441)	\$24,084,441	\$0	0	0	0.00%	11.16%	0.00%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT	<u>46,423,502</u>	<u>0</u>	<u>46,423,502</u>	<u>-46,085,762</u>	<u>337,740</u>	<u>100.00%</u>	<u>4.18%</u>	<u>4.18%</u>
TOTAL LONG TERM								
DEBT	\$46,423,502	\$0	\$46,423,502	-46,085,762	337,740	100.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>2.00%</u>	<u>0.00%</u>
9. TOTAL	<u>\$22,339,061</u>	<u>\$24,084,441</u>	<u>\$46,423,502</u>	<u>-\$46,085,762</u>	<u>\$337,740</u>	<u>100.00%</u>		<u>4.18%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>4.18%</u>	<u>4.18%</u>	

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130210-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$93,547</u>	<u>\$6,519</u>	<u>\$100,066</u>	<u>\$33,356</u> 33.33%	<u>\$133,422</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	<u>\$68,760</u>	<u>\$40,108</u>	<u>\$108,868</u>	\$0	<u>\$108,868</u>
3. DEPRECIATION (NET)	<u>12,347</u>	<u>(2,201)</u>	<u>10,146</u>	0	<u>10,146</u>
4. AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	0	<u>0</u>
5. TAXES OTHER THAN INCOME	<u>5,291</u>	<u>157</u>	<u>5,448</u>	<u>1,501</u>	<u>6,949</u>
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$86,398</u>	<u>\$38,064</u>	<u>\$124,462</u>	<u>\$1,501</u>	<u>\$125,963</u>
8. OPERATING INCOME/(LOSS)	<u>\$7,149</u>		<u>(\$24,396)</u>		<u>\$7,459</u>
9. WATER RATE BASE	<u>\$165,942</u>		<u>\$178,442</u>		<u>\$178,442</u>
10. RATE OF RETURN	<u>4.31%</u>		<u>-13.67%</u>		<u>4.18%</u>

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 130210-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$90,067</u>	<u>\$2,220</u>	<u>\$92,287</u>	<u>\$90,286</u> 97.83%	<u>\$182,573</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$144,255	\$11,983	\$156,238	\$0	\$156,238
3. DEPRECIATION (NET)	15,755	(6,168)	9,587	0	9,587
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	5,794	232	6,026	4,063	10,089
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$165,804</u>	<u>\$6,047</u>	<u>\$171,851</u>	<u>\$4,063</u>	<u>\$175,914</u>
8. OPERATING INCOME/(LOSS)	<u>(\$75,737)</u>		<u>(\$79,564)</u>		<u>\$6,659</u>
9. WASTEWATER RATE BASE	<u>\$177,384</u>		<u>\$159,299</u>		<u>\$159,299</u>
10. RATE OF RETURN	<u>-42.70%</u>		<u>-49.95%</u>		<u>4.18%</u>

CHC VII, Ltd.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
OPERATING REVENUES			
1. To adjust utility revenues to audited test year amount.	<u>\$6,519</u>	<u>\$2,220</u>	
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Employees (601/ 701)			
To allocate utility payroll and corporate overhead salaries	<u>\$27,125</u>	<u>\$4,225</u>	
2. Purchased Power (615/715)			
To reduce purchase power due to excess unaccounted-for water	(\$1,003)	0	
To remove late fees and expense for a different utility (AF8)	<u>(62)</u>	<u>(\$448)</u>	
	<u>(\$1,065)</u>	<u>(\$448)</u>	
3. Chemicals (618/718)			
To reduce chemicals due to excess unaccounted-for water	(\$621)	0	
To reduce chemicals associated with affiliated utilities	(314)	0	
To remove late fees	<u>(14)</u>	<u>(\$28)</u>	
	<u>(\$949)</u>	<u>(\$28)</u>	
4. Materials & Supplies (620/720)			
To add water expense for wastewater treatment plant		\$94	
To capitalize items booked as expenses (AF 2 & 8)	(\$1,098)	(4,921)	
To capitalize meters booked as expenses	(2,067)	0	
To capitalize pumps booked as expenses	<u>0</u>	<u>(5,664)</u>	
	<u>(\$3,165)</u>	<u>(\$10,491)</u>	
5. Contractual Services - Billing (630/730)			
To reflect incremental billing expenses due to monthly billing	<u>\$10,566</u>	<u>\$10,566</u>	
6. Contractual Services - Professional (631/731)			
To allocate salaries for accounting and administrative	<u>\$3,627</u>	<u>\$3,627</u>	
7. Contract Testing (635/735)			
To reflect 3 year lead and copper testing	<u>(\$363)</u>		
To reflect annual cost of groundwater monitoring for WWTP		<u>\$200</u>	

CHC VII, Ltd.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
	<u>WATER</u>	<u>WASTEWATER</u>	
8. Rents (640/740)			
To allocate office rent expense	\$1,937	\$1,937	
To allocate mini-excavator lease expense	1,048	1,048	
To reflect savings associated with mini-excavator	(315)	(315)	
	<u>\$2,670</u>	<u>\$2,670</u>	
9. Transportation (650/750)			
To remove out-of-test-year gasoline expense	(\$99)	(\$99)	
10. Regulatory Commission Expense (665/765)			
To reflect 4-year amortization of rate case expense	<u>\$1,761</u>	<u>\$1,761</u>	
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$40,108</u>	<u>\$11,983</u>	
DEPRECIATION EXPENSE			
To reflect test year depreciation calculated per 25-30.140, FAC			
1. (AF3)	(\$2,620)	(\$6,374)	
2. To add depreciation expense for pro forma plant	33	17	
3. To add depreciation for chlorinator	148	0	
4. To add depreciation for rebuilt pump	177	0	
5. To add depreciation for meters	61	0	
6. To add depreciation for pumps	<u>0</u>	<u>189</u>	
	<u>(\$2,201)</u>	<u>(\$6,168)</u>	
TAXES OTHER THAN INCOME			
1. To add property taxes for meters and pumps	\$157	\$147	
2. To agree RAFs to test year revenue	<u>0</u>	<u>85</u>	
	<u>\$157</u>	<u>\$232</u>	

CHC VII, Ltd. TEST YEAR ENDED 6/30/2013 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 130210-WS	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$5,812	\$27,125	\$32,937
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	16,439	(1,065)	15,374
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	10,175	(949)	9,226
(620) MATERIALS AND SUPPLIES	10,308	(3,165)	7,143
(630) CONTRACTUAL SERVICES - BILLING	0	10,566	10,566
(631) CONTRACTUAL SERVICES - PROFESSIONAL	13,352	3,627	16,979
(635) CONTRACTUAL SERVICES - TESTING	2,757	(363)	2,394
(636) CONTRACTUAL SERVICES - OTHER	855	0	855
(640) RENTS	0	2,670	2,670
(650) TRANSPORTATION EXPENSE	4,961	(99)	4,862
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	1,761	1,761
(670) BAD DEBT EXPENSE	509	0	509
(675) MISCELLANEOUS EXPENSES	<u>3,592</u>	<u>0</u>	<u>3,592</u>
	<u>\$68,760</u>	<u>\$40,108</u>	<u>\$108,868</u>

CHC VII, Ltd.		SCHEDULE NO. 3-E	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130210-WS	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$45,431	\$4,225	\$49,656
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	21,999	0	21,999
(715) PURCHASED POWER	19,104	(448)	18,656
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	9,390	(28)	9,362
(720) MATERIALS AND SUPPLIES	15,766	(10,491)	5,275
(730) CONTRACTUAL SERVICES - BILLING	0	10,566	10,566
(731) CONTRACTUAL SERVICES - PROFESSIONAL	5,599	3,627	9,226
(735) CONTRACTUAL SERVICES - TESTING	10,011	200	10,211
(736) CONTRACTUAL SERVICES - OTHER	5,780	0	5,780
(740) RENTS	0	2,670	2,670
(750) TRANSPORTATION EXPENSE	4,953	(99)	4,854
(755) INSURANCE EXPENSE	4,707	0	4,707
(765) REGULATORY COMMISSION EXPENSES	0	1,761	1,761
(770) BAD DEBT EXPENSE	509	0	509
(775) MISCELLANEOUS EXPENSES	<u>1,006</u>	<u>0</u>	<u>1,006</u>
	<u>\$144,255</u>	<u>\$11,983</u>	<u>\$156,238</u>

CHC VII, LTD TEST YEAR ENDED JUNE 30, 2013 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 130210-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
<u>Irrigation</u>			
Base Facility Charge for All Meters	\$7.86*		
Charge per 1,000 gallons - Irrigation	\$0.65		
<u>Residential, General Service, and Irrigation</u>			
Base Facility Charge by Meter Size:			
5/8" X 3/4"		\$4.56	\$0.06
3/4"		\$6.84	\$0.10
1"		\$11.40	\$0.16
1-1/4"		\$18.24	\$0.25
1-1/2"		\$22.80	\$0.32
2"		\$36.48	\$0.51
3"		\$72.96	\$1.01
4"		\$114.00	\$1.58
6"		\$228.00	\$3.17
8"		\$364.80	\$5.07
Charge per 1,000 gallons - Residential Water			
0 - 3,000 gallons		\$1.15	\$0.02
Over 3,000 gallons		\$1.51	\$0.02
Charge per 1,000 gallons - General Service and Irrigation		\$1.32	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$8.01	
6,000 Gallons	\$7.86	\$12.54	
10,000 Gallons	\$9.16	\$18.58	

CHC VII, LTD		SCHEDULE NO. 4-B	
TEST YEAR ENDED JUNE 30, 2013		DOCKET NO. 130210-WS	
MONTHLY WASTEWATER RATES			
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
Base Facility Charge by Meter Size:			
5/8"X 3/4"		\$8.19	\$0.09
3/4"		\$12.29	\$0.13
1"		\$20.48	\$0.22
1-1/4"		\$32.76	\$0.35
1-1/2"		\$40.95	\$0.43
2"		\$65.52	\$0.69
3"		\$131.04	\$1.39
4"		\$204.75	\$2.17
6"		\$409.50	\$4.34
8"		\$655.20	\$6.95
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$2.05	\$0.02
Charge per 1,000 gallons - General Service		\$2.46	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$14.34	
6,000 Gallons	\$7.86	\$20.49	
10,000 Gallons	\$9.17	\$24.59	

Item 6

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Graves, Mtenga) *REG*
Division of Economics (Wu) *W J.W.D.*
Office of the General Counsel (Murphy) *CM AT*

TVB

RE: Docket No. 130301-EI – Petition to modify scope of existing environmental program by Duke Energy Florida, Inc.

AGENDA: 04/10/14 – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brisé

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On December 31, 2013, Duke Energy Florida, Inc. (DEF or Company) petitioned the Florida Public Service Commission (Commission) to modify the scope of its previously approved Integrated Clean Air Compliance Program to encompass additional compliance activities at the Company's Crystal River Units 1 and 2 (Petition). With such approval, prudently incurred costs associated with such activities may be recovered through the Environmental Cost Recovery Clause (ECRC).

On March 25, 2014, Sierra Club and Earthjustice (collectively Sierra Club) filed comments, recommending denial of the Petition, as interested persons in this docket. Sierra Club's comments contained an 11 page letter, summarizing its recommendation, and over 600 pages of Appendices. On March 26, 2014, Sierra Club revised its comments.

Docket No. 130301-EI

Date: March 27, 2014

Pursuant to Section 366.8255(2), Florida Statutes (F.S.), electric utilities may petition the Commission to recover projected environmental compliance costs required by environmental laws or regulations. The Commission has jurisdiction over this matter pursuant to Section 366.8255, F.S.

Discussion of Issues

Issue 1: Should the Commission approve Duke Energy Florida's petition to modify the scope of its existing environmental compliance program and recover the associated costs through the Environmental Cost Recovery Clause?

Recommendation: Yes. DEF has sufficiently demonstrated that the proposed activities are needed to comply with environmental regulations. DEF has estimated that the proposed activities and resultant continued operation of Crystal River Units 1 and 2, through mid-2018, will result in a net present value savings of \$307 million when compared to retiring the units in 2016. Therefore, DEF's Petition should be approved. (Graves, Mtenga, Wu)

Staff Analysis: By its Petition, DEF requests Commission approval to recover, through the ECRC, reasonably and prudently incurred costs associated with new activities at the Company's Crystal River Units 1 and 2 (CR 1 and 2). The proposed activities consist of: (1) the addition of dry sorbent injection; (2) the addition of activated carbon injection; and (3) changes to the existing electrostatic precipitators. DEF asserts that the proposed activities are needed for compliance with the Environmental Protection Agency's (EPA) Mercury Air Toxics Standards Rule (MATS) and Clean Air Visibility Rule (CAVR).

According to DEF's Petition, the Company has estimated that the total cost of the activities will be approximately \$28 million. In addition to the project costs, DEF expects to incur annual O&M costs of approximately \$2 million while the new pollution controls remain in operation. All projects are projected to be in-service by February 2016. Attachment A summarizes the estimated ECRC impact associated with these projects.

Criteria for ECRC Eligibility

Pursuant to Section 366.8255(2), F.S., electric utilities may petition the Commission to recover projected environmental compliance costs that are required by environmental laws or regulations. The Commission has interpreted the statute to prescribe two criteria, relevant to this docket, for recovery of environmental compliance costs through the clause. Pursuant to Order No. PSC-94-0044-FOF-EI, these criteria are:

- (1) The activities are legally required to comply with a governmentally imposed environmental regulation that was created, became effective, or whose effect was triggered after the company's last test year upon which rates are based.
- (2) None of the expenditures are being recovered through some other cost recovery mechanism or through base rates.¹

With respect to the second criterion, staff has not found any information that suggests that the costs, for which DEF is seeking recovery, are being recovered through base rates or any other cost recovery mechanism. Therefore, staff's review of the proposed activities is focused on

¹ See Order No. PSC-94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI, In re: Petition to establish an environmental cost recovery clause pursuant to Section 366.0825, Florida Statutes by Gulf Power Company.

whether or not the proposed activities are necessary for compliance with governmentally imposed environmental regulation. Also staff will evaluate whether the proposed activities are prudent at this time.

Staff's Summary and Analysis of DEF's Proposed Activities

CR 1 and 2 both entered commercial service prior to 1970 and are located at DEF's Crystal River Energy Complex (Crystal River Site). Current air permits allow the units to continue operating on coal through 2020, presuming compliance with all applicable regulations.² Currently applicable regulations include MATS and CAVR, which DEF asserts are the governmentally imposed regulations that require the activities proposed in the Petition.

Mercury and Air Toxics Standards Rule (MATS)

On February 16, 2012, the EPA issued the MATS rule. The MATS rule imposes emission limits for: (1) mercury; and (2) acid gases (hydrochloric acid) on coal and oil-fired electric utility generating units, including CR 1 and 2 and Crystal River Units 4 and 5.³ MATS compliance for existing coal-fired power plants, is required by April 16, 2015, with a provision for a one-year extension under limited circumstances. Based on existing data, CR 1 and 2, as currently operated, would exceed the previously mentioned emission limits set by MATS.

Subsequent to the issuance of the MATS rule, the Florida Reliability Coordinating Council (FRCC) performed a study evaluating the potential impact of shutting-down CR 1 and 2 in 2015 as a means for compliance with MATS. In its study, the FRCC determined that significant reliability issues would result from the retirement/shutdown of the Crystal River units (Including Crystal River Unit 3). The FRCC study concluded that an extension of at least one-year on the MATS compliance deadline is needed for reliability purposes.

The FRCC also determined that the addition of new generation, specifically a 1,179 megawatt combined cycle power plant, in the vicinity of the existing Crystal River plant, combined with other projects and operating solutions, would resolve the reliability issues created by the shutdown of CR 1 and 2 and Crystal River Unit 3. On February 6, 2014, the Florida

² In support of efforts to address CAVR requirements for SO₂ and NO_x (scheduled to take effect in 2018), Florida Department of Environmental Protection issued new air permits for CR 1 and 2. The new permits, issued in September and October 2012, required DEF to install Flue Gas Desulfurization and Selective Catalytic Reduction on CR 1 and 2 by 2018 or cease coal fired operation of the units on or before the end of 2020. On April 30, 2013, DEF notified the Florida Department of Environmental Protection of its decision to shut down CR 1 and 2 by December 31, 2020.

³ See 40 CFR 63.9981 (applying the regulation to operators of coal-fired EGUs); 40 CFR 63.9982 (describing sources affected by the new regulation including existing coal-fired EGUs); 40 CFR 63.10042 (defining "coal-fired electric utility steam generating unit" to mean an electric utility steam generating unit meeting the definition of "fossil fuel-fired" that burns coal for more than 10.0 percent of the average annual heat input during any three consecutive calendar years or for more than 15.0 percent of the annual heat input during any one calendar year and providing that "fossil fuel-fired" means in part, an electric utility steam generating unit that is capable of combusting more than 25 MW of fossil fuels; and, Table 2 of 40 C.F.R. Part 63, Subpart UUUUU (Emission Limits for Existing EGUs). (Table 2 to 40 C.F.R. Part 63, Subpart UUUUU, Table 2 also contains limits for particulate emissions, however, data provided by DEF indicates that CR 1 and 2 meet these requirements.).

Department of Environmental Protection (DEP) granted DEF's request for a one-year extension citing the results of the FRCC's study. Therefore, MATS compliance for CR 1 and 2 is required by April 16, 2016.

Based on 2013 data, Crystal River Units 4 and 5 operate within the MATS limits; however, CR 1 and 2 would require more than \$1 billion of additional emission control systems to meet these limits as stand-alone units.⁴ Therefore, DEF evaluated complying with the site-wide averaging provisions of the MATS rule which allows averaging of emissions across co-located units at a plant site like the Crystal River Site. DEF asserts that applying the site-wide averaging provision of MATS coupled with the use of alternative coal and the addition of less expensive pollution controls, such as the controls proposed in the Petition, will allow DEF to reliably comply with the requirements of MATS by the April 2016 compliance date.

DEF identified and compared the merits of pursuing the following alternatives for compliance with MATS by the 2016 compliance date:

Alternative 1: Retire CR 1 and 2 in April 2016 and meet system requirements with purchased power and/or new resources in a manner that the grid would support. This alternative includes several transmission projects that would need to be completed between 2014 and 2017.

Alternative 2: Establish a MATS compliance plan for CR 1 and 2 and configure the units to operate in compliance through mid-2018, and establish a resource plan to provide for replacement combined cycle generation in that timeframe. This alternative includes a competitive solicitation for combined cycle energy and capacity starting in 2018, identification of additional resources needed in 2016 and beyond, and a transmission plan that supports the required resources.

DEF assessed the transmission resources required to support the replacement power alternatives under consideration in Alternative 1 and estimates that the transmission projects will cost \$150 million. Additionally, while the issues identified by the FRCC's study may be addressed with transmission system upgrades, DEF expressed concern regarding the timing of the required upgrades. Based on the timing and magnitude of the projects needed to support Alternative 1, staff believes such concerns are reasonable.

In the 2013 ECRC proceeding, the Commission approved coal trials for the Company to evaluate alternate fuel options that may allow DEF to continue operating CR 1 and 2 beyond the MATS compliance date. Based on the results of DEF's coal trials, the Company has determined that use of coal with lower levels of mercury and chlorides, and the installation of dry sorbent injection and activated carbon injection will allow DEF to continue operating CR 1 and 2 and comply with MATS.

The dry sorbent injection systems utilizing hydrated lime are needed to reduce acid gas emissions. DEF estimates, based on 2013 data, that the dry sorbent injection systems will reduce

⁴ See DEF Response to Staff's First Data Request, Item No. 17 for cost estimate.

hydrochloric acid emissions at the Crystal River Site thus allowing it to operate in compliance with MATS. Based on staff's review, DEF's assertion appears to be accurate.⁵

DEF asserts, based on 2013 data, that the activated carbon injection systems will reduce mercury emissions at the Crystal River Site thus providing additional reliability support for the system in the event of an outage at Crystal River Units 4 and 5.⁶ Currently, the Crystal River Site operates at the MATS limit for mercury emissions. As discussed, CR 1 and 2 are not MATS compliant on a stand alone basis. Therefore, under the site-wide averaging provision of MATS, compliance is largely dependent on the operation of Crystal River Units 4 and 5. Based on staff's review, the activated carbon injection systems appear to provide a margin necessary for reliable operation of CR 1 and 2.

After DEF established a MATS compliance plan for CR 1 and 2 to operate in compliance through mid-2018, the Company performed an economic evaluation comparing the previously discussed alternatives. Based on its economic evaluation, DEF estimates that Alternative 2, including the \$28 million associated with the activities proposed in the Petition, will result in a net present value savings of approximately \$307 million, with cumulative savings beginning in 2017, when compared to retiring the units in 2016. In this context, significant savings are associated with avoided transmission projects and avoided purchased power agreements that would be needed in the 2016 through 2018 timeframe for reliability purposes.

Based on the information provided by DEF, staff believes that the proposed dry sorbent injection and activated carbon injection systems are necessary for DEF to continue reliable operation of CR 1 and 2 in compliance with MATS. Furthermore, staff believes that DEF's economic evaluation demonstrates that the addition of the proposed systems is the most cost-effective means for compliance with the requirements of MATS.

Clean Air Visibility Rule (CAVR)

In June 2005, the EPA finalized the CAVR which requires state agencies to improve visibility in national park and wilderness areas. Current air permit requirements, issued by the DEP, limit particulate emissions and opacity for CR 1 and 2.⁷

CR 1 and 2 operate with electrostatic precipitators to reduce particulate emissions and meet the regulatory requirements for CAVR related emission levels. However, the alternate coal usage and the injections from the new pollution controls (necessary for compliance with MATS) reduce the efficiency of the existing electrostatic precipitators and the estimated emissions would exceed the limits set in DEF's air permit. In order to address the reduced efficiency DEF is proposing changes to the electrostatic precipitators to meet the limits set in DEF's air permit.

DEF estimates that the proposed changes to the electrostatic precipitators will allow the Company to continue operation of CR 1 and 2 in compliance with CAVR. The cost for these changes are included in DEF's estimated \$28 million project cost. DEF has scheduled tests in

⁵ Compare Table 2 of 40 C.F.R. Part 63, Subpart UUUUU with DEF's response to Staff's Second Data Request, Item No. 11.

⁶ See DEF Response to Staff's Second Data Request, Item No. 4.

⁷ DEP air permit No. 0170004-017-AC.

2014 and 2015 to assess the performance of the electrostatic precipitators. In addition, once the installation and commissioning for all of the compliance projects has been completed, additional testing will be scheduled to confirm expected levels of performance and to demonstrate compliance.

Based on the information provided by DEF, staff believes that the proposed changes to the electrostatic precipitators are necessary for DEF to continue reliable operation of CR 1 and 2 under the environmental requirements including CAVR.

Comments Filed by Sierra Club and Earthjustice

On March 25, 2014, Sierra Club filed comments as interested persons in this docket. Sierra Club's comments state that DEF should retire CR 1 and 2 in 2016 because additional MATS compliance expenditures are not prudent. Sierra Club identified three key reasons for which it believes the Commission should deny the Petition: (1) DEF has not fully accounted for the costs of continued operation of CR 1 and 2; (2) DEF fails to account for how energy efficiency could help meet load requirements in the absence of CR 1 and 2; and (3) DEF has given "short shrift" to renewable resources.

To summarize Sierra Club's first reason for denial of the Petition, it asserts that compliance with EPA rules expected to take effect in the next six years will cost over \$1 billion for CR 1 and 2. However, it appears to staff that several of the EPA rules identified by Sierra Club are speculative at this time. As an example, Sierra Club identifies the Cross-State Air Pollution Rule (CSAPR) as a rule that "could" come into effect and as a result DEF and its customers "would likely face" additional costs of approximately \$182 million.

With respect to its second reason for denial, Sierra Club, on page 9 of its comments, acknowledges the demand-side management goal setting process as part of Florida's "comprehensive resource planning process." Yet, on page 7 of its comments, Sierra Club also recommends that DEF "move to incremental annual energy savings of 1 percent to 2 percent relative to sales over the next five or six years." Such a recommendation is more appropriate in DEF's upcoming demand-side management goals docket (Docket No. 130200-EI) scheduled for hearing in July 2014.

Lastly, Sierra Club's third reason for denial contends that DEF should pursue additional renewable resources. However, staff notes that, according to DEF's 2013 Ten-Year Site Plan, the Company continues to keep an open request for soliciting proposals for renewable energy projects. To date, the Company has logged over 300 responses. In the Commission's Review of the 2013 Ten-Year Site Plans, it was estimated that approximately 966 megawatts of renewable generation would be added over the ten year planning horizon. Approximately 55 percent (540 megawatts) is contracted with DEF.

As discussed in staff's analysis, compliance requirements for MATS are known at this time and proceeding with the proposed activities is estimated to result in more than \$300 million in savings when compared to retiring CR 1 and 2 in 2016, with net savings as soon as 2017. The short term extended operation of CR 1 and 2 appears to be a rational balance between

environmental compliance and maintaining grid reliability. Therefore, staff recommends that the Commission approve DEF's Petition.

Conclusion

Based on DEF's Petition and the Company's responses to data requests, staff recommends that the proposed activities would not be carried out but for DEF's obligation to comply with a government-imposed environmental regulation. Staff has not found any information that suggests that the costs, for which DEF is seeking recovery, are being recovered through base rates or any other cost recovery mechanism. Additionally, staff recommends that DEF's proposed activities are the most cost-effective way to comply with MATS and CAVR. Thus, staff recommends that the proposed program meets the criteria for ECRC cost recovery and DEF's request should be approved.

Issue 2: Should this docket be closed?

Recommendation: Yes. This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action. (Murphy)

Staff Analysis: This docket should be closed upon issuance of a Consummating Order unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of the issuance of the proposed agency action.

Table 1: Estimated ECRC Retail Factor Impact (\$/1,000 kWh)^{8,9}

2014	N/A
2015	0.32
2016	0.13
2017	0.11
2018	0.07
2019	0.17
2020	0.15
2021	0.14

⁸ See DEF's response to Staff's First Data Request, Item No. 31.

⁹ Per DEF's response to Staff's First Data Request, Item No. 33, the Company intends to recover any unrecovered costs associated with the proposed activities at CR 1 and 2 retirements through the ECRC over a three-year amortization period.

Item 7

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (M. Watts) *MC CLK PV TB*
Division of Accounting and Finance (Cicchetti) *CP*
Division of Economics (Roberts) *TR SH P Q J.W.D.*
Office of the General Counsel (Klancke) *CMK JSC*

RE: Docket No. 130229-WS – Application for amendment of territory for Certificate Nos. 622-W and 564-S in Volusia and Brevard Counties by Farmton Water Resources LLC.

AGENDA: 04/10/14 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On August 26, 2013, Farmton Water Resources LLC (Farmton or Utility) filed a notice to amend Certificate Nos. 622-W and 564-S to extend and delete service territory in Volusia and Brevard Counties. Farmton is a Class C water and wastewater utility in Volusia and Brevard Counties serving three water customers and no wastewater customers. The Utility is located in the St. Johns River Water Management District, which has permanent water restriction rules in place. According to the Utility's 2012 Annual Report, combined operating revenues were \$1,433 with a total net operating loss of \$34,711. The Utility plans to extend and delete its certificated water and wastewater service areas as described in Attachment A.

Docket No. 130229-WS

Date: March 27, 2014

On January 2, 2014, Ms. Lesley Blackner, representing the Volusia Flagler Sierra Club, contacted legal staff regarding the instant docket. She was subsequently made an interested party in the docket and kept apprised of the pendency of the docket.

Farmton was granted Certificate No. 622-W in 2004¹ and 564-S in 2012.² The Commission has jurisdiction pursuant to Sections 367.045 and 367.071, Florida Statutes (F.S.).

¹ See Order No. PSC-04-0980-FOF-WU, issued October 8, 2004, in Docket 021256-WU, In re: Application for certificate to provide water service in Volusia and Brevard Counties by Farmton Water Resources LLC.

² See Order No. PSC-12-0204-PAA-SU, issued April 16, 2012, in Docket 110298-SU, In re: Application for certificate to provide wastewater service in Volusia and Brevard Counties by Farmton Water Resources LLC.

Discussion of Issues

Issue 1: Should the Commission approve Farmton's application for amendment of Certificate Nos. 622-W and 564-S in Volusia and Brevard Counties?

Recommendation: Yes. It is in the public interest to amend Certificate Nos. 622-W and 564-S to reflect the territory as described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as Farmton's amended certificates and should be retained by the Utility. The Utility should charge the customers in the territory added herein the rates and charges contained in its current tariffs until a change is authorized by the Commission in a subsequent proceeding. (M. Watts, Klancke)

Staff Analysis: The Utility's application to amend its authorized service territory was submitted in accordance to Rule 25-30.036, Florida Administrative Code (F.A.C.). The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. No timely objections to the application have been received and the time for filing such expired on September 30, 2013.

The proposed service territory amendment is intended to amend the wastewater certificate to include the territory within Volusia County currently included in its water service territory and to extend both the water and wastewater territories so that they cover all of the properties now owned by the related party landowners. The proposed amendment also serves to delete a parcel from the existing water service territory to recognize the existing water and wastewater service area of the City of Edgewater, and to delete several parcels within the existing wastewater service territory that are no longer owned by the related party landowners. Upon completion of all proposed amendments, the territory covered by Farmton's water and wastewater certificates will be identical.

Farmton's current water service customers include tree farming operations and hunting camp activities. These include one residential connection, two general service connections, and one fire connection. The Utility's plans for future phases adhere to the comprehensive plan development entitlements of Volusia and Brevard Counties. These plans allow for the development of 18,408 residential units and 3,879,783 square feet of commercial space in Volusia County, and 2,306 residential units and 1,250,000 square feet of commercial space in Brevard County. The application contains warranty deeds as evidence that the Utility owns the land upon which the Utility's water and wastewater treatment facilities are located. Adequate service territory maps and territory descriptions have also been provided. The Utility's application included a statement indicating that through the funding and financial support of its managing member, Farmton Management LLC, it will have the financial backing to provide the financial and operating support necessary for the Utility to be successful.

The Utility's current facilities consist of three 4-inch wells with hand-operated pumps. One of these wells is in the area proposed for deletion. As required by Rule 25-30.036(4)(h), F.A.C., the Utility provided statements regarding effect on customers' ability to get water and wastewater service in the area proposed for deletion. Farmton stated a portion of its existing water service territory in Volusia County has been designated for inclusion in the City of Edgewater's water service territory; therefore, any potential customers in that territory would

seek service from the City of Edgewater. Also, the Utility has one customer, the Miami Tract Hunt Club, that utilizes a well in the area proposed for deletion in support of hunting operations. Unlike residential or commercial operations, which have geographically fixed water demands, the hunting operations are conducted throughout the Farmton property and do not have a specific water demand location. The Utility has two other wells of similar design on its property that will remain available to support the hunting operations.

Based on the foregoing, staff recommends it is in the public interest to amend Certificate Nos. 622-W and 564-S to reflect the territory as described in Attachment A, effective the date of the Commission's vote. The resultant order should serve as Farmton's amended certificates and should be retained by the Utility. The Utility should charge the customers in the territory added herein the rates and charges contained in its current tariff until a change is authorized by the Commission in a subsequent proceeding.

Docket No. 130229-WS

Date: March 27, 2014

Issue 2: Should this docket be closed?

Recommendation: Yes. If staff's recommendation in Issue 1 is approved, no further action is required and the docket should be closed. (Klancke)

Staff Analysis: If Issue 1 is approved, no further action is required and the docket should be closed.

Water Extension Areas

THE WEST 1/2 OF THE SOUTHEAST 1/4 OF THE NORTHWEST 1/4 OF SECTION 30, TOWNSHIP 19 SOUTH, RANGE 34 EAST, VOLUSIA COUNTY, FLORIDA.

THE WEST 1/2 OF THE SOUTHWEST 1/4 OF THE SOUTHEAST 1/4; AND THE WEST 1/2 OF THE EAST 1/2 OF THE NORTHWEST 1/4 OF THE SOUTHEAST 1/4, ALL IN SECTION 7, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

THE EAST 1/4 OF THE SOUTHWEST 1/4 OF THE NORTHWEST 1/4 OF SECTION 6, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

THE EAST 1/4 OF THE SOUTHWEST 1/4 OF THE NORTHWEST 1/4 OF SECTION 6, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

THE WEST 1/2 OF THE NORTHWEST 1/4 OF THE NORTHEAST 1/4 OF SECTION 27, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

ALL OF SECTIONS 9, 15, 16, AND 21, AND THAT PART OF THE JOSEPH DELESPINE GRANT, SECTION 41, LYING WEST OF THE FORMER RAILROAD RIGHT OF WAY, ALL IN TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA.

A PART OF CAPE ATLANTIC ESTATES, SECTION K-4 AND CAPE ATLANTIC ESTATES, SECTION K-4 FIRST ADDITION, UNRECORDED SUBDIVISIONS IN LOTS 3 AND 4 OF THE WISCONSIN-FLORIDA FRUIT LAND COMPANY SUBDIVISION, RECORDED IN MAP BOOK 2, PAGE 43, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, AND A PART OF LOT 6, PABLO FONTAINE GRANT, RECORDED IN DEED BOOK "D", PAGE 525, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, ALL BEING IN THE JOSEPH DELESPINE GRANT, SECTION 41, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE CENTERLINE OF STATE ROAD NO. 9 (INTERSTATE NO. 95), WITH THE CENTERLINE OF COUNTY ROAD NO. 5A (STUCK WAY ROAD) AS NOW ESTABLISHED, RUN S.46°46'30"W. ALONG THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 700.00 FEET TO THE POINT OF BEGINNING; THENCE RUN ALONG THE LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9 THE FOLLOWING COURSES AND DISTANCES: S.43°13'30"E., A DISTANCE OF 100.00 FEET; THENCE N.46°46'30"E., A DISTANCE OF 100.00 FEET; THENCE S.80°09'25"E., A DISTANCE OF 124.82 FEET; THENCE S.27°54'28"E., A DISTANCE OF 470.67 FEET; THENCE DEPARTING SAID LIMITED ACCESS RIGHT OF WAY LINE, RUN S.72°12'58"W., A DISTANCE OF 727.92 FEET TO THE WEST RIGHT OF WAY LINE OF JABEZ ROAD, AN 80 FOOT RIGHT OF WAY; THENCE N.17°46'00"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 266.94 FEET; THENCE N.43°13'30"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 100.00 FEET; THENCE S.46°46'30"W. ALONG THE WESTERLY EXTENSION OF THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 229.28 FEET TO A POINT OF CURVE TO THE RIGHT HAVING A RADIUS OF 1,599.41 FEET AND A CENTRAL ANGLE OF 14°32'09", A CHORD DISTANCE OF 404.68 FEET, AND A CHORD BEARING OF S.54°02'34"W.; THENCE RUN SOUTHWESTERLY ALONG THE ARC OF SAID CURVE AND SAID WESTERLY CENTERLINE EXTENSION A DISTANCE OF 405.76 FEET; THENCE DEPARTING SAID CENTERLINE EXTENSION, RUN S.13°57'30"E., A DISTANCE OF 547.24

FEET; THENCE N.76°02'30"E., A DISTANCE OF 421.73 FEET; THENCE S.17°46'00"E., A DISTANCE OF 140.31 FEET; THENCE S.76°02'30"W., A DISTANCE OF 151.05 FEET; THENCE S.13°57'30"E., A DISTANCE OF 350.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 174.35 FEET; THENCE S.17°46'00"E., A DISTANCE OF 278.77 FEET; THENCE N.72°14'00"E., A DISTANCE OF 250.00 FEET TO THE WESTERLY RIGHT OF WAY LINE OF SAID JABEZ ROAD; THENCE S.17°46'00"E. ALONG SAID WESTERLY RIGHT OF WAY LINE, A DISTANCE OF 940.53 FEET; THENCE DEPARTING SAID WESTERLY RIGHT OF WAY LINE, RUN S.76°02'30"W., A DISTANCE OF 644.78 FEET; THENCE S.13°57'30"E., A DISTANCE OF 430.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 230.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 100.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 990.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 390.57 FEET; THENCE N.11°14'36"W., A DISTANCE OF 495.56 FEET; THENCE N.76°02'30"E., A DISTANCE OF 697.09 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 165.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 495.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 335.79 FEET; THENCE S.11°14'36"E., A DISTANCE OF 147.16 FEET; THENCE S.78°46'46"W., A DISTANCE OF 439.39 FEET; THENCE S.11°14'07"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.12 FEET; THENCE N.11°13'56"W., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.09 FEET; THENCE S.11°13'46"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 1445.21 FEET; THENCE S.78°48'07"W., A DISTANCE OF 289.01 FEET; THENCE S.11°13'11"E., A DISTANCE OF 385.00 FEET; THENCE S.78°48'07"W., A DISTANCE OF 371.07 FEET TO THE EASTERLY RIGHT OF WAY LINE OF THE FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL (FORMERLY FLORIDA EAST COAST RAILROAD); THENCE S.37°50'30"W. ACROSS SAID RIGHT OF WAY, A DISTANCE OF 200.00 FEET; THENCE N.52°09'30"W. ALONG THE WESTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 2,074.25 FEET; THENCE N.37°50'30"E. ACROSS SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 200.00 FEET; THENCE DEPARTING THE EASTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, RUN N.78°48'07"E., A DISTANCE OF 574.28 FEET; THENCE S.11°12'47"E., A DISTANCE OF 411.40 FEET; THENCE N.78°48'07"E., A DISTANCE OF 578.01 FEET; THENCE N.11°13'00"W., A DISTANCE OF 785.00 FEET; THENCE N.78°48'07"E., A DISTANCE OF 288.98 FEET; THENCE S.11°13'06"E., A DISTANCE OF 373.60 FEET; THENCE N.78°48'07"E., A DISTANCE OF 577.97 FEET; THENCE N.11°13'14"W., A DISTANCE OF 373.60 FEET; THENCE N.78°46'46"E., A DISTANCE OF 2,312.27 FEET; THENCE N.11°14'36"W., A DISTANCE OF 238.49 FEET; THENCE N.76°02'30"E., A DISTANCE OF 150.17 FEET; THENCE N.11°14'36"W., A DISTANCE OF 660.74 FEET; THENCE N.76°02'30"E., A DISTANCE OF 419.41 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 660.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 660.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 303.38 FEET TO THE WESTERLY LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9; THENCE RUN ALONG SAID LIMITED ACCESS RIGHT OF WAY LINE THE FOLLOWING COURSES AND DISTANCES; S.07°26'19"E., A DISTANCE OF 470.13 FEET; THENCE S.00°56'30"E., A DISTANCE OF 962.19 FEET; THENCE S.20°12'40"W., A DISTANCE OF 223.61 FEET; THENCE S.46°46'30"W., A DISTANCE OF 100.00 FEET; THENCE S.43°13'30"E., A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

A PART OF THE BERNARDO SEGUI GRANT, SECTION 42, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE SOUTH LINE OF SAID BERNARDO SEGUI GRANT, WITH THE WEST LINE OF SAID TOWNSHIP 20 SOUTH, RANGE 34 EAST, RUN N.78°54'18"E., ALONG THE SOUTH LINE OF SAID BERNARDO SEGUI GRANT A DISTANCE OF 12476.74 FEET; THENCE DEPARTING SAID SOUTH LINE, RUN N.16°50'37"W., A DISTANCE OF 2637.50 FEET TO THE POINT OF BEGINNING; THENCE CONTINUE N.16°50'37"W., A DISTANCE OF 662.25 FEET; THENCE N.78°54'29"E., A DISTANCE OF 660.35 FEET; THENCE S.16°50'37"E., A DISTANCE OF 662.25 FEET; THENCE S.78°54'29"W., A DISTANCE OF 660.35 FEET TO THE POINT OF BEGINNING.

A PART OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

FROM THE NORTHWEST CORNER OF SAID SECTION 18, RUN N.89°21'35"E., ALONG THE NORTH LINE OF SAID SECTION 18, A DISTANCE OF 1535.53 FEET; THENCE DEPARTING SAID NORTH LINE, RUN S.00°51'37"E., A DISTANCE OF 510.23 FEET TO THE POINT OF BEGINNING; THENCE S.89°49'16"E., A DISTANCE OF 520.48 FEET; THENCE S.00°51'37"E., A DISTANCE OF 154.15 FEET; THENCE S.89°10'43"E., A DISTANCE OF 520.39 FEET; THENCE N.00°51'37"W., A DISTANCE OF 163.64 FEET TO THE POINT OF BEGINNING.

THAT PART OF THE FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL (FORMERLY FLORIDA EAST COAST RAILROAD) LYING IN THE SOUTHWEST ¼ OF THE SOUTHEAST ¼ OF SECTION 30, TOWNSHIP 19 SOUTH, RANGE 34 EAST, VOLUSIA COUNTY, FLORIDA.

Water Deletion Areas

ALL OF SECTION 14, TOWNSHIP 18 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

Wastewater Extension Areas

A PART OF CAPE ATLANTIC ESTATES, SECTION K-4, UNRECORDED SUBDIVISION IN LOTS 3 AND 4 OF THE WISCONSIN-FLORIDA FRUIT LAND COMPANY SUBDIVISION, RECORDED IN MAP BOOK 2, PAGE 43, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, AND A PART OF LOT 6, PABLO FONTAINE GRANT, RECORDED IN DEED BOOK "D", PAGE 525, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, ALL BEING IN THE JOSEPH DELESPINE GRANT, SECTION 41, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE CENTERLINE OF STATE ROAD NO. 9 (INTERSTATE NO. 95), WITH THE CENTERLINE OF COUNTY ROAD NO. 5A (STUCKWAY ROAD) AS NOW ESTABLISHED, RUN S.46°46'30"W. ALONG THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 700.00 FEET; THENCE RUN ALONG THE LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9 THE FOLLOWING COURSES AND DISTANCES; S.43°13'30"E., A DISTANCE OF 100.00 FEET; THENCE N.46°46'30"E., A DISTANCE OF 100.00 FEET; THENCE S.80°09'25"E., A DISTANCE OF 124.82 FEET; THENCE S.27°54'28"E., A DISTANCE OF 470.67 FEET; THENCE DEPARTING SAID LIMITED ACCESS RIGHT OF WAY LINE, RUN S.72°12'58"W., A DISTANCE OF 727.92 FEET TO THE WEST RIGHT OF WAY LINE OF JABEZ ROAD, AN 80 FOOT RIGHT OF WAY; THENCE N.17°46'00"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 266.94 FEET; THENCE N.43°13'30"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 100.00 FEET; THENCE S.46°46'30"W. ALONG THE WESTERLY EXTENSION OF THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 229.28 FEET TO A POINT OF CURVE TO THE RIGHT HAVING A RADIUS OF 1,599.41 FEET AND A CENTRAL ANGLE OF 14°32'09", A CHORD DISTANCE OF 404.68 FEET, AND A CHORD BEARING OF S.54°02'34"W.; THENCE RUN SOUTHWESTERLY ALONG THE ARC OF SAID CURVE AND SAID WESTERLY CENTERLINE EXTENSION A DISTANCE OF 405.76 FEET; THENCE DEPARTING SAID CENTERLINE EXTENSION, RUN S.13°57'30"E., A DISTANCE OF 547.24 FEET; THENCE N.76°02'30"E., A DISTANCE OF 421.73 FEET;

THENCE S.17°46'00"E., A DISTANCE OF 140.31 FEET; THENCE S.76°02'30"W., A DISTANCE OF 151.05 FEET; THENCE S.13°57'30"E., A DISTANCE OF 350.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 174.35 FEET; THENCE S.17°46'00"E., A DISTANCE OF 278.77 FEET; THENCE N.72°14'00"E., A DISTANCE OF 250.00 FEET TO THE WESTERLY RIGHT OF WAY LINE OF SAID JABEZ ROAD; THENCE S.17°46'00"E. ALONG SAID WESTERLY RIGHT OF WAY LINE, A DISTANCE OF 940.53 FEET; THENCE DEPARTING SAID WESTERLY RIGHT OF WAY LINE, RUN S.76°02'30"W., A DISTANCE OF 644.78 FEET; THENCE S.13°57'30"E., A DISTANCE OF 430.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 230.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 100.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 990.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 390.57 FEET; THENCE N.11°14'36"W., A DISTANCE OF 495.56 FEET; THENCE N.76°02'30"E., A DISTANCE OF 697.09 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 165.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 495.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 335.79 FEET; THENCE S.11°14'36"E., A DISTANCE OF 147.16 FEET; THENCE S.78°46'46"W., A DISTANCE OF 439.39 FEET; THENCE N.11°14'07"W., A DISTANCE OF 385.00 FEET TO THE POINT OF BEGINNING; THENCE S.78°46'46"W., A DISTANCE OF 144.54 FEET; THENCE N.11°14'01"W., A DISTANCE OF 385.00 FEET; THENCE N.78°46'46"E., A DISTANCE OF 144.53 FEET; THENCE S.11°14'07"E., A DISTANCE OF 385.00 FEET TO THE POINT OF BEGINNING.

A PART OF CAPE ATLANTIC ESTATES, SECTION K-4, UNRECORDED SUBDIVISION IN LOTS 3 AND 4 OF THE WISCONSIN-FLORIDA FRUIT LAND COMPANY SUBDIVISION, RECORDED IN MAP BOOK 2, PAGE 43, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, AND A PART OF LOT 6, PABLO FONTAINE GRANT, RECORDED IN DEED BOOK "D", PAGE 525, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, ALL BEING IN THE JOSEPH DELESPINE GRANT, SECTION 41, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE CENTERLINE OF STATE ROAD NO. 9 (INTERSTATE NO. 95), WITH THE CENTERLINE OF COUNTY ROAD NO. 5A (STUCKWAY ROAD) AS NOW ESTABLISHED, RUN S.46°46'30"W. ALONG THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 700.00 FEET; THENCE RUN ALONG THE LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9 THE FOLLOWING COURSES AND DISTANCES: S.43°13'30"E., A DISTANCE OF 100.00 FEET; THENCE N.46°46'30"E., A DISTANCE OF 100.00 FEET; THENCE S.80°09'25"E., A DISTANCE OF 124.82 FEET; THENCE S.27°54'28"E., A DISTANCE OF 470.67 FEET; THENCE DEPARTING SAID LIMITED ACCESS RIGHT OF WAY LINE, RUN S.72°12'58"W., A DISTANCE OF 727.92 FEET TO THE WEST RIGHT OF WAY LINE OF JABEZ ROAD, AN 80 FOOT RIGHT OF WAY; THENCE N.17°46'00"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 266.94 FEET; THENCE N.43°13'30"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 100.00 FEET; THENCE S.46°46'30"W. ALONG THE WESTERLY EXTENSION OF THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 229.28 FEET TO A POINT OF CURVE TO THE RIGHT HAVING A RADIUS OF 1,599.41 FEET AND A CENTRAL ANGLE OF 14°32'09". A CHORD DISTANCE OF 404.68 FEET, AND A CHORD BEARING OF S.54°02'34"W.; THENCE RUN SOUTHWESTERLY ALONG THE ARC OF SAID CURVE AND SAID WESTERLY CENTERLINE EXTENSION A DISTANCE OF 405.76 FEET; THENCE DEPARTING SAID CENTERLINE EXTENSION, RUN S.13°57'30"E., A DISTANCE OF 547.24 FEET; THENCE N.76°02'30"E., A DISTANCE OF 421.73 FEET; THENCE S.17°46'00"E., A DISTANCE OF 140.31 FEET; THENCE S.76°02'30"W., A DISTANCE OF 151.05 FEET; THENCE S.13°57'30"E., A DISTANCE OF 350.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 174.35 FEET; THENCE S.17°46'00"E., A DISTANCE OF 278.77 FEET; THENCE N.72°14'00"E., A DISTANCE OF 250.00 FEET TO THE WESTERLY RIGHT OF WAY LINE OF SAID JABEZ ROAD; THENCE S.17°46'00"E. ALONG SAID WESTERLY RIGHT OF WAY LINE, A DISTANCE OF 940.53 FEET; THENCE

DEPARTING SAID WESTERLY RIGHT OF WAY LINE, RUN S.76°02'30"W., A DISTANCE OF 644.78 FEET; THENCE S.13°57'30"E., A DISTANCE OF 430.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 230.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 100.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 990.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 390.57 FEET; THENCE N.11°14'36"W., A DISTANCE OF 495.56 FEET; THENCE N.76°02'30"E., A DISTANCE OF 697.09 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 165.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 165.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 335.79 FEET; THENCE S.11°14'36"E., A DISTANCE OF 147.16 FEET; THENCE S.78°46'46"W., A DISTANCE OF 439.39 FEET; THENCE S.11°14'07"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.12 FEET; THENCE N.11°13'56"W., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.09 FEET; THENCE S.11°13'46"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 1445.21 FEET; THENCE S.78°48'07"W., A DISTANCE OF 289.01 FEET; THENCE S.11°13'11"E., A DISTANCE OF 385.00 FEET; THENCE S.78°48'07"W., A DISTANCE OF 371.07 FEET TO THE EASTERLY RIGHT OF WAY LINE OF THE FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL (FORMERLY FLORIDA EAST COAST RAILROAD RIGHT OF WAY); THENCE S.37°50'30"W., ACROSS SAID RIGHT OF WAY, A DISTANCE OF 200.00 FEET; THENCE N.52°09'30"W. ALONG THE WESTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 2,074.25 FEET; THENCE N.37°50'30"E. ACROSS SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 200.00 FEET; THENCE DEPARTING THE EASTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, RUN N.78°48'07"E., A DISTANCE OF 574.28 FEET; THENCE S.11°12'47"E., A DISTANCE OF 411.40 FEET; THENCE N.78°48'07"E., A DISTANCE OF 578.01 FEET; THENCE N.11°13'00"W., A DISTANCE OF 785.00 FEET; THENCE N.78°48'07"E., A DISTANCE OF 288.98 FEET; THENCE S.11°13'06"E., A DISTANCE OF 373.60 FEET; THENCE N.78°48'07"E., A DISTANCE OF 577.97 FEET; THENCE N.11°13'14"W., A DISTANCE OF 373.60 FEET; THENCE N.78°46'46"E., A DISTANCE OF 2,312.27 FEET; THENCE N.11°14'36"W., A DISTANCE OF 238.49 FEET; THENCE N.76°02'30"E., A DISTANCE OF 150.17 FEET; THENCE N.11°14'36"W., A DISTANCE OF 660.74 FEET; THENCE N.76°02'30"E., A DISTANCE OF 419.41 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET TO THE POINT OF BEGINNING; THENCE CONTINUE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 660.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 990.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 990.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 330.00 FEET TO THE POINT OF BEGINNING.

A PART OF CAPE ATLANTIC ESTATES, SECTION K-4, UNRECORDED SUBDIVISION IN LOTS 3 AND 4 OF THE WISCONSIN-FLORIDA FRUIT LAND COMPANY SUBDIVISION, RECORDED IN MAP BOOK 2, PAGE 43, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, AND A PART OF LOT 6, PABLO FONTAINE GRANT, RECORDED IN DEED BOOK "D", PAGE 525, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, ALL BEING IN THE JOSEPH DELESPINE GRANT, SECTION 41, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE CENTERLINE OF STATE ROAD NO. 9 (INTERSTATE NO. 95), WITH THE CENTERLINE OF COUNTY ROAD NO. 5A (STUCKWAY ROAD) AS NOW ESTABLISHED, RUN S.46°46'30"W. ALONG THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 700.00 FEET; THENCE RUN ALONG THE LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9 THE FOLLOWING COURSES AND DISTANCES: S.43°13'30"E., A DISTANCE OF 100.00 FEET; THENCE

N.46°46'30"E., A DISTANCE OF 100.00 FEET; THENCE S.80°09'25"E., A DISTANCE OF 124.82 FEET; THENCE S.27°54'28"E., A DISTANCE OF 470.67 FEET; THENCE DEPARTING SAID LIMITED ACCESS RIGHT OF WAY LINE, RUN S.72°12'58"W., A DISTANCE OF 727.92 FEET TO THE WEST RIGHT OF WAY LINE OF JABEZ ROAD, AN 80 FOOT RIGHT OF WAY; THENCE N.17°46'00"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 266.94 FEET; THENCE N.43°13'30"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 100.00 FEET; THENCE S.46°46'30"W. ALONG THE WESTERLY EXTENSION OF THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 229.28 FEET TO A POINT OF CURVE TO THE RIGHT HAVING A RADIUS OF 1,599.41 FEET AND A CENTRAL ANGLE OF 14°32'09", A CHORD DISTANCE OF 404.68 FEET, AND A CHORD BEARING OF S.54°02'34"W.; THENCE RUN SOUTHWESTERLY ALONG THE ARC OF SAID CURVE AND SAID WESTERLY CENTERLINE EXTENSION A DISTANCE OF 405.76 FEET; THENCE DEPARTING SAID CENTERLINE EXTENSION, RUN S.13°57'30"E., A DISTANCE OF 547.24 FEET; THENCE N.76°02'30"E., A DISTANCE OF 421.73 FEET; THENCE S.17°46'00"E., A DISTANCE OF 140.31 FEET; THENCE S.76°02'30"W., A DISTANCE OF 151.05 FEET; THENCE S.13°57'30"E., A DISTANCE OF 350.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 174.35 FEET; THENCE S.17°46'00"E., A DISTANCE OF 278.77 FEET; THENCE N.72°14'00"E., A DISTANCE OF 250.00 FEET TO THE WESTERLY RIGHT OF WAY LINE OF SAID JABEZ ROAD; THENCE S.17°46'00"E. ALONG SAID WESTERLY RIGHT OF WAY LINE, A DISTANCE OF 940.53 FEET; THENCE DEPARTING SAID WESTERLY RIGHT OF WAY LINE, RUN S.76°02'30"W., A DISTANCE OF 644.78 FEET; THENCE S.13°57'30"E., A DISTANCE OF 430.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 230.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 250.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 100.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 990.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 390.57 FEET; THENCE N.11°14'36"W., A DISTANCE OF 495.56 FEET; THENCE N.76°02'30"E., A DISTANCE OF 697.09 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 165.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 495.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 165.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 330.00 FEET; THENCE S.11°14'36"E., A DISTANCE OF 147.16 FEET; THENCE S.78°46'46"W., A DISTANCE OF 439.39 FEET; THENCE S.11°14'07"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.12 FEET; THENCE N.11°13'56"W., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 289.09 FEET; THENCE S.11°13'46"E., A DISTANCE OF 385.00 FEET; THENCE S.78°46'46"W., A DISTANCE OF 1445.21 FEET; THENCE S.78°48'07"W. A DISTANCE OF 289.01 FEET; THENCE S.11°13'11"E., A DISTANCE OF 385.00 FEET; THENCE S.78°48'07"W., A DISTANCE OF 371.07 FEET TO THE EASTERLY RIGHT OF WAY LINE OF THE FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL (FORMERLY FLORIDA EAST COAST RAILROAD RIGHT OF WAY); THENCE S.37°50'30"W. ACROSS SAID RIGHT OF WAY, A DISTANCE OF 200.00 FEET; THENCE N.52°09'30"W. ALONG THE WESTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 2,074.25 FEET; THENCE N.37°50'30"E. ACROSS SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, A DISTANCE OF 200.00 FEET; THENCE DEPARTING THE EASTERLY RIGHT OF WAY LINE OF SAID FLORIDA EAST CENTRAL REGIONAL RAIL TRAIL, RUN N.78°48'07"E., A DISTANCE OF 574.28 FEET; THENCE S.11°12'47"E., A DISTANCE OF 411.40 FEET; THENCE N.78°48'07"E., A DISTANCE OF 578.01 FEET; THENCE N.11°13'00"W., A DISTANCE OF 785.00 FEET; THENCE N.78°48'07"E., A DISTANCE OF 288.98 FEET; THENCE S.11°13'06"E., A DISTANCE OF 373.60 FEET; THENCE N.78°48'07"E., A DISTANCE OF 577.97 FEET; THENCE N.11°13'14"W., A DISTANCE OF 373.60 FEET; THENCE N.78°46'46"E., A DISTANCE OF 2,312.27 FEET; THENCE N.11°14'36"W., A DISTANCE OF 238.49 FEET; THENCE N.76°02'30"E., A DISTANCE OF 150.17 FEET; THENCE N.11°14'36"W., A DISTANCE OF 660.74 FEET; THENCE N.76°02'30"E., A DISTANCE OF 419.41 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 660.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 660.00 FEET; THENCE N.76°02'30"E., A

DISTANCE OF 330.00 FEET; THENCE S.13°57'30"E., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 660.00 FEET TO THE POINT OF BEGINNING; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 330.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 330.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 303.38 FEET TO THE WESTERLY LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9; THENCE RUN ALONG SAID LIMITED ACCESS RIGHT OF WAY LINE THE FOLLOWING COURSES AND DISTANCES; S.07°26'19"E., A DISTANCE OF 470.13 FEET; THENCE S.00°56'30"E., A DISTANCE OF 198.00 FEET; THENCE DEPARTING SAID WESTERLY LINE, RUN S.76°02'30"W., A DISTANCE OF 535.40 FEET TO THE POINT OF BEGINNING.

THE WEST 1/2 OF THE SOUTHEAST 1/4 OF THE NORTHWEST 1/4 OF SECTION 30, TOWNSHIP 19 SOUTH, RANGE 34 EAST, VOLUSIA COUNTY, FLORIDA.

THE WEST 1/4 OF THE SOUTHWEST 1/4 OF THE SOUTHEAST 1/4; AND THE WEST 1/4 OF THE EAST 1/4 OF THE NORTHWEST 1/4 OF THE SOUTHEAST 1/4, ALL IN SECTION 7, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

TOWNSHIP 18 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA

THE EAST 1/4 OF SECTIONS 15 AND 22
ALL OF SECTIONS 13, 23, 24, 25, 26, 27, 28, 31, 32, 33, 34, 35 AND 36.

TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA

ALL OF SECTIONS 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29

LESS AND EXCEPT THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF SECTION 5

LESS AND EXCEPT THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4 OF SECTION 6

LESS AND EXCEPT THE SOUTHWEST 1/4 OF THE NORTHWEST 1/4 OF THE SOUTHWEST 1/4; AND THE WEST 1/4 OF THE EAST 1/4 OF THE SOUTHWEST 1/4 OF THE SOUTHWEST 1/4; AND THE EAST 1/4 OF THE NORTHEAST 1/4 OF THE SOUTHWEST 1/4; AND THE WEST 1/2 OF THE NORTHWEST 1/4 OF THE SOUTHEAST 1/4; AND THE WEST 1/4 OF THE NORTHEAST 1/4 OF THE SOUTHEAST 1/4; AND THE WEST 1/4 OF THE SOUTHEAST 1/4 OF THE NORTHEAST 1/4; AND THE EAST 1/4 OF THE SOUTHWEST 1/4 OF THE NORTHEAST 1/4 OF SECTION 7

LESS AND EXCEPT THE EAST 1/4 OF THE WEST 1/4 OF THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4; AND THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4 OF THE SOUTHEAST 1/4 OF SECTION 8

LESS AND EXCEPT THE NORTH 1/4 OF THE NORTHEAST 1/4 OF SECTION 16

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 1535.53 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 246.54 FEET TO THE POINT OF BEGINNING; THENCE RUN S.89°49'16"E., FOR A DISTANCE OF 50.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN N.89°49'16"W., FOR A DISTANCE OF 50.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 1685.52 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 1172.93 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 50.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 50.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 1735.52 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 1472.75 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 50.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 50.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 1960.51 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 872.07 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 75.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 75.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 2145.50 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 751.49 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 75.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 75.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°21'35"E., FOR A DISTANCE OF 2395.49 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 1350.67 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 50.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 50.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THAT PART OF SECTION 18 DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHWEST CORNER OF THE NORTHEAST ¼ OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN N.89°07'51"E., FOR A DISTANCE OF 447.63 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 1050.39 FEET TO THE POINT OF BEGINNING; THENCE RUN N.89°10'43"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.00°51'37"E., FOR A DISTANCE OF 100.00 FEET; THENCE RUN S.89°10'43"W., FOR A DISTANCE OF 100.00 FEET; THENCE RUN N.00°51'37"W., FOR A DISTANCE OF 100.00 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THE WEST ½ OF THE SOUTHWEST ¼; AND THE SOUTHWEST ¼ OF THE NORTHWEST ¼ OF SECTION 19

LESS AND EXCEPT THE EAST ¼ OF THE NORTHEAST ¼ OF THE NORTHEAST ¼ OF SECTION

LESS AND EXCEPT A PORTION OF SECTION 21, MORE PARTICULARLY DESCRIBED AS FOLLOWS: COMMENCE AT THE NORTHEAST CORNER OF SECTION 21, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA; THENCE RUN S.01°38'18"E., ALONG THE EAST LINE OF SAID SECTION 21 FOR A DISTANCE OF 1332.77 FEET TO THE POINT OF BEGINNING; THENCE RUN S.01°38'18"E., FOR A DISTANCE OF 1332.77 FEET; THENCE DEPARTING SAID EAST LINE, RUN S.89°12'21"W., FOR A DISTANCE OF 1322.23 FEET; THENCE RUN N.01°38'54"W., FOR A DISTANCE OF 266.47 FEET; THENCE RUN S.88°45'38"W., FOR A DISTANCE OF 495.81 FEET; THENCE RUN N.01°39'08"W., FOR A DISTANCE OF 1056.03 FEET; THENCE RUN N.88°45'38"E., FOR A DISTANCE OF 1818.23 FEET TO THE POINT OF BEGINNING.

LESS AND EXCEPT THE WEST ¼ OF THE SOUTHWEST ¼ OF THE SOUTHWEST ¼ OF THE NORTHEAST ¼ OF SECTION 22

LESS AND EXCEPT THE EAST 12 CHAINS OF THE SOUTH 10 CHAINS OF THE NORTHEAST ¼ OF THE NORTHWEST ¼; AND THE SOUTHEAST ¼ OF THE NORTHWEST ¼; AND THE SOUTHWEST ¼ OF THE NORTHEAST ¼ OF SECTION 23

TOGETHER WITH THE EAST ¼; THE EAST ¼ OF THE NORTHWEST ¼; AND ALL THAT PART OF THE SOUTHWEST ¼ OF SECTION 30, LYING EAST OF THE ST. JOHNS RIVER

TOGETHER WITH ALL OF THAT PART OF THE NORTHEAST ¼ LYING NORTH OF THE ABANDONED FLORIDA EAST COAST RAILROAD; THE NORTHEAST ¼ OF THE NORTHWEST ¼ AND THE SOUTH 13.67 CHAINS OF THE SOUTHEAST ¼ OF THE NORTHWEST ¼ LYING NORTH AND EAST OF THE ST. JOHNS RIVER OF SECTION 31

TOGETHER WITH ALL OF SECTIONS 32, 33, 34 AND 35 LYING NORTH OF THE ABANDONED FLORIDA EAST COAST RAILROAD RIGHT OF WAY

LESS AND EXCEPT THE SOUTHWEST ¼ OF THE NORTHEAST ¼ OF SECTION 34, LYING NORTH OF THE ABANDONED FLORIDA EAST COAST RAILROAD RIGHT OF WAY

ALL OF SECTION 36
TOWNSHIP 20 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA

ALL OF SECTIONS 1, 12, 13 AND 24
TOWNSHIP 19 SOUTH, RANGE 34 EAST, VOLUSIA COUNTY, FLORIDA

ALL OF SECTIONS 5, 6, 7, 8, 17, 18, 19, 20, 21, 28, 29, 30, 31, 32 AND 33

LESS AND EXCEPT THE SOUTHEAST ¼ OF THE SOUTHWEST ¼ LYING NORTH OF THE FORMER RAILROAD RIGHT-OF-WAY; AND THE SOUTHWEST ¼ OF THE SOUTHEAST ¼ LYING NORTH OF THE FORMER RAILROAD RIGHT OF WAY OF SECTION 30

TOWNSHIP 21 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA
ALL OF SECTION 37

A PART OF SECTION 18, TOWNSHIP 19 SOUTH, RANGE 33 EAST, VOLUSIA COUNTY, FLORIDA.

FROM THE NORTHWEST CORNER OF SAID SECTION 18, RUN N.89°21'35"E., ALONG THE NORTH LINE OF SAID SECTION 18, A DISTANCE OF 1535.53 FEET; THENCE DEPARTING SAID NORTH LINE, RUN S.00°51'37"E., A DISTANCE OF 510.23 FEET TO THE POINT OF BEGINNING; THENCE

S.89°49'16"E., A DISTANCE OF 520.48 FEET; THENCE S.00°51'37"E., A DISTANCE OF 154.15 FEET; THENCE S.89°10'43"E., A DISTANCE OF 520.39 FEET; THENCE N.00°51'37"W., A DISTANCE OF 163.64 FEET TO THE POINT OF BEGINNING.

Wastewater Deletion Areas

A PART OF CAPE ATLANTIC ESTATES, SECTION K-4 FIRST ADDITION, UNRECORDED SUBDIVISION IN LOTS 3 AND 4 OF THE WISCONSIN-FLORIDA FRUIT LAND COMPANY SUBDIVISION, RECORDED IN MAP BOOK 2, PAGE 43, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, AND A PART OF LOT 6, PABLO FONTAINE GRANT, RECORDED IN DEED BOOK "D", PAGE 525, OF THE PUBLIC RECORDS OF BREVARD COUNTY, FLORIDA, ALL BEING IN THE JOSEPH DELESPINE GRANT, SECTION 41, TOWNSHIP 20 SOUTH, RANGE 34 EAST, BREVARD COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

FROM THE INTERSECTION OF THE CENTERLINE OF STATE ROAD NO. 9 (INTERSTATE NO. 95), WITH THE CENTERLINE OF COUNTY ROAD NO. 5A (STUCKWAY ROAD) AS NOW ESTABLISHED, RUN S.46°46'30"W. ALONG THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 700.00 FEET; THENCE RUN ALONG THE LIMITED ACCESS RIGHT OF WAY LINE OF SAID STATE ROAD NO. 9 THE FOLLOWING COURSES AND DISTANCES: S.43°13'30"E., A DISTANCE OF 100.00 FEET; THENCE N.46°46'30"E., A DISTANCE OF 100.00 FEET; THENCE S.80°09'25"E., A DISTANCE OF 124.82 FEET; THENCE S.27°54'28"E., A DISTANCE OF 470.67 FEET; THENCE DEPARTING SAID LIMITED ACCESS RIGHT OF WAY LINE, RUN S.72°12'58"W., A DISTANCE OF 727.92 FEET TO THE WEST RIGHT OF WAY LINE OF JABEZ ROAD, AN 80 FOOT RIGHT OF WAY; THENCE N.17°46'00"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 266.94 FEET; THENCE N.43°13'30"W. ALONG SAID WEST RIGHT OF WAY LINE, A DISTANCE OF 100.00 FEET; THENCE S.46°46'30"W. ALONG THE WESTERLY EXTENSION OF THE CENTERLINE OF SAID COUNTY ROAD NO. 5A, A DISTANCE OF 229.28 FEET TO A POINT OF CURVE TO THE RIGHT HAVING A RADIUS OF 1,599.41 FEET AND A CENTRAL ANGLE OF 14°32'09". A CHORD DISTANCE OF 404.68 FEET, AND A CHORD BEARING OF S.54°02'34"W.; THENCE RUN SOUTHWESTERLY ALONG THE ARC OF SAID CURVE AND SAID WESTERLY CENTERLINE EXTENSION A DISTANCE OF 405.76 FEET; THENCE DEPARTING SAID CENTERLINE EXTENSION, RUN S.13°57'30"E., A DISTANCE OF 547.24 FEET; THENCE N.76°02'30"E., A DISTANCE OF 421.73 FEET; THENCE S.17°46'00"E., A DISTANCE OF 140.31 FEET; THENCE S.76°02'30"W., A DISTANCE OF 151.05 FEET; THENCE S.13°57'30"E., A DISTANCE OF 350.00 FEET; THENCE N.76°02'30"E., A DISTANCE OF 174.35 FEET; THENCE S.17°46'00"E., A DISTANCE OF 278.77 FEET; THENCE N.72°14'00"E., A DISTANCE OF 250.00 FEET TO THE WEST RIGHT OF WAY OF SAID JABEZ ROAD, AND THE POINT OF BEGINNING; THENCE CONTINUE N.72°14'00"E. A DISTANCE OF 313.38 FEET; THENCE S.13°57'30"E., A DISTANCE OF 206.60 FEET; THENCE N.76°02'30"E., A DISTANCE OF 430.00 FEET TO THE WEST RIGHT OF WAY LINE OF SAID INTERSTATE NO. 95; THENCE S.13°57'30"E., ALONG SAID WEST LINE, A DISTANCE OF 220.00 FEET; THENCE DEPARTING SAID WEST LINE, RUN S.76°02'30"W., A DISTANCE OF 400.00 FEET; THENCE N.13°57'30"W., A DISTANCE OF 20.00 FEET; THENCE S.76°02'30"W., A DISTANCE OF 317.01 FEET TO THE WEST RIGHT OF WAY LINE OF SAID JABEZ ROAD; THENCE N.17°46'00"W., ALONG SAID WEST LINE, A DISTANCE OF 386.64 FEET TO THE POINT OF BEGINNING.

FLORIDA PUBLIC SERVICE COMMISSION

**authorizes
Farmton Water Resources LLC
pursuant to
Certificate Number 622-W**

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

Order Number	Date Issued	Docket Number	Filing Type
PSC-04-0980-FOF-WU	10/08/2004	021256-WU	Original Certificate
*	*	130229-WS	Amendment

***Order Numbers and dates to be provided at time of issuance.**

FLORIDA PUBLIC SERVICE COMMISSION

**authorizes
Farmton Water Resources LLC
pursuant to
Certificate Number 564-S**

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

Order Number	Date Issued	Docket Number	Filing Type
PSC-12-0204-PAA-SU	04/16/2012	050192-WS	Original Certificate
*	*	130047-WS	Amendment

***Order Numbers and dates to be provided at time of issuance.**

Item 8

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lee) *KL CLK R/TZ*
Division of Accounting and Finance (Barrett, Mouring, Prestwood) *M meB CP*
Division of Economics (Thompson) *KT PLO SH J.W.D.*
Office of the General Counsel (Murphy) *CM RT* *CRB*

RE: Docket No. 130153-WS – Application for staff-assisted rate case in Highlands County, by L.P. Utilities Corporation c/o LP Waterworks, Inc.

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action Except for Issue Nos. 10 and 11 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Brown

CRITICAL DATES: 10/22/14 (15-Month Expiration Date for SARC)

SPECIAL INSTRUCTIONS: None

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Case Background

On February 28, 2013, an application was filed in Docket No. 130055-WS, for the transfer of the water and wastewater systems and Certificate Nos. 620-W and 533-S from L.P. Utilities Corporation (LPUC) to LP Waterworks, Inc. (LPWWI or Utility). On March 13, 2014, the Commission approved the transfer.

On May 24, 2013, LPUC c/o LPWWI filed an application for a staff-assisted rate case (SARC). LPWWI is a Class C water and wastewater utility providing service in Highlands County. The Utility is located in the water use caution area of the Southwest Florida Water Management District (SWFWMD). A significant portion of LPWWI's residential customer base is seasonal. Based on the billing data for the 12 months ended May 31, 2013, the Utility served approximately 370 individually metered, residential and several general service water and wastewater customers in the Camp Florida Resort RV Park (RV Park or Park). In addition, the Utility provided water only service to approximately 54 residential customers in the Hickory Hills and Lake Ridge Estates subdivisions and a few general service customers outside the Park.

The current rates were set by Order No. PSC-03-1051-FOF-WS, issued September 22, 2003.¹ This final order was based partially on Order No. PSC-02-1739-PAA-WS, issued December 10, 2002. Subsequent to this SARC decision, the system was transferred from Woodlands of Lake Placid, L.P., to LPUC by Order PSC-04-1162-FOF-WS, issued November 22, 2004, in Docket No. 030102-WS.² LPUC filed an application for a SARC in Docket 110208-WS, on June 20, 2011. Docket No. 110208-WS closed with no rate decision, due to LPUC filing a notice of voluntary withdrawal of its SARC in January 2013.

For the instant docket, the official filing date of the SARC has been determined to be July 22, 2013. Audit staff filed an audit report on September 18, 2013, for the 12 months ended May 31, 2013. On December 18, 2013, a staff report was filed and sent to the Utility to allow review by customers prior to the customer meeting. The customer meeting was held on January 16, 2014, at the Lakeview Clubhouse in the RV Park. In a letter filed on January 24, 2014, the Office of Public Counsel (OPC) identified a list of concerns regarding the discussion at the customer meeting and the information included in the staff report that addressed the preliminary review of the requested rate increase. The issues raised by customers included unaccounted for water, billing, financial efficiency, and rate shock concerns. In addition, letters from customers opposing the rate increase were also filed in the docket. Many customers stated that the increase would cause a hardship and they would prefer a gradual increase phased in over three to five years.

The Commission has jurisdiction in this case pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, Florida Statutes (F.S.).

¹ Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P.

² Docket No.130102-WS, In re: Application for authority to transfer Certificate Nos. 620-W and 533-S in Highlands County from The Woodlands of Lake Placid, L.P. to L. P. Utilities Corporation.

Discussion of Issues

Issue 1: Is the quality of service provided by LP Waterworks, Inc. satisfactory?

Recommendation: Yes. Staff recommends that the quality of service provided by LPWWI be considered satisfactory. (Lee)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction.

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

The operation of the Utility is subject to various environmental requirements such as permitting, testing, on-site review, and monitoring under the jurisdiction of Florida Department of Environmental Protection (DEP). DEP's jurisdiction covers the quality of the Utility's water product and the operational condition of its water and wastewater plant and facilities.

To prevent contamination of drinking water supplies, DEP conducts sanitary surveys and compliance inspections on a routine basis. In a letter dated April 10, 2013, DEP identified items in the compliance inspection report that the Utility should address. The noted deficiencies included a buildup of vegetation around the east well, lock requirement for the shut off valve, and documentation for the last inspection for the east tank. The Utility responded to DEP's sanitary survey report and addressed all noted deficiencies. Staff found no outstanding enforcement issues regarding the operational conditions of the Utility's water facilities.

In addition, DEP has jurisdiction over the operational condition of the wastewater treatment plant and facilities. DEP's comprehensive evaluation of a wastewater facility's overall compliance status is based on review of past monitoring data and results from inspections such as its Compliance Evaluation Inspection (CEI). On May 24, 2012, DEP conducted a CEI designed to verify the Utility's compliance with applicable requirements and compliance schedules for chemical and biological self-monitoring programs. The Utility responded to DEP's CEI report and addressed all noted deficiencies. Staff found no outstanding enforcement issues regarding the operational conditions of the Utility's wastewater facilities.

Customer Concerns and Actions Taken to Address Service Quality

On December 18, 2013, a staff report was filed and sent to the Utility to allow review by customers prior to the customer meeting which was held on January 16, 2014. There were approximately 40 customers in attendance at the customer meeting. Of the 40 customers, 5 signed-up to comment and customers who did not sign-up to comment were offered an opportunity to speak.

Among the service quality concerns raised at the meeting was a high water pressure incident experienced by several customers. A few customers also reported low water pressure

incidents. They also noted that the response speed for reported problems, such as leaks, service interruptions, and water pressure problems, was slow compared with the previous owner. Staff requested that the Utility provide responses to these customer concerns.

The Utility did not dispute the high pressure incident reported by a customer on October 28, 2013. The cause, according to the Utility's service technician, was a defective pressure switch. The defective pressure switch was replaced and the air relief valve was checked as part of the corrective actions. The Utility also took actions to provide information and assistance to the affected customers to address the damage claims.

The Utility stated that the low pressure incidents were due to the power fluctuations from the electric supplier and this caused the Programmable Logic Controller (PLC) to fault. The attempt to troubleshoot the PLC with the assistance from the manufacturer was unsuccessful. The Utility reported that it took action to bypass the PLC and the repair corrected the problem.

The Utility also recognized that the previous owner was able to address problems faster. The previous owner had maintenance personnel at the Park while the nearest maintenance technician of the Utility's contractor was 20 miles from the Park. The Utility stated that a maintenance technician who lives within 5 miles of the Park has been hired and this action should improve future response times.

Summary

The Utility has taken reasonable actions to comply with DEP's regulations and to address customer concerns. Staff recommends that the quality of service provided by the Utility be considered satisfactory.

Issue 2: What are the Used and Useful percentages of the Utility's water and wastewater systems?

Recommendation: For the water system, the treatment plant and the distribution system should be considered 100 percent and 87 percent Used and Useful (U&U), respectively. For the wastewater system, the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. The concern regarding the excessive unaccounted for water should be addressed by reducing the test year water treatment cost of purchased power and chemicals by 8.5 percent. (Lee)

Staff Analysis: Based on Rules 25-30.431, 25-30.432, and 25-30.4325, F.A.C., the Commission's U&U evaluation of water and wastewater system includes consideration of the formula-based method and all relevant factors such as prior decisions, conservation, and change in customer base. In simple terms, the formula-based method calculates the customer demand as a percentage of the capacity. The customer demand is based on the actual demand in the test period and the estimated demand over the five-year statutory growth period.

Water System

By Order PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, the Utility's water treatment facilities and distribution system were determined to be 100 percent and 87 percent U&U, respectively.

There has been no change in the capacity of the water treatment facilities. The actual test year demand by the fire flow requirements of 500 gallons per minute (gpm) is greater than the firm reliable capacity of 380 gpm. Therefore, based on the same formula-based method used in the last SARC decision, the water treatment plant should continue to be 100 percent U&U.

For the distribution system, the evaluation is based on the demand and capacity measured on the basis of equivalent residential connections. The customer demand is the sum of the 389 connections for the test year and the additional 7 connections estimated over the five-year statutory growth period. The total demand is 87 percent of the distribution capacity of 457 connections. Therefore, the water distribution system should be considered 87 percent U&U.

Wastewater System

In the last SARC decision mentioned above, the Utility's wastewater treatment plant and collection system were determined to be 59 percent and 85 percent U&U, respectively.

There has been no change in capacity of the wastewater treatment plant, which is permitted by the DEP to operate at no more than 50,000 gallons per day (gpd) of monthly Average Daily Flow (ADF). Daily flows are measured and reported to DEP monthly. Monthly ADF for the system typically peaks in February, therefore, February ADF is used to measure the actual demand in the test period.

Based on the flow data reported to DEP, the ADF for February 2013 was 9,250 gpd which represents less than 20 percent of the plant capacity. Upon further review, staff noted a

significantly lower flow beginning in June 2012. In response to staff's request, the Utility tested the Ultrasonic Flow Meter at the treatment plant on August 21, 2013, and found that the meter was only registering flow up to 15 gpm. For future reports, the Utility obtained DEP's permission to measure the flow at the lift station. The flow data reported subsequently indicate that the reported 9,250 gpd of ADF for February 2013 is very likely due to the faulty meter.

Due to the lack of accurate flow data, staff examined additional data which suggests that the growth of wastewater customers has remained relatively flat over the past 12 years. The wastewater plant only serves the RV Park and the staff did not identify any significant growth in that customer base. Therefore, staff recommends that the wastewater treatment plant be considered 59 percent U&U, consistent with Order No. PSC-02-1739-PAA-WS.

The same rationale of no customer growth can be applied to the collection system as well. Because the existing collection system was designed to serve the RV Park, staff recommends that the collection system be deemed 100 percent U&U.

Unaccounted For Water

During the test year ended May 31, 2013, 18.0 million gallons of treated water were metered at the water treatment facilities. Of those, 14.7 million gallons, or 81.5 percent of the amount produced, were metered and billed to customers. The remaining 18.5 percent of the amount produced was not generating revenues. Rule 25-30.4325(1)(e), F.A.C., provides that the excessive unaccounted for water (EUW) is unaccounted for water in excess of 10 percent of the amount produced. Therefore, EUW is 8.5 percent after the 10 percent allowance by Commission practice.

Accordingly, staff recommends that the test year water treatment cost of purchased power and chemicals be reduced by 8.5 percent. The corresponding amount of adjustment is further discussed in Issue 6 regarding the operating expense.

Summary

Regarding the water system, staff recommends that the treatment plant and the distribution system should be considered 100 percent and 87 percent U&U, respectively. For the wastewater system, staff recommends that the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. Staff recommends that the test year water treatment cost of purchased power and chemicals be reduced by 8.5 percent due to EUW.

Issue 3: What is the appropriate average test year rate base for L.P. Waterworks, Inc.?

Recommendation: The appropriate average test year rate base balances for L.P. Waterworks, Inc. are \$86,549 for water and \$104,793 for wastewater. (Barrett)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), amortization of CIAC and working capital. The last proceeding that established balances for rate base was Docket No. 020010-WS.³ Staff selected the test year ended May 31, 2013, for the instant rate case. A summary of each component and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded \$469,295 for water and \$377,807 for wastewater. Staff's adjustments to UPIS are identified in Table 3-1 below.

Table 3-1

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To reflect plant balance (301) per Order No. PSC-02-1739-PAA-WS	\$414	\$0
2.	To reflect plant balance (310) per Order No. PSC-02-1739-PAA-WS	2,506	0
3.	To reflect plant balance (334) per Order No. PSC-02-1739-PAA-WS	27,663	0
4.	To reclassify an O&M item to the appropriate UPIS account (336)	620	0
5.	To reflect plant balance (340) per Order No. PSC-02-1739-PAA-WS	(3,281)	0
6.	To reflect plant balance (351) per Order No. PSC-02-1739-PAA-WS	0	346
7.	To reflect plant balance (380) per Order No. PSC-02-1739-PAA-WS	0	5,200
8.	To reflect plant balance (390) per Order No. PSC-02-1739-PAA-WS	0	645
	Total	<u>\$27,922</u>	<u>\$6,191</u>

Staff's net adjustments to UPIS are increases of \$27,922 and \$6,191 for water and wastewater, respectively. Staff's recommended UPIS balance is \$497,217 for water and \$383,998 for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$20,598 for water and \$36,000 for wastewater. Staff believes no adjustments are necessary, and staff recommends a land balance of \$20,598 for water and \$36,000 for wastewater.

Non-Used and Useful Plant: As discussed in Issue 2, the treatment plant and the distribution system should be considered 100 percent and 87 percent U&U, respectively. For the wastewater system, the treatment plant and the collection system should be considered 59 percent and 100 percent U&U, respectively. Therefore, staff recommends adjustments of \$5,100 and \$3,072 for water and wastewater, respectively, for non used and useful plant, and related adjustments to accumulated depreciation, CIAC, and accumulated amortization.

³See Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P.

Contributions In Aid of Construction (CIAC): L.P. Waterworks, Inc. recorded CIAC balances of \$204,307 for water and \$65,600 for wastewater. Staff's adjustments to CIAC are identified in Table 3-2 below.

Table 3-2

	<u>Adjustment Description</u>	<u>Water</u>	<u>Wastewater</u>
1.	To increase CIAC balance per Order No. PSC-03-1051-FOF-WS	(\$30,608)	\$0
2.	To increase CIAC additions for January 2002 through May 2012	(30,731)	(26,800)
	Total	(\$61,339)	(\$26,800)

Staff's net adjustments to CIAC are increases of \$61,339 and \$26,800 for water and wastewater, respectively, to reflect the CIAC balances per Order No. PSC-03-1051-FOF-WS, issued September 22, 2003, in Docket No. 020010-WS. Staff recommends CIAC balances of \$265,646 and \$92,400 for water and wastewater, respectively.

Accumulated Depreciation: L.P. Waterworks, Inc. recorded balances for accumulated depreciation of \$266,493 and \$291,400 for water and wastewater, respectively. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined that accumulated depreciation should be increased by \$38,298 for water and decreased by \$18,965 for wastewater. Staff recommends accumulated depreciation balances of \$304,791 for water and \$272,435 for wastewater.

Amortization of CIAC: L.P. Waterworks, Inc. recorded balances for amortization of CIAC of \$100,229 for water and \$37,965 for wastewater. Staff has increased amortization of CIAC by \$32,282 for water and \$5,264 to reflect the amortization of CIAC per Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS. Staff recommends amortization of CIAC balances of \$132,511 for water and \$43,229 for wastewater.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends working capital allowances of \$11,761 for water (based on O&M expense of \$94,086/8), and \$9,472 for wastewater (based on O&M expense of \$75,780/8). Staff recommends increasing the working capital allowances by \$11,761 for water and \$9,472 for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate bases are \$86,549 for water and \$104,793 for wastewater. Rate base for water is shown on Schedule No. 1-A and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for L.P. Waterworks, Inc.?

Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Barrett)

Staff Analysis: The Utility's capital structure consists of \$322,313 of common stock and \$165,935 in retained earnings, totaling \$488,248 in total common equity. The Utility has no long-term debt or customer deposits. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.⁴ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 130006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What is the appropriate amount of test year revenues?

Recommendation: The appropriate test year revenues for LP Waterworks, Inc.'s water and wastewater systems are \$59,191 and \$47,642, respectively. (Thompson)

Staff Analysis: LP recorded total test year water revenues of \$57,226, which include water service revenues of \$56,346 and miscellaneous revenues of \$880. The Utility recorded total test year wastewater service revenues of \$46,581. Based on staff's review of the Utility's billing determinants and the rates that were in effect during the test year ended May 31, 2013, staff determined service revenues for the water system should be increased by \$1,965 to reflect total test year service revenues of \$58,311. Service revenues for the wastewater system should be increased by \$1,061 to reflect total test year service revenues of \$47,642.

Based on the above adjustments, the service revenues for the Utility's water and wastewater system should be increased by \$1,965 and \$1,061, respectively. Staff recommends the appropriate test year revenues for LP's water and wastewater systems are \$59,191 and \$47,642, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amounts of operating expense for L.P. Waterworks, Inc. are \$109,046 for water and \$86,324 for wastewater. (Barrett)

Staff Analysis: L.P. Waterworks, Inc. recorded operating expense of \$74,113 for water and \$67,534 for wastewater for the test year ended May 31, 2013. The test year O&M expenses have been reviewed, and invoices, canceled checks, and other supporting documentation have been examined. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701): L.P. Waterworks, Inc. recorded \$11,069 for water and \$9,056 for wastewater employee salaries expense in these accounts. Staff has made adjustments to remove these amounts because the amounts are captured in the Contractual Services – Other account. Staff recommends \$0 for these accounts for water and wastewater.

Salaries and Wages - Officers (603/703): The Utility recorded \$2,767 for water and \$2,233 for wastewater officer salaries expense. Staff has increased these accounts by \$3,233 for water and \$3,767 for wastewater because the officers administer and oversee the Utilities' management services agreement, which is addressed in the discussion of Contractual Services – Other (636/736). Staff recommends salaries and wages for officers of \$6,000 for water and \$6,000 for wastewater.

Purchased Power (615/715): L.P. Waterworks, Inc. recorded \$4,941 for purchased power expense for water and \$4,800 for wastewater in these accounts. Staff reviewed the invoices from the Utility and recommends adjustments to remove \$1,265 for water and \$312 for wastewater to reflect the appropriate test year purchased power expense. Staff also recommends removing \$321 for excessive unaccounted for water (EUW). Staff notes that EUW was previously discussed in Issue 2. The sum of these adjustments removes \$1,578 from water purchased power and \$312 from wastewater purchased power. Staff recommends purchased power expense of \$3,363 for water and \$4,479 for wastewater.

Chemicals (618/718): The Utility recorded \$1,053 for water and \$96 for wastewater for chemicals expense, based on invoices covering a partial year. Staff reviewed additional invoices from the Utility to annualize this expense and recommends increases of \$1,175 for water and \$175 for wastewater. Staff also recommends removing \$90 of water expense for EUW. As noted above, EUW was previously discussed in Issue 2. The net of these adjustments results in increases of \$1,085 for water and \$175 for wastewater. Staff recommends chemical expense of \$2,138 for water and \$271 for wastewater.

Materials and Supplies (620): The Utility recorded \$0 for materials and supplies. Staff has increased this account by \$15, based on an audit adjustment. Staff recommends a balance of \$15 for this account.

Contractual Services - Professional (631/731): L.P. Waterworks, Inc. recorded \$1,829 for water and \$26,398 for wastewater in contractual services - professional. Staff has made adjustments to

remove these amounts because the amounts are captured in the Contractual Services – Other account. Staff recommends \$0 for both water and wastewater.

Contractual Services - Testing (635/735): The Utility recorded \$5,994 for water and \$0 for wastewater for testing expense. Staff has made an adjustment to contractual services testing to remove \$5,994 for water because this expense is captured in the Contractual Services – Other account. Staff recommends \$0 for Contractual Services - Testing for both water and wastewater.

Contractual Services – Other (636/736): L.P. Waterworks, Inc. recorded \$22,312 for water and \$0 for wastewater. Staff has increased these accounts by \$54,872 for water and \$58,692 for wastewater to account for the Utilities’ management services agreement.

Background Information

Staff notes that the prior owner of this Utility employed a management services agreement with Highlands Executive Labor Personnel (H.E.L.P. agreement). The H.E.L.P. agreement provided “for the day-to-day operations of the Utility providing water and wastewater service,” including:

- Processing of accounts (billing and collections).
- Meter reading.
- Coordination and reporting with governmental agencies.
- Supervision of direct labor.
- Reimbursement for the direct costs for trips to meetings, conferences, or hearing related to the operation of the utility.

The former owners paid \$750 per week (\$3,000 per month) for the H.E.L.P. agreement.

On December 27, 2012, the Utility signed a five year management services agreement with U.S. Water Services Corporation (U.S. Water contract). Table 4 of the U.S. Water contract provides a summary of the scope of the agreement, setting forth the respective cost responsibilities for the Utility’s owner and U.S. Water Services Corporation.⁵ The Utility asserts that the U.S. Water agreement provides more services than typical agreements for management services because:

- The U.S. Water contract put in place certified utility operators with a focus on preventative and prescriptive maintenance services.
- All Customer Service/Billing/Collection functions are provided by the same entity (U.S. Water Services Corporation).
- Minor repairs (up to a \$400 threshold) are covered by U.S. Water.

⁵ The complete U.S. Water contract is in the audit staff’s work papers. Table 4 is on Audit work paper 43-3.21.

- Testing services and permitting expenses are covered by U.S. Water.
- Meter/hydrant testing is provided.
- Record keeping & governmental relations are addressed as well.

Section 4 of the U.S. Water contract addresses the monthly fees for service. Per the contract, L.P. Waterworks Inc. is obligated to pay U.S. Water Services Corporation \$6,432 monthly for the water operation and \$4,891 monthly for the wastewater operation (for a monthly total of \$11,323).

Staff reviewed both agreements, and it appears that the U.S. Water contract is much more comprehensive in nature than the now-expired H.E.L.P. agreement.

Bids for Management Service and Pricing

In a Data Request response dated January 27, 2014, the Utility states that it sought other bidders for the management services provided in the U.S. Water contract. Bids were solicited from two local companies and one Statewide/Nationwide contracting enterprise. According to the Data Request response, these contractors “declined to bid on this work due to their skill levels, depth of services, or [the work] would require additional sub-contractors” As a result, the Utility entered into the management services agreement with U.S. Water Services Corporation.

Because the U.S. Water contract is more comprehensive than the H.E.L.P. agreement was, staff believes a price comparison between the two may not be appropriate for a side-by-side analysis. In evaluating the pricing, staff looked at another U.S. Water contract that provided identical services, and compared that to data the Utility provided in a Data Request. To facilitate reviewing this information, staff developed Tables 6-1 and Table 6-2 (below).

Staff developed Table 6-1 using summary data the Utility provided in a Data Request response dated January 27, 2014. The data is from a 2011 study conducted by Wetzel Consulting, LLC (WetCon), an independent consultant that evaluated utilities in the southern U.S. using American Water Works Association (AWWA) Performance Indicators. Eleven indicators were captured in the WetCon study, but L.P. Waterworks Inc., used the annual cost per account indicators for Customer Service and for O&M to demonstrate that the U.S. Water contract compares favorably with other utilities in the South. The Utility states that the annualized total cost of the U.S. Water contract falls between the top and median quartile of those in the survey sample. The summary of the data is shown below in Table 6-1:

Table 6-1

Summary of WetCon study Annual Cost per account in South (\$/account)			
Utilities sampled	Customer Service	O&M	Total Annual Cost per account
Top Quartile	\$36.43	\$246.00	\$282.43
Median Quartile	\$41.16	\$301.00	\$342.16
Bottom Quartile	\$52.38	\$379.00	\$431.38

Staff developed Table 6-2 to convert the U.S. Water contract (shown as “LPW” in Table 6-2) values and those from a similar agreement (shown as “Comp” in Table 6-2) in order to facilitate a direct comparison on the basis used in the WetCon study. Staff believes the “annual cost per account” basis is the most meaningful tool to directly compare the findings in the WetCon study with the U.S. Water contract fees at issue in this rate case. By using this analysis, the annual cost per account for the U.S. Water contract is \$326.81, or \$27.23 per month, as shown in Table 6-2 below. This amount is slightly lower than the median quartile of utilities sampled in the WetCon study, as shown in Table 6-1.

Table 6-2

Comparison of two U.S. Water Services Corporation contracts to assess an Annual Cost per account (\$/Customer)											
	Monthly Charge from US Water to Utility					Customer Counts/2012 Annual Report			Unit Cost per Customer/Month		
	Water	WW	Total		Annual	Water	WW		Water	WW	SUM
	(a)	(b)	(c)		(d)	(e)	(f)		(g)	(h)	(i)
			(c)=(a+b)		(d)=(c)*12				(g)=c/e	(h)=c/f	(i)=g+h
LPW	\$6,432	\$4,891	\$11,323		\$135,876	434	394		\$14.82	\$12.41	\$27.23
Comp.	\$3,183	\$2,978	\$6,161		\$73,932	186	179		\$17.11	\$16.64	\$33.75

Affiliate Relationship

Because there is a nexus⁶ between the utility's owners and U.S. Water Services Corporation, staff considered how the Commission addressed affiliate transactions in other cases. In Order No. PSC-12-0102-FOF-WS,⁷ the Commission found that "evaluating whether and how much affiliate costs should be included in rates, we are aware of the relevant statutes and cases on rates and affiliate transactions," and stated Section 367.081(2)(a)1., F.S., sets forth the Commission's responsibility in rate setting. In part, Section 367.081(2)(a)1., F.S. provides:

The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service

In Order No. PSC-12-0102-FOF-WS, the Commission referred to Section 367.081(2)(a)1., F.S., and found:

As reflected in the statute cited above [Section 367.081(2)(a)1., F.S.], we are required to set reasonable rates, but we must also set rates that are compensatory. The provisions in the statute require that we consider the cost of providing service, which includes operating expenses incurred in the operation of all property used and useful in the public service, as well as a fair return on the investment of the Utility in property used and useful in the public service. In conducting our analysis of the appropriate operating expenses to be included, we are mindful of two Florida Supreme Court cases. In the case of Keystone Water Co v. Bevis, 278 So. 2d 606 (Fla. 1973), the Court held that a utility is entitled to a fair rate of return on property used or useful in public service. In Keystone, the Court further found that rates which do not yield a fair rate of return are unjust, unreasonable, and confiscatory and

⁶ In its SARC application, the Utility states that six shareholders own L.P. Waterworks. In a January 27, 2014, response to a Data Request, the Utility states that four of the six Utility shareholders are Corporate Officers of U.S. Water Services Corporation.

⁷ See pp. 99-100 of Order No. PSC-12-0102-FOF-WS, Order Approving in Part Requested Increase in Water and Wastewater Rates and Requiring Refunds With Interest, 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.

their enforcement deprives a utility of due process.⁸ Additionally, in GTE v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court laid out the standard of review for affiliate transactions, stating:

The mere fact that a utility is doing business with an affiliate does not mean that unfair or excess profits are being generated, without more. Charles F. Phillips, Jr., *The Regulation of Public Utilities* 254-55 (1988). We believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair If the answer is “no,” then the PSC may not reject the utility’s position.

GTE v. Deason, 645 So. 2d at 547-548.

Summary

Staff acknowledges that the U.S Water contract is a significant operating expense. However, staff notes that the U.S Water contract is comprehensive in nature, and provides the Utility’s customers with services that prior owners/operators did not. Staff notes that providing such services is the primary reason that the water and wastewater expenses are increased.

Although an affiliate relationship appears to exist between the Utility’s owners and U.S. Water Services Corporation, staff believes the holdings in Keystone v. Bevis and GTE v. Deason indicate that an affiliate relationship is not “unfair” on its face. As noted previously, no other service companies provided bids for the services included in the U.S. Water contract, and staff believes this is relevant. Because the Utility’s customers will be getting an array of services that no other management services company was willing to provide, staff is recommending that the expense for the U.S Water contract is appropriate.

Staff recommends Contractual Services – Other expenses of \$77,184 for water and \$58,692 for wastewater.

Rents (640/740): L.P. Waterworks, Inc. recorded rent expense of \$210 for water and \$172 for wastewater. Staff has made adjustments to remove these amounts because no supporting documents were provided. Staff recommends rent expense of \$0 for water and wastewater.

Insurance Expense (655/755): L.P. Waterworks, Inc. recorded \$0 insurance expense for water and \$433 for wastewater. Based on an audit-related adjustment, staff has increased these accounts by \$551 for water, and by \$118 for wastewater. Staff recommends insurance expense of \$551 for water and \$551 for wastewater.

⁸ See Keystone Water Co. v. Bevis, 278 So. 2d 606, 609 (Fla. 1973).

Regulatory Commission Expense (665/765): L.P. Waterworks, Inc. recorded \$0 for regulatory Commission expense. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For the customer meeting notices, staff has estimated \$213 for postage expense, \$217 for printing expense, and \$22 for envelopes, for a cost of \$452. In addition, staff has estimated \$213 for postage expense, \$87 for printing expense, and \$22 for envelopes, for the cost of noticing water and wastewater customers of new rates, for a total of \$322. The Utility paid a \$1,000 rate case filing fee for the water utility, and a \$1,000 rate case filing fee for the wastewater utility. The total rate case expense including postage, notices, envelopes, and filing fee is \$2,774. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period, which is \$694 per year (\$2,774/4). Staff's net adjustments to this account result in increases of \$347 for water, and \$347 for wastewater. Staff recommends regulatory Commission expense of \$347 for water and \$347 for wastewater.

Bad Debt Expense (670/770): L.P. Waterworks, Inc. recorded bad debt expense of \$1,123 for water and \$907 for wastewater. In addition, the Utility requested that its bad debt expense be 2 percent of revenue. Staff believes bad debt expense of 2 percent of revenues is reasonable, and, based on staff's recommended rate increase, staff has made adjustments to these accounts of \$1,235 for water and \$998 for wastewater. Staff recommends bad debt expense of \$2,358 for water and \$1,905 for wastewater.

Miscellaneous Expense (675/775): L.P. Waterworks, Inc. recorded \$6,735 for water and \$5,367 for wastewater for miscellaneous expense. Staff made audit-related adjustments to reclassify a \$15 expense and remove \$5,253 from water. Staff made an additional adjustment of \$169 from water to remove a billing cards expense. Staff also made an audit-related adjustment to remove \$4,993 from wastewater, and an additional adjustment of \$138 for removing a billing cards expense. The sum of these adjustments reduces miscellaneous expense by \$5,437 for water and \$5,131 for wastewater. Staff recommends miscellaneous expense of \$1,298 for water and \$236 for wastewater.

Sludge Removal Expense (711): L.P. Waterworks, Inc. recorded \$0 for wastewater sludge removal. Staff has made an adjustment to increase this account by \$3,300. In a document the Utility provided to staff on January 16, 2014, sludge removal expenses were estimated to cost \$1,800 in January and about \$980 every three months thereafter. Staff amortized the \$1,800 expense over five years, and calculated three occurrences of the \$980 expense per year for a total of \$3,300. Staff recommends a sludge removal expense of \$3,300 for wastewater.

Operation and Maintenance Expenses (O&M) Summary: Total adjustments to O&M expense result in an increase of \$35,220 for water and \$26,318 for wastewater. Staff's recommended O&M expense is \$94,086 for water and \$75,780 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC): The Utility recorded depreciation expense of \$12,286 for water and \$12,939 for wastewater during the test year. Staff has calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense to be \$16,531 for water and \$6,169 for wastewater. The Utility recorded an Amortization of CIAC of \$6,168 for water and \$2,328 for wastewater during

the test year. Staff has made adjustments to increase this account by \$2,630 for water, and \$258 for wastewater. Therefore, staff recommends net depreciation expense of \$7,733 for water and \$3,583 for wastewater.

Taxes Other Than Income (TOTI): The Utility recorded \$9,129 for water and \$7,461 for wastewater for TOTI. Based on audit-related adjustments, staff decreased these amounts by \$1,902 and \$500 for water and wastewater, respectively. Therefore, staff recommends TOTI balances of \$7,227 for water and \$6,961 for wastewater.

Income Tax: The Utility is a limited liability company and did not record income tax for the test year. As a limited liability company, the entity pays no income tax. Therefore, staff has not made any adjustments to this account.

Operating Expenses Summary: The application of staff's recommended adjustments to L.P. Waterworks, Inc.'s recorded test year operating expenses result in staff's recommended operating expenses of \$109,046 for water and \$86,324 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$116,611 for water and \$95,483 for wastewater, resulting in an annual increase of \$57,420 for water (97.01 percent), and an annual increase of \$47,841 for wastewater (100.42 percent). (Barrett)

Staff Analysis: L.P. Waterworks, Inc. should be allowed annual increases of \$57,420 for water (97.01 percent) and 47,841 for wastewater (100.42 percent). This will allow the Utility the opportunity to recover its expenses and earn an 8.74 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

<u>Water Revenue Requirement</u>	
Adjusted Rate Base	\$86,549
Rate of Return	x .0874
Return on Rate Base	\$ 7,564
Adjusted O&M expense	94,086
Depreciation expense	16,531
Amortization	(8,798)
Taxes Other Than Income	7,227
Income Taxes	0
Revenue Requirement	\$116,611
Less Test Year Revenues	59,191
Annual Increase	\$57,420
Percent Increase/(Decrease)	97.01%

Table 7-2

<u>Wastewater Revenue Requirement</u>	
Adjusted Rate Base	\$104,793
Rate of Return	x .0874
Return on Rate Base	\$ 9,159
Adjusted O&M expense	75,780
Depreciation expense	6,169
Amortization	(2,586)
Taxes Other Than Income	6,961
Income Taxes	0
Revenue Requirement	\$95,483
Less Test Year Revenues	47,642
Annual Increase	\$47,841
Percent Increase/(Decrease)	100.42%

Issue 8: What are the appropriate rate structures and rates for LP Waterworks, Inc.'s water and wastewater systems?

Recommendation: The recommended monthly water and wastewater rates are shown on Schedule Nos. 4-B and 4-D, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within ten days of the date of the notice. (Thompson)

Staff Analysis:

Water

The Utility's water system is located in Highlands County within the Southern Water Use Caution Areas of the SWFWMD. The Utility provides water service to approximately 370 individually metered residential and several general service customers in Camp Florida Resort. In addition, the Utility provides water only service to approximately 54 residential customers in Hickory Hills and Lake Ridge Estates subdivisions and a few general service customers outside the RV Park. Approximately 45 percent of the residential customer bills during the test year had zero gallons indicating a seasonal customer base. The average residential water demand, excluding zero gallon bills, is 4,940 gallons per month. Currently, LP's water system rate structure consists of a base facility charge (BFC) and a uniform gallonage charge for both residential and general service customers. The units in the RV Park are billed based on 80 percent of the residential BFC for a 5/8" x 3/4" meter.

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

In the Utility's last SARC, Docket No. 020010-WS, the approved rate structure included a BFC for the RV Park lots equal to 80 percent of the BFC for a 5/8" x 3/4" meter. Although meters had been installed in the RV Park, only a few months of metered data were available to use in calculating rates. It appears that an assumption was made that customers in the RV Park would place less demand on the water system than a typical single family home. Based on a review of the current billing data, the average demand for customers in the RV Park is slightly more than the average demand of the customers in single family homes; therefore, staff recommends that a discounted BFC for customers in the RV Park is no longer appropriate.

Due to the seasonal nature of the customers, staff recommends that 40 percent of the water revenues should be generated from the BFC in order to ensure that the Utility will have sufficient cash flow to cover fixed costs. The average people per household served by the water system is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends that the traditional BFC and gallonage charge rate structure with an additional rate block for the non-discretionary usage threshold of 3,000 gallons for residential customers should be approved. This rate structure minimizes increases at lower levels of consumption while maintaining revenue sufficiency for the Utility.

Based on billing data provided by the Utility and an assumption of 3,000 gallons per month of non-discretionary usage, approximately 55 percent of total residential consumption is discretionary and, therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 97 percent, the residential discretionary consumption can be expected to decline by 3,765,000 gallons resulting in anticipated average residential demand of 3,572 gallons per month, excluding zero gallon bills. Staff recommends a 27.7 percent reduction in total residential consumption and corresponding reductions of \$863 for purchased power, \$549 for chemicals, and \$67 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$114,252.

Based on the above, staff recommends that all residential and general service water customers be billed a BFC based on meter size. In addition, 40 percent of the revenue requirement should be recovered through the BFC. Residential rates should include a non-discretionary threshold of 3,000 gallons and discretionary usage should be reduced by 3,765,000 gallons to reflect the anticipated reduction in demand. Staff's recommended rate structure, along with two alternate rate structures, and the resulting rates are shown on Schedule Nos. 4-A and 4-B.

Wastewater

The Utility provides wastewater service to the residential and general service customers in Camp Florida Resort; wastewater service is not provided to the residential and general service water customers outside the RV Park. Approximately 49 percent of the residential customers' wastewater bills during the test year had zero gallons. The average water demand for wastewater customers, excluding zero gallon bills, was 5,141 gallons per month. Currently, the residential rate structure for the wastewater system consists of a uniform BFC for all meter sizes and gallonage charge with an 8,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge.

Staff performed an analysis of the Utility's billing data to evaluate various BFC cost recovery percentages and gallonage caps for the residential customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3)

implement a gallonage cap that considers the amount of water that may return to the wastewater system.

Typically, Commission practice is to set the BFC allocation to at least 50 percent due to the capital intensive nature of wastewater plants. Based on the seasonality of LP's wastewater customers and the significant increase in the revenue requirement, staff recommends that 60 percent of the revenue requirement should be generated from the BFC in order to mitigate the rate increase. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 2,047,000 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 22.5 percent reduction in total residential consumption and corresponding reductions of \$1,008 for purchased power, \$61 for chemicals, \$743 for sludge removal, and \$82 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$93,589. Further, staff recommends no change to the Utility's existing residential cap of 8,000 gallons because a reduction to the cap would result in fewer gallons to spread the revenue requirement across and an additional increase in the wastewater gallonage charge. General service customers should continue to be billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. Staff's recommended rate structure, along with two alternate rate structures, and the resulting wastewater rates are shown on Schedule Nos. 4-C and 4-D.

Summary

Based on the foregoing, staff recommends 40 percent of the water revenues should be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional rate block for the non-discretionary usage threshold of 3,000 gallons should be approved for the water system. A 27.7 percent reduction in total residential consumption and corresponding reductions of \$863 for purchased power, \$549 for chemicals, and \$67 for RAFs should be made to reflect the anticipated repression. General service customers should continue to be billed a BFC and gallonage charge.

Staff recommends that 60 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. A 22.5 percent reduction in total residential consumption and corresponding reductions of \$1,008 for purchased power, \$61 for chemicals, \$743 for sludge removal, and \$82 for RAFs should be made to reflect the anticipated repression. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

The recommended monthly water and wastewater rates are shown on Schedule Nos. 4-B and 4-D, respectively. The Utility should file revised tariff sheets and a proposed customer

notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within ten days of the date of the notice.

Issue 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water rates should be reduced as shown on Schedules No. 4-B and 4-D, to remove rate case expense grossed-up water and wastewater for regulatory assessment fees and 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. L.P. Waterworks, Inc. 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. 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 the reduction in the rates due to the amortized rate case expense. (Barrett)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees (RAFs). The total reduction is \$734 (\$367 for water and \$367 for wastewater). Using L.P. Waterworks, Inc.'s current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedules No. 4-B and 4-D.

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

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

Issue 10: What are the appropriate initial customer deposits for LP Waterworks, Inc.?

Recommendation: The appropriate initial customer deposits should be \$45 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding. (Thompson)

Staff Analysis: Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.⁹ Currently, the Utility's existing initial deposits for residential 5/8" x 3/4" meters are \$35 each for both water and wastewater. Based on staff's recommended rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Staff recommends the existing initial customer deposit be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered from by those incurring cost.

Staff recommends the appropriate initial customer deposits should be \$45 and \$50 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water and wastewater. The approved customer deposits should be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility should be required to charge the approved charges until authorized to change them by the Commission in a subsequent proceeding.

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

Issue 11: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. L.P. Waterworks, Inc. should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Barrett)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. L.P. Waterworks, Inc. should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

L.P. Waterworks, Inc. should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$70,197, based upon the commercial paper rate for March 2014. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If L.P. Waterworks, Inc. chooses a bond as security, the bond should contain wording that indicates that it will be terminated regarding one of the following conditions:

- 1) The Commission approves the rate increase.
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If L.P. Waterworks, Inc. chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to L.P. Waterworks, Inc.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Commission Clerk must be a signatory to the escrow agreement.
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by L.P. Waterworks, Inc., an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

L.P. Waterworks, Inc. should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 12: 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 applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the Utility adjusts its books in accordance with the Commission's decision, L.P. Waterworks, Inc. should provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. (Barrett)

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

Issue 13: 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 should 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. Once these actions are complete, this docket should be closed administratively. (Murphy)

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 should 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. Once these actions are complete, this docket should be closed administratively.

LP Waterworks, Inc.		SCHEDULE NO. 1-A DOCKET NO. 130153-WS	
TEST YEAR ENDED 5/31/2013			
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$469,295	\$27,922	\$497,217
LAND & LAND RIGHTS	20,598	0	20,598
NON-USED AND USEFUL COMPONENTS	0	(5,100)	(5,100)
CIAC	(204,307)	(61,339)	(265,646)
ACCUMULATED DEPRECIATION	(266,493)	(38,298)	(304,791)
AMORTIZATION OF CIAC	100,229	32,282	132,511
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,761</u>	<u>11,761</u>
WASTEWATER RATE BASE	<u>\$119,322</u>	<u>(\$32,773)</u>	<u>\$86,549</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 130153-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$377,807	\$6,191	\$383,998
2. LAND & LAND RIGHTS	36,000	0	36,000
3. NON-USED AND USEFUL COMPONENTS	0	(3,072)	(3,072)
4. CIAC	(65,600)	(26,800)	(92,400)
5. ACCUMULATED DEPRECIATION	(291,400)	18,965	(272,435)
6. AMORTIZATION OF CIAC	37,965	5,264	43,229
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>9,472</u>	<u>9,472</u>
8. WASTEWATER RATE BASE	<u>\$94,772</u>	<u>\$10,021</u>	<u>\$104,793</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 130153-WS PAGE 1 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1.	To reflect plant balance (301) per Order No. PSC-02-1739-PAA-WS	\$414	\$0
2.	To reflect plant balance (310) per Order No. PSC-02-1739-PAA-WS	2,506	0
3.	To reflect plant balance (334) per Order No. PSC-02-1739-PAA-WS	27,663	0
4.	To reclassify an O&M item to the appropriate account (336)	620	0
5.	To reflect plant balance (340) per Order No. PSC-02-1739-PAA-WS	(3,281)	0
6.	To reflect plant balance (351) per Order No. PSC-02-1739-PAA-WS	0	346
7.	To reflect plant balance (380) per Order No. PSC-02-1739-PAA-WS	0	5,200
8.	To reflect plant balance (390) per Order No. PSC-02-1739-PAA-WS	<u>0</u>	<u>645</u>
	Total	<u>\$27,922</u>	<u>\$6,191</u>
<u>CWIP</u>			
	Not applicable	<u>\$0</u>	<u>\$0</u>
<u>LAND</u>			
	Not applicable	<u>\$0</u>	<u>\$0</u>
<u>NON-USED AND USEFUL PLANT</u>			
1.	To reflect non used and useful plant	(\$27,518)	(\$48,212)
2.	To reflect non used and useful accumulated depreciation	13,792	45,140
3.	To reflect non used and useful CIAC	15,899	0
4.	To reflect non used and useful accumulated amortization	<u>(7,274)</u>	<u>0</u>
	Total	<u>(\$5,100)</u>	<u>(\$3,072)</u>
<u>CIAC</u>			
1.	To reflect CIAC balance per Order No. PSC-03-1051-FOF-WS	(\$30,608)	\$0
2.	To reflect CIAC additions for January 2002 through May 2012	<u>(30,731)</u>	<u>(26,800)</u>
	Total	<u>(\$61,339)</u>	<u>(\$26,800)</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 130153-WS PAGE 2 OF 2	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>ACCUMULATED DEPRECIATION</u>			
To reflect the appropriate test year accumulated depreciation (AF3)		<u>(\$38,298)</u>	<u>\$18,965</u>
<u>AMORTIZATION OF CIAC</u>			
To reflect Amortization of CIAC per Order No. PSC-02-1739-PAA-WS		<u>\$32,282</u>	<u>\$5,264</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
To reflect 1/8 of test year O&M expenses.		<u>\$11,761</u>	<u>\$9,472</u>

LP Waterworks, Inc.			SCHEDULE NO. 2					
TEST YEAR ENDED 5/31/2013			DOCKET NO. 130153-WS					
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$322,313	\$0	\$322,313					
2. RETAINED EARNINGS	165,935	0	165,935					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	\$488,248	\$0	\$488,248	(\$296,906)	\$191,342	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	7.00%	0.00%
7. LONG TERM DEBT	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	2.00%	0.00%
9. TOTAL	<u>\$488,248</u>	<u>\$0</u>	<u>\$488,248</u>	<u>(\$296,906)</u>	<u>\$191,342</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						7.74%	9.74%	
OVERALL RATE OF RETURN						7.74%	9.74%	
							0.00%	

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130153-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$57,226</u>	<u>\$1,965</u>	<u>\$59,191</u>	<u>\$57,420</u> 97.01%	<u>\$116,611</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$58,866	\$35,220	\$94,086	\$0	\$94,086
3. DEPRECIATION	12,286	4,245	16,531	0	16,531
4. AMORTIZATION	(6,168)	(2,630)	(8,798)	0	(8,798)
5. TAXES OTHER THAN INCOME	9,129	(4,486)	4,643	2,584	7,227
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$74,113</u>	<u>\$32,349</u>	<u>\$106,462</u>	<u>\$2,584</u>	<u>\$109,046</u>
8. OPERATING INCOME/(LOSS)	<u>(\$16,887)</u>		<u>(\$47,271)</u>		<u>\$7,564</u>
9. WATER RATE BASE	<u>\$119,322</u>		<u>\$86,549</u>		<u>\$86,549</u>
10. RATE OF RETURN	<u>-14.15%</u>		<u>-54.62%</u>		<u>8.74%</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 130153-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$46,581</u>	<u>\$1,061</u>	<u>\$47,642</u>	<u>\$47,841</u> 100.42%	<u>\$95,483</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$49,462	\$26,318	\$75,780	\$0	\$75,780
3. DEPRECIATION	12,939	(6,770)	6,169	0	6,169
4. AMORTIZATION	(2,328)	(258)	(2,586)	0	(2,586)
5. TAXES OTHER THAN INCOME	7,461	(2,653)	4,808	2,153	6,961
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$67,534</u>	<u>\$16,637</u>	<u>\$84,171</u>	<u>\$2,153</u>	<u>\$86,324</u>
8. OPERATING INCOME/(LOSS)	<u>(\$20,953)</u>		<u>(\$36,529)</u>		<u>\$9,159</u>
9. WASTEWATER RATE BASE	<u>\$94,772</u>		<u>\$104,793</u>		<u>\$104,793</u>
10. RATE OF RETURN	<u>-22.11%</u>		<u>-34.86%</u>		<u>8.74%</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 130153-WS PAGE 1 OF 3	
		<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES			
1. To adjust utility revenues to audited test year amount.		<u>\$1,965</u>	<u>\$1,061</u>
OPERATION AND MAINTENANCE EXPENSES			
1. Salaries and Wages - Employees (601/ 701)			
To reflect the appropriate Salaries & Wages exp. for Employees		<u>(\$11,069)</u>	<u>(\$9,056)</u>
2. Salaries and Wages Officers (603/ 703)			
To reflect the appropriate Salaries & Wages exp. for Officers		<u>\$3,233</u>	<u>\$3,767</u>
3. Purchased Power (615/715)			
a. To reflect the appropriate Purchased Power expense		<u>(\$1,265)</u>	<u>(\$321)</u>
b. To reflect an adjustment for excessive unaccounted water		<u>(312)</u>	<u>0</u>
Subtotal		<u>(\$1,578)</u>	<u>(\$321)</u>
4. Chemicals (618/718)			
a. To reflect the appropriate Chemicals expense		<u>\$1,175</u>	<u>\$175</u>
b. To reflect an adjustment for excessive unaccounted water		<u>(\$90)</u>	<u>0</u>
Subtotal		<u>\$1,085</u>	<u>\$175</u>
5. Materials & Supplies (620)			
To reflect the appropriate Materials & Supplies exp. (AF6)		<u>\$15</u>	<u>\$0</u>
6. Contractual Services - Professional (631/731)			
To reflect the appropriate Contract Services – Professional expense		<u>(\$1,829)</u>	<u>(\$26,398)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)			

SCHEDULE NO. 3-C LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ADJUSTMENTS TO OPERATING INCOME			DOCKET NO. 130153-WS PAGE 2 OF 3	
(O & M EXPENSES CONTINUED)			<u>WATER</u>	<u>WASTEWATER</u>
7.	Contractual Services - Testing (635/735)			
	To reflect the appropriate Contractual Services Testing expense		<u>(\$5,994)</u>	<u>\$0</u>
8.	Contractual Services - Other (636/736)			
	To reflect the US Water management services agreement		<u>\$54,872</u>	<u>\$58,692</u>
9.	Rents (640/ 740)			
	To reflect the appropriate rental expense (AF6)		<u>(\$210)</u>	<u>(\$172)</u>
10.	Insurance Expense (655/755)		<u>\$551</u>	<u>\$118</u>
	To reflect the appropriate insurance expense			
11	Bad Debt Expense (670/770)			
	To reflect the appropriate bad debt expense		<u>\$1,235</u>	<u>\$998</u>
12.	Regulatory Commission Expense (765)			
	To reflect 4-year amortization of rate case expense (\$693/4)		<u>\$347</u>	<u>\$347</u>
13	Miscellaneous Expense (675/775)			
	a. To reclassify amount to Materials & Supplies (620) (AF6)		<u>(\$15)</u>	<u>\$0</u>
	b. To reflect the appropriate miscellaneous expenses		<u>(5,422)</u>	<u>(5,131)</u>
	Subtotal		<u>(\$5,437)</u>	<u>(\$5,131)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)				

LP Waterworks, Inc.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 5/31/2013		DOCKET NO. 130153-WS	
<u>ADJUSTMENTS TO OPERATING INCOME</u>		PAGE 3 OF 3	
(O & M EXPENSES CONTINUED)		<u>WATER</u>	<u>WASTEWATER</u>
14	Sludge Removal Expense (711)		
	To reflect the appropriate sludge removal expense	<u>\$0</u>	<u>\$3,300</u>
TOTAL OF O & M EXPENSE ADJUSTMENTS		<u>\$35,220</u>	<u>\$26,318</u>
DEPRECIATION EXPENSE			
To reflect test year depreciation calculated per 25-30.140, FAC			
1.	(AF3)	\$4,968	(\$4,068)
2.	Non used and useful depreciation expense	<u>(723)</u>	<u>(2,702)</u>
	Total	<u>\$4,245</u>	<u>(\$6,770)</u>
AMORTIZATION OF CIAC			
1.	To reflect the appropriate amount of amortization expense (AF4)	(\$3,049)	(\$258)
2.	Non used and useful amortization expense	<u>419</u>	<u>0</u>
	Total	<u>(\$2,630)</u>	<u>(\$258)</u>
TAXES OTHER THAN INCOME			
1.	To reflect the appropriate property taxes	(\$4,272)	(\$2,495)
2.	To reflect overstatement of RAFs (AF8)	<u>(214)</u>	<u>(158)</u>
	Total	<u>(\$4,486)</u>	<u>(\$2,653)</u>
<u>INCOME TAX</u>			
	Income Tax Per Staff	<u>\$0</u>	<u>\$0</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 130153-WS PAGE 1 OF 1	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$11,069	(\$11,069)	\$0
(603) SALARIES AND WAGES - OFFICERS	2,767	3,233	6,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	4,941	(1,578)	3,363
(616) FUEL FOR POWER PRODUCTION	833	0	833
(618) CHEMICALS	1,053	1,085	2,138
(620) MATERIALS AND SUPPLIES	0	15	15
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,829	(1,829)	0
(635) CONTRACTUAL SERVICES - TESTING	5,994	(5,994)	0
(636) CONTRACTUAL SERVICES - OTHER	22,312	54,872	77,184
(640) RENTS	210	(210)	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	551	551
(665) REGULATORY COMMISSION EXPENSE	0	347	347
(670) BAD DEBT EXPENSE	1,123	1,235	2,358
(675) MISCELLANEOUS EXPENSES	<u>6,735</u>	<u>(5,437)</u>	<u>1,298</u>
Total	<u>\$58,866</u>	<u>\$35,220</u>	<u>\$94,086</u>

LP Waterworks, Inc. TEST YEAR ENDED 5/31/2013 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 130153-WS PAGE 1 OF 1	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$9,056	(\$9,056)	\$0
(703) SALARIES AND WAGES - OFFICERS	2,233	3,767	6,000
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	3,300	3,300
(715) PURCHASED POWER	4,800	(321)	4,479
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	96	175	271
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	26,398	(26,398)	0
(735) CONTRACTUAL SERVICES - TESTING	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	0	58,692	58,692
(740) RENTS	172	(172)	0
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	433	118	551
(765) REGULATORY COMMISSION EXPENSES	0	347	347
(770) BAD DEBT EXPENSE	907	998	1,905
(775) MISCELLANEOUS EXPENSES	<u>5,367</u>	<u>(5,131)</u>	<u>236</u>
Total	<u>\$49,462</u>	<u>\$26,318</u>	<u>\$75,780</u>

Schedule No. 4-A

LP WATERWORKS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
BFC and Gallonage Charge BFC = 40%		2-Tier Inclining Block Rate Structure Rate Factor 1.00 BFC = 40%	
BFC	\$6.02	BFC	\$8.22
Per 1 kgal	\$2.14	0-3 kgals	\$4.73
		Over 3 kgals	\$8.89
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$6.02	0	\$8.22
1	\$8.16	1	\$12.95
3	\$12.44	3	\$22.41
5	\$16.72	5	\$40.19
10	\$27.42	10	\$84.64
20	\$48.82	20	\$183.44
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
2-Tier Inclining Block Rate Structure Rate Factor 1.00 BFC = 35%		2- Tier Inclining Block Rate Structure Rate Factor 1.00 BFC =45%	
BFC	\$7.18	BFC	\$9.26
0-3 kgals	\$5.13	0-3 kgals	\$4.34
Over 3 kgals	\$10.71	Over 3 kgals	\$7.42
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$7.18	0	\$9.26
1	\$12.31	1	\$13.60
3	\$22.57	3	\$22.28
5	\$43.99	5	\$37.12
10	\$97.54	10	\$74.22
20	\$204.64	20	\$148.42

LP WATERWORKS, INC. TEST YEAR ENDED MAY 31, 2013 MONTHLY WATER RATES		SCHEDULE NO. 4-B DOCKET NO. 130153-WS	
	UTILITY EXISTING RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4" RV Lots (.8 ERC)	\$4.82		
5/8"X3/4"	\$6.02	\$8.22	\$0.03
3/4"	\$9.04	\$12.33	\$0.04
1"	\$15.06	\$20.55	\$0.07
1-1/2"	\$30.13	\$41.10	\$0.13
2"	\$48.20	\$65.76	\$0.21
3"	\$96.40	\$131.52	\$0.42
4"	\$150.62	\$205.50	\$0.66
6"	\$301.25	\$411.00	\$1.32
Charge per 1,000 Gallons - Residential	\$2.14		
0-3,000 gallons	N/A	\$4.73	\$0.02
Over 3,000 gallons	N/A	\$8.89	\$0.03
Charge per 1,000 Gallons – General Service	\$2.14	\$6.29	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$12.44	\$22.41	
6,000 Gallons	\$18.86	\$49.08	
10,000 Gallons	\$27.42	\$84.64	

LP WATERWORKS, INC. STAFF'S RECOMMENDED AND ALTERNATIVE WASTEWATER RATE STRUCTURES AND RATES			
Test Year Rate Structure and Rates		Recommended Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC =48%		Monthly BFC/ uniform kgals charge BFC = 60%	
BFC	\$6.44	BFC	\$11.92
per 1 kgal	\$1.76	per 1 kgal	\$4.83
(8 kgal cap)		(8 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$6.44	0	\$11.92
1	\$8.20	1	\$16.75
3	\$11.72	3	\$26.41
6	\$17.00	6	\$40.90
8	\$20.52	8	\$50.56
10	\$20.52	10	\$50.56
Alternative 1 Rate Structure and Rates		Alternative 2 Rate Structure and Rates	
Monthly BFC/ uniform kgals charge BFC = 50%		Monthly BFC/ uniform kgals charge BFC =65%	
BFC	\$9.86	BFC	\$12.90
per 1 kgal	\$6.10	per 1 kgal	\$4.22
(8 kgal cap)		(8 kgal cap)	
Typical Monthly Bills		Typical Monthly Bills	
Consumption (kgals)		Consumption (kgals)	
0	\$9.86	0	\$12.90
1	\$15.96	1	\$17.12
3	\$28.16	3	\$25.56
6	\$46.46	6	\$38.22
8	\$58.66	8	\$46.66
10	\$58.66	10	\$46.66

LP WATERWORKS, INC. TEST YEAR ENDED MAY 31, 2013 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-D DOCKET NO. 130153-WS	
	UTILITY'S EXISTING RATES	STAFF'S RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential Service</u>			
Base Facility Charge – All Meter Sizes	\$6.44	\$11.92	\$0.05
Charge per 1,000 Gallons- Residential 8,000 gallon cap	\$1.76	\$4.83	\$0.02
<u>General Service</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"	\$6.44	\$11.92	\$0.05
3/4"	\$9.67	\$17.88	\$0.07
1"	\$16.11	\$29.80	\$0.12
1-1/2"	\$32.23	\$59.60	\$0.23
2"	\$51.57	\$95.36	\$0.37
3"	\$103.14	\$190.72	\$0.75
4"	\$161.15	\$298.00	\$1.17
6"	\$322.30	\$596.00	\$2.33
Charge per 1,000 Gallons - General Service	\$2.10	\$5.79	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$11.72	\$26.41	
6,000 Gallons	\$17.00	\$40.90	
10,000 Gallons	\$20.52	\$50.56	

Item 9

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Engineering (Lee, Hill) *CLC*
Division of Economics (Bruce) *EB*
Office of the General Counsel (Barrera) *SC* *WB* *JD*

RE: Docket No. 130291-WS – Application for amendment of Certificate Nos. 631-W and 540-S in Lake County by Central Sumter Utility Company, LLC.

AGENDA: 04/10/14 – Regular Agenda – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

On December 17, 2013, Central Sumter Utility Company, LLC (Central Sumter or Utility) filed an application with the Commission to amend Certificate Nos. 631-W and 540-S to add territory in Lake County. On February 2, 2013, the Utility requested an amendment to its territory to provide service to an additional 1,579 water and 1,421 wastewater customers which was granted on May 29, 2013¹. The Utility is therefore a Class B Utility, providing water services to approximately 3,334 water and 3,177 wastewater customers in Sumter County. The Utility plans to extend its service territory in order to provide water and wastewater service to approximately 2,041 residential and commercial customers in the new service area, within Lake County.

¹ See Order No. PSC-13-0231-FOF-WS, issued May 29, 2013, in Docket No. 130047-WS, In re: Application for amendment of water and wastewater Certificate Nos. 631-W and 540-S, to extend service area, in Sumter County by Central Sumter Utility Company, LLC.

Docket No. 130291-WS

Date: March 27, 2014

Central Sumter's original water and wastewater certificates were granted in 2005. There have been two amendments to the certificates in 2012 and 2013. The Commission has jurisdiction pursuant to Section 367.045, Florida Statutes (F.S.).

Discussion of Issues

Issue 1: Should the Commission approve Central Sumter's application for amendment of Certificate Nos. 631-W and 540-S to extend its water and wastewater territory in Lake County?

Recommendation: Yes. Staff recommends that it is in the public interest to amend Certificate Nos. 631-W and 540-S to include the territory as described on Attachment A, effective the date of the Commission's vote. The resultant order should serve as Central Sumter's amended certificates and should be retained by the Utility. The Utility should charge the customers in the territory added herein, the rates and charges contained in its current tariffs until a change is authorized by the Commission in a subsequent proceeding. (Hill, Lee)

Staff Analysis: The Utility's application to amend its authorized service territory is in compliance with the governing statute, Section 367.045, F.S., and Rule 25-30.036, Florida Administrative Code (F.A.C.). The application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, F.A.C. No objections to the application have been received, and the time for filing such has expired.

The proposed service territory is intended to serve approximately 2,041 additional customers, including both residential single-family homes and commercial customers, in an area of approximately 353 acres adjacent to the Utility's existing service territory, of approximately 6,106 acres. The application contains a warranty deed as evidence, that the Utility owns the land upon which the Utility facilities are located. Adequate service territory maps and territory descriptions have also been provided.

The Utility's application included a statement indicating that Central Sumter is an affiliate of The Villages, Inc. (The Villages). The statement went on to say that The Villages is a real estate developing company that will develop the proposed amended territory, and provide the financial and operating support necessary for the Utility to be successful. Based on projection with the inclusion of the proposed extension, the water treatment plant has a projected maximum daily demand at build-out that is within the 4.320 mgd maximum capacity for the water treatment plant. Likewise, the projected daily demand at build-out is within the 1.60 mgd capacity for the wastewater treatment plant. According to the application, the provision of water and wastewater services in the proposed service territory is consistent with the Lake County Comprehensive Plan, and there are no outstanding Consent Orders or Notices of Violation from DEP.

Based on the foregoing, staff recommends it is in the public interest to amend Certificate Nos. 631-W and 540-S to include the territory as described on Attachment A, effective the date of the Commission's vote. The resultant order should serve as Central Sumter's amended certificates, and should be retained by the Utility. The Utility should charge the customers in the territory, added herein, the rates and charges contained in its current tariff until a change is authorized by the Commission in a subsequent proceeding.

Docket No. 130291-WS

Date: March 27, 2014

Issue 2: Should this docket be closed?

Recommendation: Yes, if staff's recommendation in Issue 1 is approved, no further action is required and the docket should be closed. (Barrera)

Staff Analysis: If Issue 1 is approved, no further action is required and the docket should be closed

CENTRAL SUMTER UTILITY COMPANY, LLC

DESCRIPTION OF PROPOSED SERVICE TERRITORY

THAT LAND LYING IN SECTIONS 5, 6, 7, 8 AND 18, TOWNSHIP 19 SOUTH, RANGE 24 EAST, LAKE COUNTY, FLORIDA, DESCRIBED AS FOLLOWS:

BEGIN AT THE SOUTHWEST CORNER OF THE SOUTHWEST 1/4 OF SAID SECTION 6, RUN N00°42'56"E, ALONG THE WEST LINE THEREOF A DISTANCE OF 1,327.16 FEET TO THE NORTHWEST CORNER OF THE SOUTH 1/4 OF SAID SECTION 6; THENCE DEPARTING SAID WEST LINE, RUN S89°13'33"E, ALONG THE NORTH LINE OF SAID SOUTH 1/4 A DISTANCE OF 852.06 FEET TO A POINT ON THE ARC OF A CURVE CONCAVE NORTHERLY, HAVING A RADIUS OF 1,489.39 FEET AND A CHORD BEARING AND DISTANCE OF S80°18'19"E, 468.53 FEET; THENCE EASTERLY ALONG THE ARC OF SAID CURVE, THROUGH A CENTRAL ANGLE OF 18°05'57" , A DISTANCE OF 470.49 FEET; THENCE S89°21'18 "E, 675.67 FEET; THENCE N00°44'03"E, 34.00; THENCE S89°21'18"E, 664.02 FEET; THENCE S00°44'17 "W, 60.00 FEET; THENCE N89°21'18"W, 22.00 FEET; THENCE S00°44'17 "W, 219.22 FEET; THENCE S89°16'30"E, 67.27 FEET; THENCE S00°39'26"W, 50.56 FEET; THENCE S89°18'44"E, 660.00 FEET; THENCE N00°38'44"E, 295.87 FEET; THENCE S89°14'18"E, 632.42 FEET; THENCE N00°43'59 "E, 34.00 FEET; THENCE S89°14'18"E 339.35 FEET; THENCE S00°43'54"W, 34.00 FEET; THENCE S89°14'18"E, 1203.01 FEET TO A POINT ON THE EAST LINE OF THE WEST 200.00 FEET OF THE SOUTHWEST 1/4 OF SAID SECTION 5; THENCE S00°56'55"W, ALONG SAID EAST LINE A DISTANCE OF 1,271.51 FEET TO THE NORTHEAST CORNER OF THE WEST 200.00 FEET OF THE NORTHWEST 1/4 OF SAID SECTION 8; THENCE S00°47 ' 54"W, ALONG THE EAST LINE OF THE WEST 200.00 OF SAID SECTION 8 A DISTANCE OF 1,184.03 FEET TO A POINT ON THE NORTH LINE OF THE SOUTH 160.00 FEET OF THE NORTHWEST 1/4 OF THE NORTHWEST 1/4 OF SAID SECTION 8; THENCE DEPARTING SAID EAST LINE, S89°40'49 "E, ALONG SAID NORTH LINE A DISTANCE OF 611.54 FEET; THENCE DEPARTING SAID NORTH LINE, S00°46'30"W, 425.68 FEET; THENCE S31°15'56 "W, 733.08 FEET; THENCE S00°47 ' 54"E, 35.45 FEET ; THENCE S43°54'50 "E, 75.41 FEET; THENCE S49°19'38"E, 80.87 FEET; THENCE S45°31'17"E, 45.42 FEET; THENCE S57°57'35 E, 31.06 FEET; THENCE S27°16'42 E, 46.23 FEET; THENCE S36°00'06 E, 62.89 FEET ; THENCE S26°28'20 E, 49.91 FEET; THENCE S32°28 ' 21 E, 80.27 FEET; THENCE S29°57'55 E, 60.93 FEET; THENCE S75°47'10 E, 99.18 FEET; THENCE S07°22'59 E, 55.03 FEET; THENCE S04°58'53 E, 28.31 FEET; THENCE S03°51'23 E, 57.52 FEET; THENCE S03°23'32 W, 15.26 FEET; THENCE S75°48'45 WI 38.64 FEET; THENCE S12°05'00"W, 92 . 40 FEET; THENCE S24°08'42 "W, 41.93 FEET; THENCE S11°20'47"W, 21.80 FEET; THENCE S00°21'45"W 90.73 FEET; THENCE S40°46'06"W, 53.01 FEET; THENCE S53°05'55"W, 104.34 FEET; THENCE S49°53'36"W, 70.59 FEET; THENCE S48°18'47"W, 37.84 FEET; THENCE S61°43'23"W,

48.54 FEET; THENCE S62°49'12"W, 50.56 FEET ; THENCE S59°14 ' 26"W 52.64 FEET; THENCE S70°58'32"W 38.87 FEET; THENCE S35°38'27"W, 2,364.05 FEET TO A POINT ON THE SOUTH LINE OF THE SOUTHEAST 1/4 OF SAID SECTION 7; THENCE ALONG SAID SOUTH LINE, N89°06'25 "W, 425.00 FEET TO THE NORTHEAST CORNER OF THE NORTH 1/2 OF THE NORTHWEST 1/4 OF THE NORTHEAST 1/4 OF SAID SECTION 18; THENCE DEPARTING SAID SOUTH LINE, RUN S00°39'15"W, ALONG THE EAST LINE OF SAID NORTH 1/2 A DISTANCE OF 663.97 FEET TO THE SOUTHEAST CORNER OF SAID NORTH 1/2; THENCE DEPARTING SAID EAST LINE, RUN N89°07'29"W, ALONG THE SOUTH LINE OF SAID NORTH 1/2 A DISTANCE OF 1,339.21 FEET TO THE SOUTHWEST CORNER OF SAID NORTH 1/2; THENCE DEPARTING SAID SOUTH LINE, RUN N00°38'09"E, ALONG THE WEST LINE OF SAID NORTH 1/2 A DISTANCE OF 664.81 FEET TO THE SOUTHWEST CORNER OF THE SOUTHEAST 1/4 OF SAID SECTION 7 : THENCE DEPARTING THE WEST LINE OF SAID NORTH 1/2, RUN N00°46'30"E, ALONG THE WEST LINE OF SAID SOUTHEAST 1/4 A DISTANCE OF 1,320.73 FEET TO THE SOUTH LINE OF THE NORTH 1/2 OF THE SOUTHWEST 1/4 OF SAID SECTION 7; THENCE DEPARTING SAID WEST LINE, RUN N88°56'57"W, ALONG THE SOUTH LINE OF SAID NORTH 1/2 A DISTANCE OF 2,644.70 FEET TO THE SOUTHWEST CORNER OF SAID NORTH 1/2 ; THENCE DEPARTING SAID SOUTH LINE, RUN N00°36'09"E, ALONG THE WEST LINE OF SAID SECTION 7 A DISTANCE OF 1,329.81 FEET TO THE SOUTHWEST CORNER OF THE NORTHWEST 1/4 OF SAID SECTION 7; THENCE ALONG THE WEST LINE OF THE NORTHWEST 1/4, N00°40'16 "E, 2,658.38 FEET TO THE POINT OF BEGINNING.

FLORIDA PUBLIC SERVICE COMMISSION

**Authorizes
Central Sumter Utility Company, LLC
Pursuant to
Certificate Number 631-W**

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

Order Number	Date Issued	Docket Number	Filing Type
PSC-05-0844-FOF-WS	08/18/2005	050192-WS	Original Certificate
PSC-12-0551-FOF-WS	10/17/2012	120207-WS	Amendment and Name Correction
PSC-13-0231-FOF-WS	05/29/2013	130047-WS	Amendment
*	*	130291-WS	Amendment

***Order Numbers and dates to be provided at time of issuance.**

Item 10

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

COMMISSION
CLERK

14 MAR 27 AM 9:01

RECEIVED-FPSC

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Rome) *CR*
Division of Accounting & Finance (Fletcher) *ESD*
Office of the General Counsel (Young) *JWD* *CRB* *ALM* *W*

RE: Docket No. 140048-EI – Reporting Requirements for electric investor-owned utilities with Commercial/Industrial Service Rider (CISR) tariffs.

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: None

SPECIAL INSTRUCTIONS: None

Case Background

Through the use of Commercial/Industrial Service Rider (CISR) tariffs, Florida investor-owned electric utilities are allowed the flexibility to negotiate pricing arrangements, within the parameters specified in the tariff, with commercial/industrial customers who are at risk of leaving a company's service territory for more competitive options outside of Florida, to become customers of other energy providers, or who may require competitive incentives to bring new load into Florida. The Commission has approved CISR tariffs for Gulf Power Company (Gulf), Tampa Electric Company (TECO), Duke Energy Florida, Inc. (DEF), and Florida Power & Light Company (FPL).¹

¹ Gulf Power Company's tariff was approved as a pilot in 1996 and made permanent in 2001. Order No. PSC-96-1219-FOF-EI, issued September 24, 1996, in Docket No. 960789-EI, In re: Petition for authority to implement

Staff believes there is an opportunity to streamline CISR tariff reporting requirements and achieve greater consistency among investor-owned electric utilities while continuing to provide the appropriate oversight to ensure the general body of ratepayers is not harmed by the negotiated contracts. The Commission has jurisdiction over this matter pursuant to Section 366.04, Florida Statutes (F.S.).

proposed commercial/industrial service rider on pilot/experimental basis by Gulf Power Company and Order No. PSC-01-0390-TRF-EI, issued February 15, 2001, in Docket No. 001217-EI, In re: Petition for authority to modify Commercial/Industrial Service Rider Pilot Study by Gulf Power Company. Tampa Electric Company's CISR tariff was approved as a pilot in 1998. TECO did not seek to make its tariff permanent after the 48-month pilot expired; however, the Stipulation and Settlement filed by TECO and other parties in Docket No. 130040-EI includes a new CISR. Order No. PSC-13-0443-FOF-EI, issued September 30, 2013, in Docket No. 130040-EI, In re: Petition for rate increase by Tampa Electric Company. Florida Power Corporation's (now Duke Energy Florida, Inc.) tariff was approved as a pilot in 2001 and made permanent in 2005. Order No. PSC-01-1789-TRF-EI, issued September 4, 2001, in Docket No. 010876-EI, In re: Petition for approval of a new pilot Commercial/Industrial Service Rider to replace existing Economic Development Rider by Florida Power Corporation and Order No. PSC-05-0945-S-EI, issued September 28, 2005, in Docket No. 050078-EI, In re: Petition for rate increase by Progress Energy Florida, Inc. Florida Power & Light's tariff was approved in Order No. PSC-14-0110-TRF-EI, issued February 24, 2014, in Docket No. 130286-EI, In re: Petition for approval of new commercial/industrial service rider by Florida Power & Light Company.

Discussion of Issues

Issue 1: Should CISR tariff reporting requirements be modified for purposes of streamlining and to achieve greater consistency among Florida's investor-owned electric utilities?

Recommendation: Yes. Annually, in conjunction with the submission of December Earnings Surveillance Reports, companies with CISR tariff customers should report the total difference for all executed Contract Service Arrangements (CSAs) between the calendar year revenues that would have been received under the otherwise applicable tariff rate(s) and the CISR rate. (Rome)

Staff Analysis: The Commission-approved CISR tariffs are similarly structured. For example, each contains limitations with regard to minimum customer size, the number of CSAs that can be executed, and the amount of system load available to CISR tariff customers. These limitations help to ensure that the CISR is targeted to the size of customer that has the ability and motivation to base its location decisions in substantial measure on electricity costs and also avoid the potential for the CISR to become over-subscribed. Each CISR tariff also contains language that prohibits the company from using the CISR tariff to attract existing load currently served by another Florida electric utility to its service territory.

However, there are variations among the four utilities with CISR tariffs regarding the nature and frequency of reporting requirements relative to active CISR customers. The Commission orders authorizing the respective tariffs were issued at different points in time in different proceedings and they impose different reporting requirements on respective utilities. Gulf is currently required to file quarterly CISR activity reports as well as supplemental CISR information in conjunction with its monthly Earnings Surveillance Reports. Certain customer-specific information contained in Gulf's reports typically has been filed requesting confidential classification. FPL is required to file supplemental CISR information in conjunction with its monthly Earnings Surveillance Reports. The current CISR tariffs for DEF and TECO were approved as part of settlement agreements and are silent regarding specific reporting requirements.

While the CISR tariff allows the utility to enter into negotiated contracts without Commission approval for each contract, staff notes that the Commission has the authority pursuant to Section 366.06(2), F.S., to initiate a review at any time as to whether a CSA between a utility and a CISR customer is prudent. In the event that the Commission chose to initiate such a review, the utility would have the burden of proof that its decision to enter into a particular CSA was in the best interest of its general body of customers.

Staff does not have a need to receive monthly or quarterly CISR filings. Thus, there is an opportunity to streamline CISR tariff reporting requirements and achieve greater consistency among investor-owned electric utilities while continuing to provide the appropriate oversight of CISR contracts. Staff recommends that annually, in conjunction with the submission of December Earnings Surveillance Reports, companies with CISR tariff customers should report the total difference for all executed CSAs between the calendar year revenues (excluding tax and franchise fees) that would have been received under the otherwise applicable tariff rate(s) and the CISR rate. The first submission of the CISR information under the new reporting format would

Docket No. 140048-EI

Date: March 27, 2014

be due with the December 2014 Earnings Surveillance Report. This would apply to utilities with existing CISR customers and prospective CISR customers.

Issue 2: Should this docket be closed?

Recommendation: Yes. If Issue 1 is approved, utilities with CISR tariff customers should file the required information annually beginning with the December 2014 Earnings Surveillance Report. If a protest is filed within 21 days of the issuance of the order, utilities with CISR tariff customers should continue to follow their current reporting procedures, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Young)

Staff Analysis: If Issue 1 is approved, utilities with CISR tariff customers should file the required information annually beginning with the December 2014 Earnings Surveillance Report. If a protest is filed within 21 days of the issuance of the order, utilities with CISR tariff customers should continue to follow their current reporting procedures, pending resolution of the protest. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

Item 11

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Thompson, Daniel, Hudson) *KT DM JW.D.*
Division of Accounting and Finance (Lester, Mouring, Prestwood) *PL CP (H)*
Division of Engineering (Buys, Lewis, Vickery) *POB SKL RV TP3 CRBB*
Office of the General Counsel (Corbari) *AT KFC*

RE: Docket No. 130211-WS – Application for staff-assisted rate case in Polk County by S.V. Utilities, Ltd.

AGENDA: 04/10/14 – Regular Agenda – Proposed Agency Action - Except Issue Nos. 9 and 10 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Edgar

CRITICAL DATES: 01/05/15 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

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Case Background

S.V. Utilities, Ltd. (SV or Utility) is a Class C utility that has been in existence since 1981. The Utility provides service to approximately 705 residential, 4 general service, and 20 irrigation customers in Swiss Village Mobile Home Park, Hidden Cove East Mobile Home Park, and Hidden Cove West Mobile Home Park. SV is located in the Highlands Ridge water use caution area of the Southwest Florida Water Management District (SWFWMD) in Polk County. The Utility has been under the Florida Public Service Commission's (Commission) jurisdiction since May 14, 1996, when Polk County transferred jurisdiction to the Commission. However, SV did not apply for its grandfather certificates until October 14, 1998. By Order No. PSC-99-1234-PAA-WS, issued June 22, 1999, the Commission granted Certificate Nos. 605-W and 521-S to the Utility.¹

On July 16, 2007, SV applied for a staff assisted rate case (SARC), but voluntarily withdrew its application on August 1, 2008.² On August 5, 2013, the Utility filed an application for a SARC and paid the appropriate filing fee on September 17, 2013. Staff has selected the historical test year ended June 30, 2013. The Commission has jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ See Order No. PSC-99-1234-PAA-WS, issued June 22, 1999, in Docket No. 981337-WS, In re: Application for Grandfather Certificates to Operate Water and Wastewater Utility in Polk County by S.V. Utilities, Ltd.

² See Docket No. 070413-WS, In re: Application for Staff Assisted Rate Case in Polk County by S.V. Utilities, Ltd.

Discussion of Issues

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

Recommendation: Yes. The overall quality of service for the SV system in Polk County is satisfactory. (P. Buys)

Staff Analysis: Pursuant to Rule 25-30.433(1), F.A.C., in water and wastewater rate cases, the Commission shall determine the overall quality of service provided by a utility. This is derived from an evaluation of three separate components of the Utility operations. These components are the quality of the Utility's product, the operating conditions of the Utility's plant and facilities, and the Utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered. In addition, input from the DEP and health department officials and customer comments or complaints will be considered.

Quality of Utility's Product and Operating Conditions of the Utility's Plant and Facilities.

SV's service area is located at Hidden Cove East Mobile Home Park, Hidden Cove West Mobile Home Park, and Swiss Village Mobile Home Park, in Winter Haven, Florida. The raw water source is ground water, which is obtained from two wells in the service area and is treated. The processing sequence for the water treatment system is to pump raw water from the aquifer, inject liquid chlorine, store in a tank, and then distribute. Wastewater service is provided via a wastewater treatment plant with three percolation ponds. Polk County Health Department (PCHD) regulates the potable water program.

In the last water Sanitary Survey Report, dated April 26, 2013, the only deficiency listed was related to the pressure relief valves, which were not properly screened. During the site visit to SV's water treatment plant (WTP), staff noticed that the pressure relief valves were properly screened and the deficiency was corrected. Staff recommends the quality of the finished water product is satisfactory.

In the last wastewater DEP Compliance Evaluation Inspection, dated November 22, 2011, several deficiencies were listed. The main issue concerning the quality of the wastewater product was with the groundwater. The inspection report indicated that the maximum contaminant level for arsenic was exceeded in the second and third quarters of 2009, the fourth quarter of 2010, and the second quarter of 2011 for background well MW-1R. DEP requested an explanation for the exceedances and increasing trends of the arsenic levels. The Utility responded to DEP on December 1, 2011 and indicated that the property that Swiss Village encompasses had various uses in the past, including growing citrus and cattle grazing. The Utility stated that it had no way of knowing what types of products were used in the past for these industries, but arsenic use was prevalent during these times to treat both cattle and citrus trees for pests and parasites. According to the Utility, the arsenic level has fallen since the last monitoring period, and the Utility will continue to monitor the trends closely. The Utility is providing quarterly groundwater reports to DEP.

The other deficiencies listed on DEP's November 22, 2011 Compliance Evaluation Inspection report were that the Domestic Wastewater Permit was to expire May 29, 2012, and the sign posted at the rapid infiltration basin (RIB or percolation pond) had deteriorated and was no longer legible. The Utility responded to DEP on December 1, 2011, stating that the permit application had been completed and DEP should be in receipt of the application by December 1, 2011. Staff found that DEP issued a Notice of Permit for the Utility on June 8, 2012. The permit is current and will expire on June 7, 2017. The Utility also reported to DEP on December 1, 2011, that the effluent disposal sign near the south RIB has been refurbished to original quality, which staff verified during the site visit of the wastewater treatment plant (WWTP).

The Utility's Attempt to Address Customer Satisfaction.

Staff reviewed the Commission's complaint records and there were no complaints recorded during the last three years. Staff did ask the Utility for a copy of its in-house complaints during the test year and the Utility responded that it did not receive any complaints.

Staff conducted a customer meeting on February 5, 2014. This meeting gave the customers an opportunity to express specific concerns regarding the Utility's attitude and responsiveness to quality of service issues. All quality of service complaints were investigated and taken into consideration during the preparation of staff's final recommendation.

The customer meeting was held in Winter Haven. Seventy-six customers attended the meeting and six customers spoke with concerns about the Utility. Several customers asked about the excessive amount of unaccounted for water (EUW). The customers were concerned that the Utility is losing water and the customers will have to pay for it. The customers also stated that the rate increase is improper and asked why there should be a rate increase with no change in service. The customers mentioned that the meters were not calibrated and they did not have a consumption record so they would not know how much water to conserve. One customer mentioned that the Utility should compare the cost of an automated billing program to manually sending bills out. The same customer also mentioned there was no contact information for the Utility on the bills. Staff reviewed a current copy of the Utility's bill and it does reflect the Utility name and contact number. After the meeting, one customer mentioned to staff there was a fire hydrant that needed to be replaced. Staff followed up with the Utility which stated that a new hydrant was just ordered.

Of the forty-seven customer comments received by the Commission regarding this rate case, thirty-six were from Hidden Cove West and eleven were from Swiss Village. Most of the customers' concerns were about the EUW, which is addressed in Issue 2, and opposition to a rate increase. Other concerns were about the system needing repairs and improvements, poor management and operations, meters, and a preference to see consumption use before the Utility starts billing. Customers also stated that most residents are seasonal residents, on fixed incomes, and that the residents will not water their lawns if there is a rate increase. Three customers mentioned the poor quality of water. Two of these customers stated that the water needs to taste better and the quality of the water has not been addressed.

The water provided by the Utility is meeting applicable DEP primary and secondary standards and most of the Utility's results are better than DEP's acceptable standards. One

customer mentioned that the residents frequently have to boil water due to broken pipes. Staff verified with PCHD that SV issued a boiled water notice in September 2012 and one in February 2013. In September 2012, the notice was issued to repair a 6-inch main break. The notice in February 2013 was to repair a main leak.

Summary

Staff recommends the Commission find that the quality of the finished water and wastewater products are satisfactory since the Utility is current in meeting the quality standards for all required chemical analyses and the products provided by the Utility are meeting applicable primary and secondary standards as prescribed in the rules of the DEP. In addition, staff recommends that the conditions of the water and wastewater treatment facilities are satisfactory since the Utility corrected all deficiencies reported by DEP. It also appears the Utility has attempted to address the customer's concerns. Therefore, the overall quality of service for the SV system in Polk County is satisfactory.

March 27, 2014

Issue 2: What are the used and useful percentages of the Utility's water treatment plant (WTP), water distribution, wastewater treatment plant (WWTP), and wastewater collection system?

Recommendation: SV's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent used and useful (U&U). Staff recommends that a 22 percent adjustment to purchased power and chemicals should be made for excess unaccounted for water (EUW). No adjustment is recommended for excess infiltration and inflow (I&I). (P. Buys, Lester)

Staff Analysis: SV has one WTP with two 8-inch wells operating at depths of 530 feet for well 1 and 547 feet for well 2. The wells have a total capacity of 600 gallons per minute (gpm). Well 1 is equipped with a 30 horsepower (hp) vertical turbine pump and well 2 is equipped with a 40 hp vertical turbine pump. The raw water is treated with liquid chlorine, which is injected prior to entry into the two 8,000-gallon hydropneumatic tanks. The treated water from the tanks is then pumped into the water distribution system.

The distribution system is a composite network consisting of approximately 17,075 linear feet of 6-inch PVC pipe, 950 linear feet of 4-inch PVC pipe, 15,330 linear feet of 2-inch PVC pipe, and 165 linear feet of 1-inch PVC pipe. The distribution system supports 49 fire hydrants.

The WWTP capacity is permitted by DEP at 0.141 million gallons per day (MGD) based on the Three Month Average Daily Flow (3MADF). The plant is a Type II, extended aeration domestic wastewater treatment plant that consists of one surge/aeration basin of 42,500 gallons, three aeration basins of 120,348 total gallons, two clarifiers of 35,500 total gallons with a total of 520 square feet of surface area, two chlorine contact chambers of 7,600 total gallons and two digesters of 14,500 total gallons. This plant is operated to provide secondary treatment with liquid chlorine basic disinfection. The wastewater system includes three percolation ponds.

The collection system is made up of approximately 2,600 linear feet of 4-inch PVC pipe, 9,700 linear feet of 6-inch PVC pipe, and 16,285 linear feet of 8-inch PVC pipe. There are 54 four-inch concrete manholes and 4 lift stations. The 4 lift stations transfer the influent by force mains to the wastewater treatment plant.

Excessive Unaccounted for Water (EUW)

Rule 25-30.4325, F.A.C., describes EUW as unaccounted for water in excess of 10 percent of the amount produced. When establishing the Rule, the Commission recognized that some uses of water are readily measurable and others are not. The Commission allows 10 percent of unaccounted water for the uses of water that are not metered, which includes but is not limited to, line flushing, hydrant testing, street cleaning, and theft.³ The rule provides that to

³ See Order No. PSC-93-0455-NOR-WS, p. 101 and 102, issued March 24, 1993, in Docket no. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation.

determine whether adjustments to plant and operating expenses, such as purchased electrical power and chemicals cost are necessary, the Commission will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The Utility's records indicated unaccounted for water of 32 percent, which would mean there is EUW of 22 percent. The Utility produced 72,399,000 gallons of water, so 22 percent of the water produced would be 15,624,100 gallons or 30 gpm.

Staff asked the Utility to investigate the EUW. The company found that there were two pool leaks during the test year. One pool leak was at the Hidden Cove West clubhouse and the other one was at the Swiss Village clubhouse. The Utility also found a 2-inch irrigation meter in Hidden Cove West that was broken during the test year. The Utility has ordered a new meter. To further its investigation of the EUW, the Utility requested a meeting with the Florida Rural Water Association to begin leak detection on the system. Staff believes that the water used to fill the pools should have been metered from the clubhouses. Staff determined the irrigation meter was not working for the fourth quarter of 2012 through the second quarter of 2013. The total estimated loss of water from the irrigation meter not working would only account for 77,400 gallons of the 15.6 million gallons total gallons of EUW. Therefore, staff recommends that a 22 percent adjustment to O&M expenses should be made.

Infiltration and Inflow (I&I)

Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas, inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical and electrical costs are also considered necessary if excessive. The Utility's records indicated that there was no excessive I&I for the test year. Therefore, staff recommends that no adjustment should be made for excess I&I.

Used and Useful (U&U)

Pursuant to Rule 25-30.4325, F.A.C., the U&U percentage of the WTP was calculated by taking the single maximum day in the test year less the EUW times two, then adding the fire flow allowance plus the growth allowance and dividing that whole amount by the firm reliable capacity ($[(2 \times (\text{single maximum day} - \text{EUW})) + \text{fire flow} + \text{growth allowance}] / \text{firm reliable capacity}$). The Utility has 2 wells with a total capacity of 600 gpm. If a water system has more than one well, the highest capacity well should be removed from the calculation to determine the plant's firm reliable capacity. By taking one of the wells (300 gpm) out of service, the Utility reflected a firm reliable capacity of 300 gpm. The single maximum day in the test year was 379,000 gallons (263 gpm), which occurred on August 19, 2012. This does not appear to have been caused by a line break or other unusual occurrence on that day. The Utility's records indicated unaccounted for water of 32 percent, which would mean there is a EUW of 22 percent. The peak demand should be reduced by 30 gpm, which is 22 percent of the water produced, to reflect the EUW (single maximum day – EUW). The growth allowance is zero gpm. The fire flow allowance is 500 gpm per Rule 25-30.4325, F.A.C. The result, $[(2 \times (263 - 30)) + 500 + 0]$

/ 300 = 322 %, is greater than 100 percent U&U. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission. Based on the above information, staff recommends that the WTP should be 100 percent U&U.

Pursuant to Rule 25-30.432, F.A.C., the U&U percentage of the WWTP was calculated by taking the Three Month Average Daily Flow (3MADF) plus a growth allowance minus the excess I&I and then dividing the sum by 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. The Utility's test year 3MADF was 0.121 MGD. There has been no growth in the past five years; therefore the growth allowance is 0 MGD. In addition, the excess I&I is calculated to be zero percent. The WWTP's permitted capacity is 0.141 MGD per 3MADF. The calculation $[(0.121-0+0)/0.141]$ results in an 86 percent U&U. There has been no prior rate case for this Utility; therefore, U&U has not been previously established by the Commission. SV began serving customers in 1981. Staff's adjusted test year plant-in-service for wastewater is \$494,034. Total accumulated depreciation is \$408,238, 82.6 percent. With equipment replacements over the years, the wastewater treatment plant-in-service is significantly but not fully depreciated. The system has been in operation for over thirty years with no customer growth during the previous five years to the filing of this SARC; therefore, the wastewater treatment plant should be considered 100 percent U&U because the system is built out which is consistent with Rule 25-30.432, F.A.C.

Staff reviewed the service territory and believes the current mains are providing service for the existing customers only. For the SV service area, there are 708 lots, no vacant lots, and no further phases to be built in the developments. If the service territory the system is designed to serve is deemed built out and there is no potential for expansion of the service territory, it is recommended that the U&U percentage for water distribution and wastewater collection systems be considered 100 percent. Staff recommends the water distribution and wastewater collection system also be considered 100 percent U&U.

Summary

Based on the analysis above, staff recommends SV's WTP, water distribution, WWTP, and wastewater collection system should be considered 100 percent U&U. Staff recommends that a 22 percent adjustment to O&M Expenses should be made for EUW. No adjustment is recommended for excess I&I.

Issue 3: What is the appropriate average test year rate base for SV?

Recommendation: The appropriate average test year rate base for SV is \$120,475 for water and \$130,662 for wastewater. (Lester)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service, accumulated depreciation, contribution-in-aid-of-construction (CIAC), accumulated amortization of CIAC and working capital. Staff selected the test year ended June 30, 2013, for this rate case. A summary of each component of rate base and the recommended adjustments follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS of \$556,407 for water and \$1,394,937 for wastewater. Staff's adjustments to UPIS are identified in Table 3-1 below.

Table 3-1
Rate Base Adjustments

	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. To reflect original cost study as of 12/31/2006 (AF 1)	(\$110,456)	(\$910,048)
2. To reflect staff audit adjustments from report in Dkt. 070413-WS (AF 1)	5,426	4,542
3. To reflect plant additions and retirements (AF 2)	(41,376)	2,528
4. To reflect simple average	(201)	(1,128)
5. To capitalize meter lids	733	
6. To capitalize pump		1,637
7. To capitalize portable controller		1,566
Total	(\$145,874)	(\$900,903)

In its letter dated March 5, 2014, OPC noted invoices in materials and supplies expense that should be capitalized. Staff reviewed these items and agrees with OPC. The adjustments above include capitalization of meter lids, a pump, and a portable controller.

Staff's net adjustments to UPIS are decreases of \$145,874 and \$900,903 for water and wastewater, respectively. Staff's recommended UPIS balance is \$410,533 (\$556,407-\$145,874) for water and \$494,034 (\$1,394,937 - \$900,903) for wastewater.

Land & Land Rights: The Utility recorded a test year land value of \$7,695 for water and \$33,087 for wastewater. Staff reduced these balances by \$5,074 and \$5,152 for water and wastewater, respectively, to reflect the original cost of utility land. The appropriate land balances are \$2,621 for water and \$27,935 for wastewater.

Non-Used and Useful Plant: As discussed in Issue 2, SV's water treatment plant, distribution system, wastewater treatment plant, and collection system should be considered 100 percent used and useful. Therefore, no adjustments are necessary.

Contributions In Aid of Construction (CIAC): SV did not record CIAC on its books. The service area consists of lots rented by the affiliated developer. Therefore, staff recommends no adjustment for CIAC.

Accumulated Depreciation: SV recorded a balance for accumulated depreciation of \$463,450 and \$1,272,981 for water and wastewater, respectively. Staff recalculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C., and reflected depreciation associated with plant additions, capitalization adjustments, and retirements along with the simple average. The balances should be decreased by \$160,345 for water and by \$864,743 for wastewater. Staff recommends an accumulated depreciation balance of \$303,105 for water and \$408,238 for wastewater.

Accumulated Amortization of CIAC: As SV does not have any CIAC, there is no accumulated amortization of CIAC.

Working Capital Allowance: SV did not record a working capital balance for water or wastewater. Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or going-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, staff recommends a working capital allowance of \$10,426 for water (based on O&M expense of \$83,405/8), and \$16,931 for wastewater (based on O&M expense of \$135,448/8).

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$120,475 for water and \$130,662 for wastewater. Rate base is shown on Schedule No. 1-A for water and on Schedule No. 1-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 1-C.

Issue 4: What is the appropriate rate of return on equity and overall rate of return for SV?

Recommendation: The appropriate return on equity (ROE) is 8.74 percent with a range of 7.74 percent to 9.74 percent. The appropriate overall rate of return is 8.74 percent. (Lester)

Staff Analysis: The Utility's capital structure consists of an intercompany payable of \$360,767. Consistent with prior Commission practice, staff has treated the payable as common equity.⁴

In its letter, OPC cites Commission orders that support the use of a parent company capital structure. In this case, the utility is owned by S.V. Utilities, Ltd., a partnership. The utility serves rental mobile home lots that are part of different partnerships. SV's managing partner is Century Properties-MHP, LLC, which is the managing partner for several related mobile home parks and utilities. Century Properties-MHP has a very small holding in each partnership. For each one, the majority ownership varies from partnership to partnership. Unlike the situations OPC cites, no clear parent/subsidiary capital structure exists for SV.

The staff auditor was able to identify a capital structure specific for SV. As noted above, staff believes treating the payable as common equity is consistent with Commission practice. With this adjustment, the Utility has no long-term debt. The Utility does not have customer deposits. The appropriate ROE is 8.74 percent using the Commission-approved leverage formula currently in effect.⁵ The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends an ROE of 8.74 percent, with a range of 7.74 percent to 9.74 percent, and an overall rate of return of 8.74 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴ See Order No. PSC-10-0681-PAA-WU, issued November 15, 2010, in Docket No. 090414-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

⁵ See Order Nos. PSC-13-0241-PAA-WS, issued June 3, 2013, and PSC-13-0307-CO-WS, issued July 8, 2013, in Docket No. 130006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Issue 5: What are the appropriate test year revenues for the Utility's water and wastewater systems?

Recommendation: The appropriate test year revenues for SV's water and wastewater systems are \$74,362 and \$72,403, respectively. (Thompson)

Staff Analysis: SV recorded total test year revenues of \$145,547, including water service revenues of \$74,417 and wastewater service revenues of \$71,130. The Utility's current tariff reflects a monthly base facility charge (BFC) of \$15.71 for both water and wastewater service, which includes an allotment of 8,000 gallons per month. The Utility bills the BFC monthly and allocates it equally between water and wastewater service. Customer usage is billed quarterly and allocated equally between both services.

During the test year, the Utility had several billing errors. The Utility billed irrigation customers the entire BFC rather than the portion allocated for water. The general service and irrigation customers were billed one BFC per quarter rather than a BFC for each month of the quarter. Finally, the Utility recorded service revenues for general service usage to water rather than allocating it equally between water and wastewater.

Staff corrected the billing errors, adjusted test year billing determinants, and applied the Utility's rates in effect during the test year to test year billing determinants. Based on staff's analysis, test year service revenues should be decreased by \$55 for water and increased by \$1,273 for wastewater. Based on the above, staff recommends the appropriate test year revenues for SV's water and wastewater systems are \$74,362 and \$72,403, respectively.

Issue 6: What is the appropriate amount of operating expense?

Recommendation: The appropriate amount of operating expense for SV is \$96,472 for water and \$152,320 for wastewater. (Lester)

Staff Analysis: SV recorded operating expense of \$58,612 for water and \$134,143 for wastewater for the test year ended June 30, 2013. The test year O&M expenses have been reviewed, including invoices, canceled checks, and other supporting documentation. Staff has made several adjustments to the Utility's operating expenses as summarized below:

Salaries and Wages - Employees (601/701) - SV recorded \$852 for water and \$33,173 for wastewater salaries in these accounts. However, the company had not allocated the cost of employees from the managing partner. Staff increased water salaries by \$28,560 and wastewater salaries by \$11,273 to cover management and operations activities done for the Utility by its managing partner employees.

Since the managing partner manages other water and wastewater utilities, these salaries were allocated on the basis of lots. OPC expressed concerns that time is not being allocated to other affiliated businesses. Staff believes that allocating the costs based on lots properly allocates salaries to all businesses and is reasonable. Staff did not include a management fee since the fee was unsupported and the salary allocation covers management activities. The resulting amounts for salaries are \$29,412 for water and \$44,446 for wastewater.

Purchased Power (615/715) - SV recorded \$10,888 for purchased power expense for water and \$19,166 for wastewater. Staff reduced these amounts by \$32 and \$133 for water and wastewater, respectively, because the utility had included late fees. Staff further reduced the amount for water by \$2,395 due to EUW (22 percent). Staff recommends purchased power expense of \$8,461 for water and \$19,033 for wastewater.

Chemicals (618/718) - For chemicals expense, S.V. Utilities recorded \$2,490 for water and \$6,296 for wastewater. For water, staff removed \$548 from this amount due to EUW. For wastewater, staff removed \$227 from this amount because of lack of invoice support and, based on OPC's letter, removed \$336 that was outside the test year. The resulting expense is \$1,942 for water and \$5,733 for wastewater.

Materials and Supplies (620/720) - For materials and supplies, the Utility recorded \$7,519 and \$13,447 for water and wastewater, respectively. For water, staff reduced the amount by \$2,840, which removed \$655 in unsupported transactions, reclassified \$1,602 to water meters, and included \$150 in appropriate expense that had not been booked. OPC's letter noted an invoice for meter lids for \$733. Staff removed this amount from materials and supplies expense and capitalized the amount as plant.

For wastewater, staff reduced the amount by \$8,057 by removing \$85 in unsupported transactions and reclassifying \$2,988 to plant lift-stations and \$1,781 to miscellaneous water plant. Staff further capitalized amounts for pump motors and for a portable controller/sampler

totaling \$3,203 as noted in OPC's letter. The resulting amounts for materials and supplies for water and wastewater are \$4,679 and \$5,390 respectively.

Contractual Services - Billing (630/730) - For water and wastewater, the beginning balances for contractual services - billing was zero. The total cost for the change to monthly billing provided by SV was \$27,892. To allow for existing quarterly billing expenses, staff reduced this amount to \$19,515 and divided it equally between water and wastewater. The resulting amounts for incremental monthly billing expense are \$9,758 for water and \$9,758 for wastewater.

Contractual Services - Professional (631/731) - For water, SV recorded \$13,252 for contractual services - professional. Staff removed \$600 of expense that was outside the test year as noted in OPC's letter. For wastewater, SV recorded \$6,588 for contractual services - professional. Staff reduced this amount by \$455 for unsupported transactions. Staff removed \$280 that was associated with another utility system. In response to OPC's letter, staff amortized permitting costs of \$884 over five years, reducing this account by \$707.

For water and wastewater, staff allocated \$2,925 as overhead for administrative and accounting salaries (bookkeeping, receptionist, regulatory accounting). With these adjustments, the resulting amounts for contractual services - professional for water and wastewater are \$15,577 and \$8,071 respectively.

Contractual Services - Testing (635/735) - The Utility recorded \$1,278 for water and \$8,653 for wastewater for testing expense. For water, staff decreased the amount by \$363 to reflect copper and lead testing every three years. For wastewater, staff increased the amount by \$200 to annualize the cost of quarterly monitoring of groundwater at the wastewater treatment plant. Staff also reduced the account by \$386 for unsupported expenses. Staff removed \$141 water and \$120 wastewater for out of period expenses as noted in OPC's letter. Staff recommends contractual services - testing expense of \$774 for water and \$8,347 for wastewater.

Contractual Services - Other (736) - SV recorded \$5,270 for wastewater. Staff reduced this amount by \$110 for unsupported transactions. Staff recommends contractual services - other expense of \$5,160 for wastewater.

Rents (640/740) - SV did not record any rent expense for water and wastewater. The company requested that staff consider the cost of leasing a mini-excavator. The company noted that this would be safer for employees and reduce overtime. The annual lease expense is \$6,984. On an annual basis, staff allocated 25 percent of the lease expense to SV and split this amount evenly, \$873 for water and for wastewater. Staff reduced this expense allowance to reflect savings based on leasing the mini-excavator, \$263 each for water and wastewater. Staff believes it is appropriate for SV to incur this expense. Staff also allocated office rent of \$1,562 for water and \$1,562 for wastewater. The represents SV's share of rent associated with managing partner employees. For the appropriate rent expense, staff recommends \$2,172 for water and \$2,172 for wastewater.

Transportation Expense (650/750) - For water and wastewater transportation expense, SV recorded \$3,187 and \$3,370, respectively. Staff removed unsupported expenses of \$116 for

water and \$201 for wastewater. Staff also removed out-of-period expenses of \$289 for water and \$126 for wastewater. The resulting allowance is \$2,782 for water and \$3,043 for wastewater.

Insurance Expense (655/755) – For insurance expense, SV recorded \$789 for water and \$2,539 for wastewater. Staff increased the water allowance by \$1,732 and decreased the wastewater allowance by \$885 to reflect the current general liability premium. The resulting balances are \$2,521 and \$1,654 for water and wastewater, respectively.

Regulatory Commission Expense (665/765) - SV recorded zero expense for regulatory commission expense in these accounts. Regarding the current rate case, pursuant to Rule 25-22.0407, F.A.C., the Utility is required to mail notices of the customer meeting and notices of final rates to its customers. For the postage, printing, and envelopes of these notices, staff estimated \$788 for the customer meeting and \$561 for the final rates notice. Staff specifically allocated the \$1,000 rate case filing fee for the water utility to water expenses and the \$500 filing fee for wastewater to wastewater expenses. Staff allowed a consulting fee of \$10,183. The total rate case expense including postage, notices, envelopes, consulting fee, and filing fee is \$13,032. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Staff recommends regulatory commission expense of \$1,692 for water and \$1,567 for wastewater.

Operation and Maintenance Expenses (O&M) Summary – Total adjustments to O&M expense result in an increase of \$39,514 for water and \$15,871 for wastewater. Staff's recommended O&M expense is \$83,405 for water and \$135,448 for wastewater. O&M expenses are shown on Schedule Nos. 3-A and 3-B for water and wastewater, respectively.

Depreciation Expense (Net of Related Amortization of CIAC) – The Utility recorded depreciation expense of \$11,374 for water and \$11,369 for wastewater during the test year. Staff calculated depreciation expense using the prescribed rates set forth in Rule 25-30.140, F.A.C., and determined depreciation expense should be reduced by \$3,123 for water and \$1,851 for wastewater. The appropriate depreciation expense is \$8,251 for water and \$9,518 for wastewater.

Taxes Other Than Income (TOTI) – The Utility recorded \$3,347 for water and \$3,197 for wastewater for TOTI. Staff increased the amount for wastewater by \$47 to reflect the correct amount for regulatory assessment fees. Therefore, staff recommends TOTI of \$4,816 for water and \$7,354 for wastewater.

Operating Expenses Summary – The application of staff's recommended adjustments to SV's adjusted test year operating expenses results in staff's recommended operating expenses of \$96,472 for water and \$152,320 for wastewater. Operating expenses are shown on Schedule No. 3-A for water and Schedule 3-B for wastewater. The related adjustments for water and wastewater are shown on Schedule No. 3-C.

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$107,001 for water and \$163,740 for wastewater, resulting in an annual increase of \$32,639 for water (43.89 percent), and an annual increase of \$91,337 for wastewater (126.15 percent). (Lester)

Staff Analysis: SV should be allowed an annual increase of \$32,639 for water (43.89 percent) and \$91,337 for wastewater (126.15 percent). This will allow the Utility the opportunity to recover its expenses and an 8.74 percent return on its investment. The calculations are shown in Table 7-1 and Table 7-2 for water and wastewater, respectively:

Table 7-1

Water Revenue Requirement	
Adjusted Rate Base	\$120,475
Rate of Return	x .0874
Return on Rate Base	\$ 10,529
Adjusted O&M expense	83,405
Depreciation expense	8,251
Amortization	0
Taxes Other Than Income	4,816
Income Taxes	0
Revenue Requirement	\$107,001
Less Test Year Revenues	74,362
Annual Increase	\$32,639
Percent Increase/(Decrease)	43.89%

Table 7-2

Wastewater Revenue Requirement	
Adjusted Rate Base	\$130,662
Rate of Return	x .0874
Return on Rate Base	\$ 11,420
Adjusted O&M expense	135,448
Depreciation expense	9,518
Amortization	0
Taxes Other Than Income	7,354
Income Taxes	0
Revenue Requirement	\$163,740
Less Test Year Revenues	72,403
Annual Increase	\$91,337
Percent Increase/(Decrease)	126.15%

Issue 8: What are the appropriate rate structures and rates for SV's water and wastewater systems?

Recommendation: The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the 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 and the notice has been received by the customers. Along with the customer notice, the Utility should provide customers their most recent three months usage. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Thompson)

Staff Analysis: The SV water system is located in Polk County within the SWFWMD. The Utility provides service to 705 residential, 4 general service, and 20 irrigation customers. The Utility's customer base is seasonal; however, because the customers irrigate year round, the billing data indicates that only approximately 7.64 percent of the residential customer bills during the test year had zero gallons. According to the Utility, while seasonal customers are out of residence, these customers are required to have irrigation systems on timers. The average residential water demand was 5,608 gallons per month during the test year. The average water demand, excluding zero gallon bills, was 6,072 gallons per month.

SV's rates and rate structure have been in effect since the Utility was granted grandfather certificates in 1999, following Polk County turning over jurisdiction of privately owned water and wastewater utilities to the Commission. Currently, the Utility's rate structure consists of a single monthly BFC of \$15.71 for water and wastewater service, which includes an allotment of 8,000 gallons per month. Water usage above the 8,000 gallon monthly allotment is billed at \$1.31 for 8,001 to 10,000 gallons and \$2.09 for usage above 10,000 gallons. As previously discussed, the BFC is billed monthly, but usage in excess of the 8,000 gallon monthly allotment is billed quarterly. The approved rate for irrigation service is a monthly BFC of \$7.86, which includes an allotment of 8,000 gallons and a usage charge of \$.65 per 1,000 gallons.

The current rate structure is not considered conservation oriented because the 8,000 gallon allotment does not encourage conservation and billing on a quarterly basis for usage does not give customers a timely price signal. Many of the customers have expressed their concern that they were not aware of their past consumption history. The Utility did not provide the customers a quarterly bill if their consumption was within the allotment of 24,000 gallons per quarter. Therefore, in order to promote conservation, the allotment should be eliminated and the Utility should bill on a monthly basis.

Water Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential water customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's

customers; 3) establish the appropriate non-discretionary usage threshold for restricting repression; and 4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Staff recommends that 40 percent of the water revenues should be generated from the BFC. This will provide sufficient revenues to design a gallonage charge that will send a pricing signal to customers using above non-discretionary usage. The average persons per household served by the Utility is two; therefore, based on the number of persons per household, 50 gallons per day per person, and the number of days per month, the non-discretionary usage threshold should be 3,000 gallons per month. Staff recommends a traditional BFC and gallonage charge rate structure with an additional gallonage charge for non-discretionary usage for residential water customers. General service and irrigation customers should be billed a BFC and uniform gallonage charge. Staff's recommended rate structure and resulting water rates are shown on Schedule No. 4-A.

Based on the customer billing data provided by the Utility, approximately 56 percent of total residential consumption is discretionary and, therefore, subject to the effects of repression. A repression adjustment quantifies changes in consumption patterns in response to an increase in price. Customers will typically reduce their discretionary consumption in response to price changes, while non-discretionary consumption remains relatively unresponsive to price changes. Based on a recommended revenue increase of 43.89 percent, the residential discretionary consumption can be expected to decline by 9,255,000 gallons resulting in anticipated average residential demand of 4,512 gallons per month. Staff recommends a 19.5 percent reduction in total residential consumption and corresponding reductions of \$1,579 for purchased power, \$362 for chemicals, and \$91 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$104,969.

Wastewater Rates

Staff performed an analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages and gallonage caps for the residential wastewater customers. The goal of the evaluation was to select the rate design parameters that: 1) produce the recommended revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Typically, the Commission's practice is to allocate at least 50 percent of the wastewater revenue requirement to the BFC due to the capital intensive nature of wastewater plants. Therefore, staff recommends a BFC allocation of 50 percent. In addition, based on the expected reduction in water demand described above, staff recommends that a repression adjustment also be made for wastewater.⁶ Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants

⁶ See Order Nos. PSC-11-0345-PAA-WS, issued August 16, 2011, in Docket No. 100359-WS, In re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, Incorporated and Order No. PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

used to calculate wastewater rates should also be adjusted. Therefore, staff recommends that a repression adjustment for the discretionary usage should also be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, staff recommends that discretionary usage be reduced by 7,316,309 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. Staff recommends a 17.5 percent reduction in total residential consumption and corresponding reductions of \$3,331 for purchased power, \$1,003 for chemicals, \$3,507 for sludge removal, and \$353 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$155,546. Currently, the Utility does not have a gallonage cap for residential wastewater customers. The cap creates the maximum amount a residential customer would pay for wastewater service. Typically, the residential wastewater cap is set at approximately 80 percent of the water demand. Based on the Utility's billing analysis, the 8,000 gallon level is where approximately 80 percent of the water demand is captured. Therefore, staff recommends the gallonage cap for residential wastewater customers should be set at 8,000 gallons. The gallonage charge for general service customers should be 1.2 times greater than the residential gallonage charge, which is consistent with Commission practice. Staff's recommended rate design for the wastewater system is shown on Schedule No. 4-B.

Summary

Based on the foregoing, staff recommends that 40 percent of the water revenues be generated from the BFC. The traditional BFC and gallonage charge rate structure with an additional block for the non-discretionary usage threshold of 3,000 gallons should be approved for residential water customers. A 19.5 percent reduction in total residential consumption and corresponding reductions of \$1,579 for purchased power, \$362 for chemicals, and \$91 for RAFs should be made to reflect the anticipated repression. General service and irrigation customers should be billed a BFC based on meter size and a uniform gallonage charge.

Staff recommends that 50 percent of the wastewater revenues be generated from the BFC. The residential wastewater customers' rate structure should consist of a BFC for all meter sizes, with a cap of 8,000 gallons. A 17.5 percent reduction in total residential consumption and corresponding reductions of \$3,331 for purchased power, \$1,003 for chemicals, \$3,507 for sludge removal, and \$353 for RAFs should be made to reflect the anticipated repression. General service wastewater customers should be billed a BFC and gallonage charge that is 1.2 times higher than the residential gallonage charge.

As discussed in the Quality of Service issue, many customers expressed concern about their previous consumption history. The Utility has indicated that the current billing system makes it difficult to provide the last twelve month's data on a mass basis in a timely manner. The Utility has offered to provide the past twelve month's billing history upon written request of a customer. In order to make customers aware of their usage patterns, staff recommends that the Utility provide the customers their most recent three months usage along with the customer notice for the Commission-approved rates.

The recommended rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility should file revised tariff sheets and a

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proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the 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 and the notice has been received by the customers. Along with the customer notice, the Utility should provide customers with their most recent three months usage. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 9: What is the appropriate amount by which rates should be reduced in four years after the published effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816 F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. SV 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. 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 the reduction in the rates due to the amortized rate case expense. (Lester, Thompson)

Staff Analysis: Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for RAFs. The total reductions are \$1,791 for water and \$1,659 for wastewater.

The water and wastewater rates should be reduced as shown on Schedule No. 4-A and 4-B to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. SV 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. 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 the reduction in the rates due to the amortized rate case expense.

Issue 10: Should the recommended rates be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. SV should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Prior to implementation of any temporary rates, the Utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Lester)

Staff Analysis: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the recommended rates be approved as temporary rates. SV should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. The recommended rates collected by the Utility should be subject to the refund provisions discussed below.

SV should be authorized to collect the temporary rates upon staff's approval of an appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$82,678. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If SV chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or,
- 2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If SV chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No monies in the escrow account may be withdrawn by the Utility without the express approval of the Commission;
- 2) The escrow account shall be an interest bearing account;
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to SV;
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account, and pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;
- 8) The Commission Clerk must be a signatory to the escrow agreement; and
- 9) The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by SV, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

SV should maintain a record of the amount of the security, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

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Issue 11: 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 applicable National Association of Regulatory Commissioners Uniform System of Accounts (NARUC USOA) primary accounts associated with the Commission approved adjustments?

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

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

Issue 12: 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 should 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. Once these actions are complete, this docket should be closed administratively. (Corbari)

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 should 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. Once these actions are complete, this docket should be closed administratively.

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 130211-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$556,407	(\$145,874)	\$410,533
2. LAND & LAND RIGHTS	7,695	(5,074)	2,621
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(463,450)	160,345	(303,105)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,426</u>	<u>10,426</u>
8. WATER RATE BASE	<u>\$100,652</u>	<u>\$19,823</u>	<u>\$120,475</u>

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 130211-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,394,937	(\$900,903)	\$494,034
2. LAND & LAND RIGHTS	33,087	(5,152)	27,935
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	0	0
5. ACCUMULATED DEPRECIATION	(1,272,981)	864,743	(408,238)
6. AMORTIZATION OF CIAC	0	0	0
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>16,931</u>	<u>16,931</u>
8. WASTEWATER RATE BASE	<u>\$155,043</u>	<u>(\$24,381)</u>	<u>\$130,662</u>

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 130211-WS PAGE 1 OF 1	
	<u>WATER</u>	<u>WASTEWATER</u>	
<u>UTILITY PLANT IN SERVICE</u>			
1. To reflect original cost study as of 12/31/2006 (AF 1)	(\$110,456)	(\$910,048)	
2. To reflect staff audit adjustments from report in Dkt. 070413-WS (AF1)	5,426	4,542	
3. To reflect plant additions and retirements (AF 2)	(41,376)	2,528	
4. To reflect simple average	(201)	(1,128)	
5. To capitalize meter lids	733	0	
6. To capitalize pump	0	1,637	
7. To capitalize portable controller	0	1,566	
Total	<u>(\$145,874)</u>	<u>(\$900,903)</u>	
<u>LAND</u>			
1. To reflect land at original cost per audit in Dkt. 070413-WS	<u>(\$5,074)</u>	<u>(\$5,152)</u>	
<u>ACCUMULATED DEPRECIATION</u>			
1. To reflect the appropriate test year accumulated depreciation (AF5)	\$156,854	\$856,832	
2. Add depreciation for meter lids, pump, and controller	(22)	(120)	
3. To reflect simple average	<u>3,513</u>	<u>8,031</u>	
Total	<u>\$160,345</u>	<u>\$864,743</u>	
<u>WORKING CAPITAL ALLOWANCE</u>			
1. To reflect 1/8 of test year O&M expenses.	<u>\$10,426</u>	<u>\$16,931</u>	

S.V. UTILITIES, LTD.
TEST YEAR ENDED 6/30/2013
SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	(\$268,179)	\$360,767	\$92,588					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	(\$268,179)	\$360,767	\$92,588	158,549	251,137	100.00%	8.74%	8.74%
6. LONG TERM DEBT	\$0	\$0	\$0	0	0	0.00%	7.00%	0.00%
7. LONG TERM DEBT	<u>360,767</u>	<u>(360,767)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	0.00%
TOTAL LONG TERM DEBT	\$360,767	(\$360,767)	\$0	0	0	0.00%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	2.00%	<u>0.00%</u>
9. TOTAL	<u>\$92,588</u>	<u>\$0</u>	<u>\$92,588</u>	<u>\$158,549</u>	<u>\$251,137</u>	<u>100.00%</u>		<u>8.74%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>7.74%</u>	<u>9.74%</u>	
OVERALL RATE OF RETURN						<u>7.74%</u>	<u>9.74%</u>	

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 130211-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUSTMENTS FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$74,417</u>	<u>(\$55)</u>	<u>\$74,362</u>	<u>\$32,639</u> 43.89%	<u>\$107,001</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$43,891	\$39,514	\$83,405	\$0	\$83,405
3. DEPRECIATION (NET)	11,374	(3,123)	8,251	0	8,251
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,347	0	3,347	1,469	4,816
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$58,612</u>	<u>\$36,572</u>	<u>\$95,003</u>	<u>\$1,469</u>	<u>\$96,472</u>
8. OPERATING INCOME/(LOSS)	<u>\$15,805</u>		<u>(\$20,641)</u>		<u>\$10,529</u>
9. WATER RATE BASE	<u>\$100,652</u>		<u>\$120,475</u>		<u>\$120,475</u>
10. RATE OF RETURN	<u>15.70%</u>		<u>-17.13%</u>		<u>8.74%</u>

S.V. UTILITIES, LTD. TEST YEAR ENDED 6/30/2013 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 130211-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUSTMENTS FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$71,130</u>	<u>\$1,273</u>	<u>\$72,403</u>	<u>\$91,337</u> 126.15%	<u>\$163,740</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$119,577	\$15,871	\$135,448	\$0	\$135,448
3. DEPRECIATION (NET)	11,369	(1,851)	9,518	0	9,518
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	3,197	47	3,244	4,110	7,354
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$134,143</u>	<u>\$14,067</u>	<u>\$148,210</u>	<u>\$4,110</u>	<u>\$152,320</u>
8. OPERATING INCOME/(LOSS)	<u>(\$63,013)</u>		<u>(\$75,807)</u>		<u>\$11,420</u>
9. WASTEWATER RATE BASE	<u>\$155,043</u>		<u>\$130,662</u>		<u>\$130,662</u>
10. RATE OF RETURN	<u>-40.64%</u>		<u>-58.02%</u>		<u>8.74%</u>

S.V. UTILITIES, LTD.
TEST YEAR ENDED 6/30/2013
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 130211-WS
PAGE 1 OF 3

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To adjust utility revenues to audited test year amount.	<u>(\$55)</u>	<u>\$1,273</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/ 701)		
To allocate utility payroll	<u>\$28,560</u>	<u>\$11,273</u>
2. Purchased Power (615/715)		
To remove late fees (AF8)	<u>(\$32)</u>	<u>(\$133)</u>
To reduce purchase power due to excess unaccounted-for water	<u>(2,395)</u>	<u>0</u>
	<u>(\$2,427)</u>	<u>(\$133)</u>
3. Chemicals (618/718)		
To remove out of period expense		<u>(\$336)</u>
To remove unsupported transactions		<u>(227)</u>
To reduce chemical expense for excess unaccounted-for water	<u>(\$548)</u>	<u>0</u>
	<u>(\$548)</u>	<u>(\$563)</u>
4. Materials & Supplies (620/720)		
To remove unsupported transactions (AF 8)	<u>(\$655)</u>	<u>\$0</u>
To reclassify expense to water meters (AF2 & 8)	<u>(1,602)</u>	<u>0</u>
To include proper test year expense	<u>150</u>	<u>0</u>
To reclassify M&S expense to plant-lift stations		<u>(\$2,988)</u>
To reclassify M&S expense to water misc. plant		<u>(1,781)</u>
To remove unsupported transactions (AF 8)		<u>(85)</u>
To reclassify meter lids, pump, controller to plant	<u>(733)</u>	<u>(3,203)</u>
Subtotal	<u>(\$2,840)</u>	<u>(\$8,057)</u>
5. Contractual Services - Billing (630/730)		
To reflect incremental billing expenses due to monthly billing	<u>\$9,758</u>	<u>\$9,758</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

S.V. UTILITIES, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130211-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 3	
(O & M EXPENSES CONTINUED)		<u>WATER</u>	<u>WASTEWATER</u>
6. Contractual Services - Professional (631/731)			
To remove out of period expense	(\$600)		\$0
To remove unsupported transactions (AF 8)	0		(455)
To allocate salaries for accounting and administrative	2,925		2,925
To remove expense associated with another system	0		(280)
To reflect annualized permitting expense	0		(707)
Subtotal	<u>\$2,325</u>		<u>\$1,483</u>
7. Contractual Services - Testing (635/735)			
To reflect 3 year lead and copper testing	(\$363)		\$0
To reflect annual cost of groundwater monitoring for WWTP	0		200
To remove out of period expenses	(141)		(120)
To remove unsupported transactions (AF 8)	0		(386)
Subtotal	<u>(\$504)</u>		<u>(\$306)</u>
8. Contractual Services - Other (636/736)			
To remove unsupported transactions (AF 8)	\$0		(\$110)
9. Rents (640/ 740)			
To allocate mini-excavator lease expense	\$873		\$873
To allocate office rent expense	1,562		1,562
To reflect savings associated with mini-excavator	(263)		(263)
Subtotal	<u>\$2,172</u>		<u>\$2,172</u>
10. Transportation Expense (650/750)			
To remove out of period expenses	(\$289)		(\$126)
To remove unsupported expenses	(116)		(201)
To remove unsupported and out-of-period expenses (AF8)	<u>(\$405)</u>		<u>(\$327)</u>
11. Regulatory Commission Expense (665/765)			
To reflect 4-year amortization of rate case expense	<u>\$1,692</u>		<u>\$1,567</u>
12. Insurance Expense			
To include current premium for general liability	<u>\$1,732</u>		<u>(\$885)</u>
TOTAL O & M EXPENSE ADJUSTMENTS	<u>\$39,514</u>		<u>\$15,871</u>

S.V. UTILITIES, LTD.		SCHEDULE NO. 3-C	
TEST YEAR ENDED 6/30/2013		DOCKET NO. 130211-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 3 OF 3	
(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per 25-30.140, FAC (AF10)	(\$3,145)	(\$1,971)	
2. To add depreciation for meter lids, pump, and controller	<u>22</u>	<u>120</u>	
	<u>(\$3,123)</u>	<u>(\$1,851)</u>	
TAXES OTHER THAN INCOME			
1. To reflect appropriate RAFs (AF11)	<u>\$0</u>	<u>\$47</u>	

S.V. UTILITIES, LTD.			SCHEDULE NO. 3-D
TEST YEAR ENDED 6/30/2013			DOCKET NO. 130211-WS
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$852	\$28,560	\$29,412
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	10,888	(2,427)	8,461
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	2,490	(548)	1,942
(620) MATERIALS AND SUPPLIES	7,519	(2,840)	4,679
(630) CONTRACTUAL SERVICES - BILLING	0	9,758	9,758
(631) CONTRACTUAL SERVICES - PROFESSIONAL	13,252	2,325	15,577
(635) CONTRACTUAL SERVICES - TESTING	1,278	(504)	774
(636) CONTRACTUAL SERVICES - OTHER	1,132	0	1,132
(640) RENTS	0	2,172	2,172
(650) TRANSPORTATION EXPENSE	3,187	(405)	2,782
(655) INSURANCE EXPENSE	789	1,732	2,521
(665) REGULATORY COMMISSION EXPENSE	0	1,692	1,692
(670) BAD DEBT EXPENSE	138	0	138
(675) MISCELLANEOUS EXPENSES	<u>2,366</u>	<u>0</u>	<u>2,366</u>
	<u>\$43,891</u>	<u>\$39,514</u>	<u>\$83,405</u>

S.V. UTILITIES, LTD.			SCHEDULE NO. 3-E
TEST YEAR ENDED 6/30/2013			DOCKET NO. 130211-WS
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUSTMENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$33,173	\$11,273	\$44,446
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	20,038	0	20,038
(715) PURCHASED POWER	19,166	(133)	19,033
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	6,296	(563)	5,733
(720) MATERIALS AND SUPPLIES	13,447	(8,057)	5,390
(730) CONTRACTUAL SERVICES - BILLING	0	9,758	9,758
(731) CONTRACTUAL SERVICES - PROFESSIONAL	6,588	1,483	8,071
(735) CONTRACTUAL SERVICES - TESTING	8,653	(306)	8,347
(736) CONTRACTUAL SERVICES - OTHER	5,270	(110)	5,160
(740) RENTS	0	2,172	2,172
(750) TRANSPORTATION EXPENSE	3,370	(327)	3,043
(755) INSURANCE EXPENSE	2,539	(885)	1,654
(765) REGULATORY COMMISSION EXPENSES	0	1,567	1,567
(770) BAD DEBT EXPENSE	138	0	138
(775) MISCELLANEOUS EXPENSES	<u>899</u>	<u>0</u>	<u>899</u>
	<u>\$119,577</u>	<u>\$15,871</u>	<u>\$135,448</u>

S.V. UTILITIES, LTD. TEST YEAR ENDED JUNE 30, 2013 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 130211-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
<u>Irrigation</u>			
Base Facility Charge for All Meter Sizes	\$7.86*		
Charge per 1,000 gallons – Irrigation	\$0.65		
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
<u>Residential, General Service and Irrigation</u>			
Base Facility Charge by Meter Size:			
5/8"X3/4"		\$4.44	\$0.07
3/4"		\$6.66	\$0.11
1"		\$11.10	\$0.19
1-1/4"		\$17.76	\$0.30
1-1/2"		\$22.20	\$0.37
2"		\$35.52	\$0.59
3"		\$71.04	\$1.19
4"		\$111.00	\$1.86
6"		\$222.00	\$3.71
8"		\$355.20	\$5.94
Charge per 1,000 gallons - Residential			
0 - 3,000 gallons		\$1.29	\$0.02
Over 3,000 gallons		\$1.89	\$0.03
Charge per 1,000 gallons - General Service and Irrigation		\$1.56	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$8.31	
6,000 Gallons	\$7.86	\$13.98	
10,000 Gallons	\$9.17	\$21.54	

S.V. UTILITIES, LTD. TEST YEAR ENDED JUNE 30, 2013 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-C DOCKET NO. 130211-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge for All Meter Sizes	\$15.71*		
Charge per 1,000 gallons			
0 - 8,000 gallons	\$0.00		
8,001 - 10,000 gallons	\$1.31		
Over 10,000 gallons	\$2.09		
Base Facility Charge by Meter Size:			
5/8"X3/4"		\$8.94	\$0.10
3/4"		\$13.41	\$0.14
1"		\$22.35	\$0.24
1-1/4"		\$35.76	\$0.38
1-1/2"		\$44.70	\$0.48
2"		\$71.52	\$0.76
3"		\$143.04	\$1.53
4"		\$223.50	\$2.38
6"		\$447.00	\$4.77
8"		\$715.20	\$7.63
* Existing rates include 8,000 gallons in the base facility charge for both water and wastewater			
Charge per 1,000 gallons - Residential 8,000 gallon cap		\$2.15	\$0.02
Charge per 1,000 gallons - General Service		\$2.58	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
3,000 Gallons	\$7.86	\$15.39	
6,000 Gallons	\$7.86	\$21.84	
10,000 Gallons	\$9.17	\$26.14	

Item 12

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

RECEIVED-FPSC
14 MAR 27 AM 9:01
COMMISSION CLERK

DATE: March 27, 2014

TO: Office of Commission Clerk (Stauffer)

FROM: Division of Economics (Hudson, Roberts)
Office of the General Counsel (Young) *J.W.D.*

RE: Docket No. 140030-SU – Request for approval to amend Miscellaneous Service charges to include all NSF charges by Environmental Protection Systems of Pine Island, Inc.

AGENDA: 04/10/14 – Regular Agenda – Tariff Filing – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Administrative

CRITICAL DATES: 60-Day Suspension Date waived through 4/10/2014

SPECIAL INSTRUCTIONS: None

Case Background

Environmental Protection Systems of Pine Island, Inc. (EPS or Utility) is a Class C utility serving approximately 457 wastewater connections in Lee County. EPS reported wastewater revenues of \$226,526 in its 2012 Annual Report. The system is located at the southern end of Pine Island, approximately 30 miles from Fort Myers.

On February 4, 2014, EPS filed a request for approval to amend its miscellaneous service charges to include non-sufficient funds (NSF) charges. This recommendation addresses the request for approval of NSF charges pursuant to Sections 68.065 and 832.08(5), Florida Statutes (F.S.). The Commission has jurisdiction to consider this matter pursuant to Section 367.091, F.S.

Discussion of Issues

Issue 1: Should EPS be authorized to collect Non-Sufficient Funds charges?

Recommendation: Yes. EPS should be authorized to collect NSF charges. Staff recommends that EPS revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5), F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code (F.A.C.). Furthermore, the charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice. (Roberts)

Staff Analysis: Section 367.091, F.S., requires that rates, charges, and customer service policies be approved by the Commission. The Commission has authority to establish, increase, or change a rate or charge. Staff believes that EPS should be authorized to collect NSF charges consistent with Section 68.065, F.S., which allows for the assessment of charges for the collection of worthless checks, drafts, or orders of payment. As currently set forth in Sections 832.08(5) and 68.065(2), F.S., the following NSF charges may be assessed:

1. \$25, if the face value does not exceed \$50,
2. \$30, if the face value exceeds \$50 but does not exceed \$300,
3. \$40, if the face value exceeds \$300,
4. or five percent of the face amount of the check, whichever is greater.

Approval of NSF charges are consistent with prior Commission decisions.¹ Furthermore, NSF charges place the cost on the cost-causer, rather than requiring that the costs associated with the return of the NSF checks be spread across the general body of ratepayers. As such, staff recommends that EPS revise its tariffs to reflect the NSF charges currently set forth in Sections 68.065 and 832.08(5) F.S. The NSF charges should be effective on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the NSF charges should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date the notice was given within 10 days of the date of the notice.

¹ See Order Nos. PSC-10-0364-TRF-WS, issued June 7, 2010, in Docket No. 100170-WS, In re: Application for authority to collect non-sufficient funds charges, pursuant to Sections 68.065 and 832.08(5), F.S., by Pluris Wedgefield Inc., and PSC-10-0168-PAA-SU, issued March 23, 2010, in Docket No. 090182-SU, In re: Application for increase in wastewater rates in Pasco County by Ni Florida, LLC.

Issue 2: Should this docket be closed?

Recommendation: No. If a protest is filed by a substantially affected person within 21 days of issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket will become final upon the issuance of a consummating order. However, this docket should remain open to allow staff to verify that the revised tariff sheet and customer notice have been filed by EPS and approved by staff. Once staff has verified that the revised tariff sheet and customer notice have been filed by EPS and approved, the docket should be closed administratively. (Young)

Staff Analysis: If a protest is filed by a substantially affected person within 21 days of issuance of the order, the tariff should remain in effect, with any revenues held subject to refund, pending resolution of the protest. If no timely protest is filed, this docket will become final upon the issuance of a consummating order. However, this docket should remain open to allow staff to verify that the revised tariff sheet and customer notice have been filed by EPS and approved by staff. Once staff has verified that the revised tariff sheet and customer notice have been filed by EPS and approved, the docket should be closed administratively.