

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: July 22, 2010

TO: Director, Office of the Commission Clerk (Cole)

FROM: Division of Economic Regulation (Wright, Daniel, Deason, Fletcher, Linn, Maurey, Rieger, Stallcup, Walden) *ALM* *W* *PD* *JSC*
Office of the General Counsel (Young) *BF* *CRB* *MW by CROA*

RE: Docket No. 090462-WS – Application for increase in Water and Wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.
County(ies): Marion, Orange, Pasco, Pinellas, and Seminole

AGENDA: 08/03/10 – Regular Agenda – Proposed Agency Action Except For Issue Nos. 22 and 23 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Skop

CRITICAL DATES: 8/15/10 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\090462.RCM.DOC

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Table of Contents

<u>Issue</u>	<u>Description</u>	<u>Page</u>
	Case Background.....	4
	QUALITY OF SERVICE.....	6
1	Quality of Service (Walden).....	6
	RATE BASE	9
2	Agreed Upon Audit Adjustments by Utility (Wright).....	9
3	Phoenix Project (Deason, Fletcher)	13
4	Pro Forma Plant Adjustments (Wright).....	16
5	Other Pro Forma Plant Adjustments (Wright).....	17
6	Used and Useful (Rieger, Walden, Wright)	19
7	Working Capital Allowance (Wright).....	23
8	Rate Base (Wright, Deason, Linn)	27
	COST OF CAPITAL	28
9	Return on Equity (Wright).....	28
10	Weighted Average Cost of Capital (Wright).....	29
	NET OPERATING INCOME	31
11	Employee Salaries and Benefits (Deason, Fletcher)	31
12	Relocation Expenses (Linn)	34
13	Transportation Expense (Wright)	36
14	Rate Case Expense (Linn)	38
15	Bad Debt Expense (Linn)	43
16	Operating Income Before Revenue Increase (Wright).....	45
	REVENUE REQUIREMENT	46
17	Revenue Requirement (Wright)	46
	RATES	47
18	Appropriate Rate Structures (Stallcup)	47
19	Appropriate Repression Adjustments (Stallcup)	53
20	Appropriate Monthly Rates (Stallcup, Wright)	57
	OTHER ISSUES	58
21	Interim Refunds (Wright, Fletcher).....	58
22	Four-Year Rate Reduction (Wright, Fletcher).....	61
23	Proof of Adjustments (Wright).....	63
24	Docket Closure (Young, Wright)	64

SCHEDULES

Schedule No. 1-A – Marion County Water Rate Base	65
Schedule No. 1-B– Marion County Wastewater Rate Base	66
Schedule No. 1-C – Marion County Rate Base Adjustments	67
Schedule No. 2 – Marion County Capital Structure	68
Schedule No. 3-A – Marion County Water Net Operating Income.....	69
Schedule No. 3-B – Marion County Wastewater Net Operating Income.....	70
Schedule No. 3-C – Marion County Net Operating Income Adjustments	71
Schedule No. 4-A – Marion County Water Rates.....	72
Schedule No. 4-B – Marion County Wastewater Rates.....	73
Schedule No. 1-A – Orange County Water Rate Base	74

Schedule No. 1-B – Orange County Rate Base Adjustments	75
Schedule No. 2 – Orange County Capital Structure	76
Schedule No. 3-A - Orange County Water Net Operating Income	77
Schedule No. 3-B – Orange County Net Operating Income Adjustments	78
Schedule No. 4-A – Orange County Water Rates.....	79
Schedule No. 1-A – Pasco County Water Rate Base.....	80
Schedule No. 1-B – Pasco County Wastewater Rate Base.....	81
Schedule No. 1-C – Pasco County Rate Base Adjustments.....	82
Schedule No. 2 – Pasco County Capital Structure.....	83
Schedule No. 3-A – Pasco County Water Net Operating Income	84
Schedule No. 3-B – Pasco County Wastewater Net Operating Income	85
Schedule No. 3-C – Pasco County Net Operating Income Adjustments.....	86
Schedule No. 4-A – Pasco County Water Rates	87
Schedule No. 4-B – Pasco County Wastewater Rates	88
Schedule No. 1-A – Pinellas County Water Rate Base	89
Schedule No. 1-B – Pinellas County Rate Base Adjustments	90
Schedule No. 2 – Pinellas County Capital Structure	91
Schedule No. 3-A – Pinellas County Water Net Operating Income	92
Schedule No. 3-B – Pinellas County Net Operating Income Adjustments.....	93
Schedule No. 4-A – Pinellas County Water Rates.....	94
Schedule No. 1-A - Seminole County Water Rate Base.....	95
Schedule No. 1-B – Seminole County Wastewater Rate Base	96
Schedule No. 1-C – Seminole County Rate Base Adjustments.....	97
Schedule No. 2 – Seminole County Capital Structure	98
Schedule No. 3-A – Seminole County Water Net Operating Income	99
Schedule No. 3-B – Seminole County Wastewater Net Operating Income	100
Schedule No. 3-C – Seminole County Net Operating Income Adjustments	101
Schedule No. 4-A – Seminole County Water Rates	102
Schedule No. 4-B – Seminole County Wastewater Rates	103

Case Background

Utilities, Inc. (UI or parent) is an Illinois corporation which owns approximately 75 subsidiaries throughout 15 states including water and wastewater utilities within the State of Florida. Currently, UI has 6 separate rate case dockets pending before the Florida Public Service Commission (Commission). These dockets are as follows:

<u>Docket No.</u>	<u>Utility Subsidiary</u>
090349-WS	Cypress Lakes Utilities
090381-SU	Utilities, Inc. of Longwood
090392-WS	Utilities, Inc. of Pennbrooke
090402-WS	Sanlando Utilities Corporation
090462-WS	Utilities, Inc. of Florida
090531-WS	Lake Placid Utilities, Inc.

This recommendation addresses Docket No. 090462-WS. Utilities, Inc. of Florida (UIF or Utility) is a Class A utility providing water and wastewater service to 20 systems in the following counties: Marion, Orange, Pasco, Pinellas, and Seminole. UIF is a wholly-owned subsidiary of UI. The Utility's last rate case was in 2007.¹

By letter dated September 30, 2009, UIF requested test year approval in order to file an application for general rate relief for all of its counties. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates.

UIF's requested test year for final and interim purposes is the historical year ended December 31, 2008. On February 1, 2010, the Utility filed minimum filing requirements (MFRs) to justify its requested rate increase. By letter dated February 25, 2010, UIF was notified that the MFRs were deficient. UIF corrected the deficiencies through information submitted on March 5, 2010.

On April 20, 2010, the Commission approved interim rates² designed to generate the following water and wastewater revenues:

<u>County</u>	<u>Water Revenue Increase</u>	<u>% Increase</u>	<u>Wastewater Revenue Increase</u>	<u>% Increase</u>
Marion	N/A	N/A	\$13,089	35.75%
Orange	\$18,372	18.75%	N/A	N/A
Pasco	\$389,701	48.52%	\$255,936	57.71%
Pinellas	\$35,118	35.25%	N/A	N/A
Seminole	\$211,868	28.44%	\$102,608	14.59%

¹ See Order No. PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for rate increase in Marion, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

² See Order No. PSC-10-0300-PCO-WS, issued May 10, 2010.

The Utility requested final rates designed to generate total annual water revenues of \$3,021,882, an increase of \$1,054,883 or 53.63 percent and total annual wastewater revenues of \$1,821,164, an increase of \$591,109 or 48.06 percent.

On March 18, 2010, the Office of Public Counsel (OPC) filed a Notice of Intervention in this docket. On June 17, 2010, the Commission acknowledged OPC's intervention.³

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

³ See Order No. PSC-10-0393-PCO-WS.

Discussion of Issues

QUALITY OF SERVICE

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

Recommendation: Yes. The overall quality of service for the UIF systems in Marion, Pasco, Pinellas, Orange, and Seminole Counties is satisfactory. (Walden)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating: 1) the quality of the utility's product; 2) the operational conditions of the utility's plant and facilities; and, 3) the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments and complaints.

Quality of Product and Operational Condition of the Plant and Facilities

UIF has fifteen water systems in Marion, Pasco, Pinellas, Orange, and Seminole Counties. The Crescent Heights and Davis Shores systems in Orange County provide purchased water. The Summertree and Lake Tarpon water treatment plants use chloramines to disinfect the water and the other eleven water systems chlorinate the water. UIF also has five wastewater systems. The Summertree and Orangewood systems in Pasco County purchase bulk wastewater treatment from Pasco County. The Ravenna Park/Lincoln Heights and Weathersfield systems in Seminole County purchase bulk wastewater treatment from Sanford and Altamonte Springs. The Utility has a 40,000 gallons per day (gpd) wastewater plant serving Crownwood in Marion County.

There are no outstanding notices of violation, corrective orders, or other infractions for the water or wastewater systems and the water quality and wastewater effluent are meeting treatment standards. Plant inspections by the DEP are current, having been performed in the last three years for each of the systems.

In 2005 and 2006, the Summertree water system was exceeding state standards for total trihalomethanes and five haloacetic acids. The Utility converted its disinfection process from chlorine to chloramines and the water quality reached compliance with standards in 2008. The source water has sulfide and system flushing is performed to help maintain an adequate chlorine residual and reduce the sulfide taste and odor.

Staff conducted field inspections of the Utility's Orange and Seminole County systems on March 24 and 25; and, on May 6 and 7, the Marion, Pasco, and Pinellas County systems were inspected. The water and wastewater plants were in good working order and no deficiencies were observed.

The Utility's water and wastewater systems are meeting all DEP requirements and the systems appear to be operating properly; therefore, staff recommends that the quality of the

treated water and wastewater and the operational condition of the plant and facilities should be considered satisfactory.

The Utility's Attempts to Address Customer Satisfaction

In its filing, the Utility provided a copy of the customer complaints that it received during the test year. Complaints included concerns regarding the color, odor, and taste of the water, low pressure, metering, and water line leaks. For wastewater, there were sewer blockage complaints, a complaint about a lift station warning light that was illuminated, and one odor complaint. The Utility responded timely to each complaint and endeavored to resolve each one. There are no unresolved complaints which were made to the Utility. From a review of the complaints in the filing, the Utility is promptly responding to customers' water and wastewater concerns.

The Commission's Complaint Tracking System (CATS) was reviewed. Regarding Quality of Service/Customer Satisfaction, there were complaints made about a boil water notice in 2008, damaged appliances in 2009, and service disconnects. Respectively, a boil water notice was issued due to the power outage and loss of pressure in 2008. The Utility reimbursed the customer to offset damage to his appliances. The Utility stated that the inconvenience from the disconnect was a result of a late payment made by two customers. There are no outstanding complaints in the Commission's CATS program.

Customer meetings were held in Altamonte Springs, New Port Richey, and Ocala. Five customers attended the Altamonte Springs meeting, noting that they were opposed to a rate increase. Three customers attended the New Port Richey meeting. One of the customers discussed the Utility's conversion to chloramines at the Summertree water system and her understanding that a water treatment plant was to be constructed. She added that the water is inferior because it has color, is not clear, clogs filters, and causes a build up in the toilet tanks. She further explained that a greater return to the investors is not important, especially during the economy's financial crisis. Another customer noted the low water pressure in the Cross Creek area, especially when irrigation is occurring. A third customer said he had been a resident for 33 years and while the rates used to be affordable, they keep climbing.

Three customers spoke at the Ocala meeting noting no improvements to warrant such an increase, an excessive requested rate of return by the Utility, poor water quality, no new water treatment plant as promised in 2007, and that the amount of the increase requested is unconscionable. A fourth customer spoke referring to her bills from Ocala Electric Utility.

Customer comments sent to the Commission regarding this rate case came mostly from the customers in Summertree in Pasco County were sent to the Commission. Customers are opposed to a rate increase and most noted that the quality of the water at Summertree is undesirable. Many of the customers commented that they have water softeners or filters at their home and purchase bottled water to drink, opting not to drink the Utility's water. Several Summertree customers indicated that a couple of years ago the Utility had proposed adding additional treatment, storage, and high service pumping to improve the water service; however, those facilities were never built. One customer from Marion County and two others from the Orangewood system in Pasco County wrote comments opposing the rate increase.

Water provided at the Summertree system is in compliance with primary and secondary standards according to DEP. Drinking water is tested at the point of entry into the distribution system and, dependent upon water usage by customers, water quality can diminish during low consumption periods. DEP is aware that there is some presence of hydrogen sulfide and that chlorine is an effective method of treatment for combating some of the undesirable taste and odor from hydrogen sulfide. When a complaint comes to DEP from a customer, the Utility is contacted by DEP and a Utility service representative is dispatched to the customer's home.

According to the Utility, the additional treatment plant for Summertree was designed and plans were shared with some customers who were homeowners association members. The estimated cost was nearly \$2 million and the project has not yet been budgeted. The Utility's intent, as explained to staff, is to comply with all DEP requirements. The improvements considered at Summertree to construct aeration, storage, and high service pumping were for aesthetic improvements because the Utility is already meeting primary and secondary standards as set forth by the DEP's rules. No timeframe for construction of these plant improvements has been set. Plant improvements to enhance the water quality are not included as proforma items in this rate case, and if constructed, could be a significant increase to customers' rates. An extensive flushing program is in place at Summertree to keep adequate chlorine concentration in the distribution system. Monthly flushing involves more than a half million gallons of water.

The customer complaints brought to the Utility's attention, that are part of the Utility's filing in this docket, have been responded to by the Utility. Staff believes that a concerted effort is being made by the Utility to satisfy the customers' concerns. For the majority of customers, it appears that customers are satisfied with the service provided by the Utility. Although there are customer concerns specifically about water quality in Summertree, the Utility's records indicate that it responds to each complaint in an attempt to provide a satisfactory resolution. In reviewing the complaints from the Summertree customers, virtually every complaint involving discolored water or offensive taste was lessened or resolved with a visit from a Utility service representative who flushed the water main serving the customer who called. Therefore, staff recommends that the Utility's attempt to address customer satisfaction should be considered satisfactory.

Summary

The Utility is current in meeting water quality standards for all required chemical analyses. While water quality at the Summertree system has some undesirable attributes, including taste, odor, and color, it appears that home treatment systems or point-of-use devices might be the best alternative to help reach customers' expectations for improved water quality. Water provided by the Utility is meeting applicable primary and secondary standards as prescribed in the rules of the DEP. While treatment alternatives can be implemented by the Utility, those improvements will result in additional capital costs and ultimately higher rates to customers.

Based upon the discussion above, staff recommends that the overall quality of the water and wastewater systems for the Utility's systems in Marion, Orange, Pasco, Pinellas, and Seminole Counties is satisfactory.

RATE BASE

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

Recommendation: Yes. Based on the agreed to audit adjustments, the adjustments shown below should be made to rate base and net operating income.

Summary of UIF's Agreed to Audit Adjustments						
<u>System</u>	<u>Plant</u>	<u>Land</u>	<u>Accum. Deprec.</u>	<u>Deprec. Expense</u>	<u>O & M Expenses</u>	<u>Taxes Other Than Income</u>
Marion Water	\$552	\$0	\$1,151	\$36	(\$3,622)	(\$94)
Marion Wastewater	81	0	172	4	(523)	(14)
Orange Water	4	0	754	(37)	(2,267)	(72)
Pasco Water	3,260	(1,673)	6,561	221	(31,413)	(20)
Pasco Wastewater	1,280	0	2,580	86	(12,378)	(7)
Pinellas Water	470	0	905	32	(1,819)	(3)
Seminole Water	72	(3,564)	6,579	(272)	(20,722)	(1,336)
Seminole Wastewater	331	0	3,484	(105)	(5,191)	(781)
Adjustment Totals	<u>\$6,050</u>	<u>(\$5,237)</u>	<u>\$22,186</u>	<u>(\$35)</u>	<u>(\$77,935)</u>	<u>(\$2,327)</u>

(Wright)

Staff Analysis: In its response to Staff's Audit Report and other correspondence, UIF agreed to the audit findings and audit adjustments shown in Tables 2-1 through 2-8. These adjustments address Audit Findings Nos. 1, 2, 4, 6, and 7. Staff recommends the adjustments to rate base and the corresponding adjustments to net operating income that are shown in the System Tables 2-1 through 2-8.

Table 2-1

UIF – Marion County Water					
<u>Audit Adjustments</u>	<u>Plant</u>	<u>Accum. Deprec.</u>	<u>Deprec. Expense</u>	<u>O & M Expenses</u>	<u>Taxes Other Than Income</u>
Finding No. 2 Northbrook Plant	(\$126)	\$13	(\$17)	\$0	\$0
Finding No. 4 Payroll Changes	678	1,138	53	(2,263)	(94)
Finding No. 6 Headquarters Samples	0	0	0	(1,359)	0
Adjustment Totals	<u>\$552</u>	<u>\$1,151</u>	<u>\$36</u>	<u>(\$3,622)</u>	<u>(\$94)</u>

Table 2-2

UIF – Marion County Wastewater					
Audit Adjustments	Plant	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 2 Northbrook Plant	(\$20)	\$3	(\$3)	\$0	\$0
Finding No. 4 Payroll Changes	101	169	7	(309)	(14)
Finding No. 6 Headquarters Samples	<u>0</u>	<u>0</u>	<u>0</u>	(214)	<u>0</u>
Adjustment Totals	<u>\$81</u>	<u>\$172</u>	<u>\$4</u>	<u>(\$523)</u>	<u>(\$14)</u>

Table 2-3

UIF – Orange County Water					
Audit Adjustments	Plant	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 2 Northbrook Plant	(\$73)	\$8	(\$10)	\$0	\$0
Finding No. 4 Payroll Changes	77	746	(27)	(1,480)	(72)
Finding No. 6 Headquarters Samples	<u>0</u>	<u>0</u>	<u>0</u>	(787)	<u>0</u>
Adjustment Totals	<u>\$4</u>	<u>\$754</u>	<u>(\$37)</u>	<u>(\$2,267)</u>	<u>(\$72)</u>

Table 2-4

UIF – Pasco County Water						
Audit Adjustments	Plant	Land	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 1 - Land	\$0	(\$1,673)	\$0	\$0	\$0	\$0
Finding No. 2 Northbrook Plant	(704)	0	73	(95)	0	0
Finding No. 4 Payroll Changes	3,964	0	6,488	316	(23,828)	(20)
Finding No. 6 Headquarters Samples	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	(7,585)	<u>0</u>
Adjustment Totals	<u>\$3,260</u>	<u>(\$1,673)</u>	<u>\$6,561</u>	<u>\$221</u>	<u>(\$31,413)</u>	<u>(\$20)</u>

Table 2-5

UIF – Pasco County Wastewater					
Audit Adjustments	Plant	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 2 Northbrook Plant	(\$279)	\$29	(\$38)	\$0	\$0
Finding No. 4 Payroll Changes	1,559	2,551	124	(9,373)	(7)
Finding No. 6 Headquarters Samples	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,005)</u>	<u>0</u>
Total Adjustments	<u>\$1,280</u>	<u>\$2,580</u>	<u>\$86</u>	<u>(\$12,378)</u>	<u>(\$7)</u>

Table 2-6

UIF – Pinellas County Water					
Audit Adjustments	Plant	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 2 Northbrook Plant	(\$100)	\$10	(\$14)	\$0	\$0
Finding No. 4 Payroll Changes	570	895	46	(745)	(3)
Finding No. 6 Headquarters Samples	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,074)</u>	<u>0</u>
Total Adjustments	<u>\$470</u>	<u>\$905</u>	<u>\$32</u>	<u>(\$1,819)</u>	<u>(\$3)</u>

Table 2-7

UIF – Seminole County Water						
Audit Adjustments	Plant	Land	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 1 - Land	\$0	(\$3,564)	\$0	\$0	\$0	\$0
Finding No. 2 Northbrook Plant	(611)	0	64	(83)	0	0
Finding No. 4 Payroll Changes	683	0	6,515	(189)	(14,068)	(767)
Finding No. 6 Headquarters Samples	0	0	0	0	(6,654)	0
Finding No. 7 – Real Estate Tax	0	0	0	0	0	(569)
Total Adjustments	<u>\$72</u>	<u>(\$3,564)</u>	<u>\$6,579</u>	<u>(\$272)</u>	<u>(\$20,722)</u>	<u>(\$1,336)</u>

Table 2-8

UIF – Seminole County Wastewater					
Audit Adjustments	Plant	Accum. Deprec.	Deprec. Expense	O & M Expenses	Taxes Other Than Income
Finding No. 1 - Land	\$0	\$0	\$0	\$2,740	\$0
Finding No. 2 Northbrook Plant	(33)	3	(4)	0	0
Finding No. 4 Payroll Changes	364	3,481	(101)	(7,516)	(410)
Finding No. 6 Headquarters Samples	0	0	0	(415)	0
Finding No. 7 – Real Estate Tax	0	0	0	0	(371)
Total Adjustments	<u>\$331</u>	<u>\$3,484</u>	<u>(\$105)</u>	<u>(\$5,191)</u>	<u>(\$781)</u>

Summary

Based on the agreed to audit adjustments, staff recommends the following adjustments to rate base and net operating income should be made.

Summary of UIF's Agreed to Audit Adjustments						
<u>System</u>	<u>Plant</u>	<u>Land</u>	<u>Accum. Deprec.</u>	<u>Deprec. Expense</u>	<u>O & M Expenses</u>	<u>Taxes Other Than Income</u>
Marion Water	\$552	\$0	\$1,151	\$36	(\$3,622)	(\$94)
Marion Wastewater	81	0	172	4	(523)	(14)
Orange Water	4	0	754	(37)	(2,267)	(72)
Pasco Water	3,260	(1,673)	6,561	221	(31,413)	(20)
Pasco Wastewater	1,280	0	2,580	86	(12,378)	(7)
Pinellas Water	470	0	905	32	(1,819)	(3)
Seminole Water	72	(3,564)	6,579	(272)	(20,722)	(1,336)
Seminole Wastewater	<u>331</u>	<u>0</u>	<u>3,484</u>	<u>(105)</u>	<u>(5,191)</u>	<u>(781)</u>
Adjustment Totals	<u>\$6,050</u>	<u>(\$5,237)</u>	<u>\$22,186</u>	<u>(\$35)</u>	<u>(\$77,935)</u>	<u>(\$2,327)</u>

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

Recommendation: Yes. Plant, accumulated depreciation, and depreciation expense should be decreased by the amounts shown in the table below:

<u>County</u>	<u>Water Plant in Service</u>	<u>Wastewater Plant in Service</u>	<u>Water Accumulated Depreciation</u>	<u>Wastewater Accumulated Depreciation</u>	<u>Water Depreciation Expense</u>	<u>Wastewater Depreciation Expense</u>
Marion	(\$2,910)	(\$431)	\$937	\$139	(\$937)	(\$139)
Orange	(1,660)	0	534	0	(534)	0
Pasco	(16,478)	(6,480)	5,306	2,087	(5,306)	(2,087)
Pinellas	(2,370)	0	763	0	(763)	0
Seminole	(14,383)	(7,685)	4,632	2,475	(4,632)	(2,475)
Totals	<u>(\$37,801)</u>	<u>(\$14,596)</u>	<u>\$12,172</u>	<u>\$4,701</u>	<u>(\$12,172)</u>	<u>(\$4,701)</u>

(Deason, Fletcher)

Staff Analysis: The purpose of the Phoenix Project was to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. The Phoenix Project became operational in December 2008. UI allocated the cost of the Phoenix Project to all its subsidiaries based on each subsidiary's equivalent residential connections (ERCs) as of September 30, 2009.

Allocation of Phoenix Project Costs

During 2009, the Commission approved recovery of the cost of the Phoenix Project in seven UI rate cases.⁴ The approved costs were allocated based on each subsidiary's specific test year ERCs compared to the total UI test year ERCs. With respect to the current UI cases before the Commission, UI allocated the Phoenix Project costs based on each subsidiary's ERCs at the end of the 2008 test year, in relation to UI's total 2008 ERCs. UIF divided its ERCs by UI's total ERCs, resulting in an allocation percentage of 3.40. This percentage was multiplied by the total investment in the Phoenix Project. Based on total Phoenix Project costs of \$21,364,569, UIF calculated its allocated share to be 3.40 percent, or \$727,344. Of this amount, 72 percent or \$523,688 was assigned to the water systems, while 28 percent or \$203,656 was assigned to the wastewater systems.

Divestiture of UI Subsidiaries

Staff used a more recent ERC count provided by UIF which recognized the divestitures of certain UI subsidiaries in 2009. According to UIF, UI recently divested several Florida subsidiaries including Miles Grant Water and Sewer Company (Miles Grant), Utilities, Inc. of

⁴ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

Hutchinson Island (Hutchinson), and Wedgefield Utilities, Inc. (Wedgefield), as well as subsidiaries in other states.

In addition, during a conference call on April 16, 2010, between staff, OPC, and the Utility, UI stated that it purchased a wastewater system in Louisiana⁵ that was not included in the ERC count previously provided to the staff auditors. The Utility stated that the ERCs for the newly acquired system should be included in order to properly account for that system's share of cost of the Phoenix Project.

Staff agrees that allocating costs according to ERCs is an appropriate methodology to spread the cost of Phoenix Project. However, staff does not believe the Phoenix Project costs previously allocated to the divested subsidiaries should be reallocated to the surviving utilities. Wedgefield was sold for an amount significantly greater than its rate base.⁶ Miles Grant and Hutchinson were sold collectively for an amount significantly greater than the rate base.⁷ Staff believes the amounts allocated to the divested subsidiaries were recovered by the shareholders through the sale of those systems. Because no added benefit was realized by the remaining subsidiaries, staff further believes it is not fair, just or reasonable for ratepayers to bear any additional allocated Phoenix Project costs. Thus, staff recommends the divested subsidiaries' allocation amounts should be deducted from the total cost of the Phoenix Project before any such costs are allocated to the remaining UI subsidiaries.

Staff auditors determined that the correct ledger balance of the software is \$21,617,487, not the \$21,364,569 that UIF used to calculate its allocated share of the Phoenix Project. Based on the ERC percentages of all the divested subsidiaries immediately prior to their respective closing dates, staff determined the actual amount paid of \$21,617,487 for the Phoenix Project should be reduced by \$1,724,166 resulting in a remaining balance of \$19,893,321. Based on the unrecovered cost of the Phoenix Project and the ERCs adjusted for the divestitures, staff recommends that the appropriate amount of UIF's allocated share of the Phoenix Project is \$674,948. As such, staff recommends that plant be reduced by \$52,396, or \$37,800 for water and \$14,596 for wastewater.

Amortization Period

In previous UI cases, the Commission approved a 6-year amortization period for the Phoenix Project.⁸ In subsequent UI cases,⁹ staff determined and the Commission found that an 8-year amortization period was more appropriate for a software project of this magnitude. For several reasons, staff now believes that the amortization period for the Phoenix Project should be changed to 10 years. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. Such a project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs. Second, staff believes the software will be used for at least 10 years. UI's legacy accounting system had been used for 21 years. Third, in a

⁵ This wastewater system represented approximately 950 ERCs.

⁶ The sale price of Wedgefield Utilities, Inc. in April of 2009 was \$7,300,000. Based on the rate base reported in its 2008 annual report, this amount is approximately 13.81 percent or \$885,852 greater than rate base.

⁷ The sale price of Miles Grant Water and Sewer Company and Utilities, Inc. of Hutchinson Island in August of 2009 was \$7,500,000. Based on the rate base reported in their respective 2008 annual reports, this amount is approximately 33.88 percent or \$1,897,837 greater than their collective rate bases.

⁸ See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

⁹ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

recent docket involving a UI subsidiary in Nevada,¹⁰ UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles. As such, staff believes 10 years is a more reasonable amortization period. Thus, staff recommends that accumulated depreciation and depreciation expense be reduced \$12,173 for water and \$4,701 for wastewater, respectively.

Summary

In summary, staff recommends that plant be reduced by \$37,800 for water and \$14,596 for wastewater. In addition, accumulated depreciation and depreciation expense both should be reduced \$12,173 for water and \$4,701 for wastewater, respectively. Staff's recommended 10 year period was approved by the Commission in recent decisions involving three UIF sister companies.¹¹ Below is a breakdown of the above adjustments for each county:

Table 3-1

<u>County</u>	<u>Water Plant in Service</u>	<u>Wastewater Plant in Service</u>	<u>Water Accumulated Depreciation</u>	<u>Wastewater Accumulated Depreciation</u>	<u>Water Depreciation Expense</u>	<u>Wastewater Depreciation Expense</u>
Marion	(\$2,910)	(\$431)	\$937	\$139	(\$937)	(\$139)
Orange	(1,660)	0	534	0	(534)	0
Pasco	(16,478)	(6,480)	5,306	2,087	(5,306)	(2,087)
Pinellas	(2,370)	0	763	0	(763)	0
Seminole	(14,383)	(7,685)	4,632	2,475	(4,632)	(2,475)
Totals	<u>(\$37,801)</u>	<u>(\$14,596)</u>	<u>\$12,172</u>	<u>\$4,701</u>	<u>(\$12,172)</u>	<u>(\$4,701)</u>

¹⁰ Modified Final Order, issued January 15, 2009, in Docket No. 08-06036.

¹¹ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

Issue 4: Should any adjustments be made to the Utility's pro forma plant additions?

Recommendation: Yes. UIF's pro forma plant, accumulated depreciation, and depreciation expense should be adjusted as shown below.

County	Plant		Accumulated Depreciation		Depreciation Expense	
	Water	W/Water	Water	W/Water	Water	W/Water
Pasco	(\$258,234)	\$0	(\$34,310)	\$0	(\$6,375)	\$0
Seminole	(\$505,573)	(\$120,000)	(\$72,427)	\$2,667	(\$18,117)	(\$2,667)
Total	(\$763,807)	(\$120,000)	(\$106,737)	\$2,667	(\$24,492)	(\$2,667)

(Wright)

Staff Analysis: UIF included pro forma adjustments for plant additions for both Pasco and Seminole Counties. For Pasco County - Water, the Utility included an addition to plant, net of retirements of \$258,234 for replacement of a portion of the Buena Vista distribution system. The associated decrease in accumulated depreciation was \$34,310 and depreciation expense was increased by \$6,375. UIF included pro forma adjustments to Seminole County - Water plant-in-service of \$505,573, net of retirements and \$120,000 for Seminole County - Wastewater. The associated accumulated depreciation adjustment was a reduction of \$72,427 for water and an increase of \$2,667 for wastewater. UIF increased related depreciation expense by \$18,117 for water and \$2,667 for wastewater. In response to staff's first data request, UIF stated that, with the exception of the "Replacement telephone system", all pro forma additions have been postponed past the year 2010, and will not be included in this docket. Staff will address the replacement telephone system in Issue 5. Staff recommends the following adjustments as shown in Table 4-1 below:

Table 4-1

County	Plant		Accumulated Depreciation		Depreciation Expense	
	Water	W/Water	Water	W/Water	Water	W/Water
Pasco	(\$258,234)	\$0	(\$34,310)	\$0	(\$6,375)	\$0
Seminole	(\$505,573)	(\$120,000)	(\$72,427)	\$2,667	(\$18,117)	(\$2,667)
Total	(\$763,807)	(\$120,000)	(\$106,737)	\$2,667	(\$24,492)	(\$2,667)

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

Recommendation: Yes. UIF's pro forma adjustments for replacement telephone system should be adjusted as shown below.

County	Plant		Accumulated Depreciation		Depreciation Expense	
	Water	W/Water	Water	W/Water	Water	W/Water
Marion	\$250	\$37	\$693	\$102	\$27	\$4
Orange	\$143	N/A	\$396	N/A	\$15	N/A
Pasco	\$1,419	\$558	\$3,925	\$1,544	\$154	\$60
Pinellas	\$204	N/A	\$564	N/A	\$22	N/A
Seminole	(\$43,340)	(\$23,156)	(\$10,654)	(\$5,693)	(\$4,324)	(\$2,309)
Total	(\$41,324)	(\$22,561)	(\$5,076)	(\$4,047)	(\$4,106)	(\$2,245)

(Wright)

Staff Analysis: UIF included a pro forma adjustment for Seminole County for a replacement telephone system in the amount of \$100,000 with an associated retirement of \$31,604 which resulted in a net pro forma plant addition of \$68,396. In response to staff's first data request, UIF stated that the \$100,000 pro forma adjustment was erroneously included in just Seminole County. The Utility further explained that the project is actually at the Corporate level, and should be allocated across all five counties. After further inquiry, UIF revised its adjustment for all UIF systems downward to a total pro forma plant addition of \$18,042. The revised adjustment did not include associated retirement amounts. As such, staff applied a 75 percent retirement calculation which resulted in a retirement amount of \$13,531, which resulted in a net addition of \$4,511 (\$18,042-\$13,531).¹² The revised accumulated depreciation amount is \$1,052. Applying the same \$13,531 retirement amount results in a net decrease in accumulated depreciation of \$12,479. The revised depreciation expense increase is \$1,955 with an associated retirement amount of \$1,466 resulting in a net increase in depreciation expense of \$489 (\$1,955-\$1,466). Netting the above amounts with the original amounts for the telephone replacement system, the revised pro forma adjustments are as shown in Table 5-1 below.

¹² When the original cost and the original in-service date are not known, it is Commission practice to determine the retirement cost by using 75 percent of the replacement cost. See Order Nos. PSC-09-0632-PAA-WU, issued September 17, 2009, in Docket No. 080353-WU, *In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.*; PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, *In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.*; and PSC-00-1528-PAA-WU, issued August 23, 2000, in Docket No. 991437-WU, *In re: Application for increase in water rates in Orange County by Wedgefield Utilities, Inc.*

Table 5-1

Description	Plant		Accumulated Depreciation		Depreciation Expense	
	Water	W/Water	Water	W/Water	Water	W/Water
County						
Marion	\$250	\$37	\$693	\$102	\$27	\$4
Orange	\$143	N/A	\$396	N/A	\$15	N/A
Pasco	\$1,419	\$558	\$3,925	\$1,544	\$154	\$60
Pinellas	\$204	N/A	\$564	N/A	\$22	N/A
Seminole	(\$43,340)	(\$23,156)	(\$10,654)	(\$5,693)	(\$4,324)	(\$2,309)
Total	(\$41,324)	(\$22,561)	(\$5,076)	(\$4,047)	(\$4,106)	(\$2,245)

Issue 6: What are the used and useful percentages of the Utility's water and wastewater systems?

Recommendation: Except for the Crownwood wastewater treatment plant, UIF's water plants, water transmission and distribution systems, and wastewater collection systems should be considered to be 100 percent used and useful (U&U). The Crownwood wastewater treatment plant should be considered 68.65 percent U&U. Staff recommends that no adjustment be made for excess unaccounted for water for any of the Utility's water systems. A 20.02 percent adjustment to purchase wastewater treatment expense for Summertree and a 40.79 percent adjustment to purchase wastewater treatment expense for Ravenna Park should be made to reflect the Utility's excessive infiltration and inflow (I&I). Accordingly, purchased wastewater expense should be decreased by \$63,391 for Pasco County – Wastewater and by \$87,662 for Seminole County – Wastewater. (Rieger, Walden, Wright)

Staff Analysis: The Utility has fifteen water systems in this docket. Crescent Heights and Davis Shores in Orange County purchase potable water from the Orlando Utilities Commission and Orange County. The other thirteen systems in Marion, Pasco, Pinellas, and Seminole Counties have water plants that produce potable water. Five of these systems also received minimal amounts of potable water during the test year via emergency interconnects with other utilities.

UIF has five wastewater systems in this proceeding. The Summertree and Orangewood systems in Pasco County purchase bulk wastewater treatment from Pasco County, while the Ravenna Park/Lincoln Heights and Weathersfield systems in Seminole County purchase bulk wastewater from the cities of Sanford and Altamonte Springs. The Utility has a 40,000 gallons per day (gpd) wastewater plant serving Crownwood in Marion County.

Used and Useful (U&U)

In its MFRs, the Utility did not include U&U adjustments for any of its water or wastewater systems except for the Marion County Crownwood wastewater system. In the Utility's last rate case, in Order No. PSC-07-0505-SC-WS, the Commission found all of the water and wastewater plants and lines to be 100 percent U&U except the Crownwood wastewater treatment plant which was 68.65 percent U&U. That finding was consistent with an earlier rate case, where in Order No. PSC-03-1440-FOF-WS, the Commission also found all of the water and wastewater plants and lines to be 100 percent U&U except the Crownwood wastewater treatment plant which was 68.65 percent U&U.¹³

All the UIF systems were built sometime from the 1950s through the 1970s. Summertree in Pasco County is approaching build out. The Utility points out in its MFRs that in Docket Nos. 020071-WS and 060253-WS, it was determined that Summertree's distribution and collection lines were contributed and a U&U adjustment was not made. All of the Utility's systems, since the last rate case, have either lost customers or have had no significant growth. Staff agrees with the Utility that, consistent with the last rate case, the water and wastewater plants and lines, except the Crownwood wastewater treatment plant, are 100 percent U&U because none of the systems are oversized and the service areas are substantially built out.

¹³ See Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

The Crownwood wastewater plant serves the Crownwood quadruplex subdivision (Crownwood) and also receives bulk flows from another PSC-regulated utility, BFF Corp. (BFF). The flows from BFF, which make up approximately 63 percent of the total amount treated, are metered amounts. There has been a ten customer increase at Crownwood since the last case, while BFF has not added connections. The Utility's wastewater treatment plant U&U calculation was performed in accordance with Rule 25-30.432, F.A.C. The Crownwood wastewater treatment plant is permitted for 40,000 gpd based on the highest three months of average daily flows (TMADF). The customer demand based on TMADF is 22,975 gpd. The Utility has a small amount of growth at 3,767 gpd, but no excessive infiltration and inflow. Based on these factors, the Utility would be 66.86 percent U&U.

In the Docket No. 020071-WS, the Crownwood plant was 68.65 percent U&U. In Docket No. 060253-WS, due to the decrease in flows, the used and useful was calculated to be 61.25 percent. However, the Commission accepted the higher 68.65 percent U&U from the previous rate case because the decrease in flows could have been due to conservation or perhaps a margin of error from calculating plant flows using elapsed time meters and lift station pump flow ratings. In this case, the Utility points out that it should not be penalized by assigning a reduced level of U&U since the plant is no less useful than in previous years.

Rule 25-30.432, F.A.C., provides that in determining the amount of used and useful plant, the Commission will consider the plant capacity as permitted by the DEP, as well as a growth allowance, the extent of build out of the service area, and whether flows have decreased due to conservation or a loss of customers. Based upon a review of the Crownwood system, it appears that the reduced flows are related to conservation. Given the age of the system, the limited growth potential, and the impact of water conservation, staff recommends that the Utility's Crownwood wastewater plant be recognized as 68.65 percent U&U, as was determined by the Commission in the last two rate cases.

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. The rule provides that to determine whether adjustments to plant and operating expenses, such as chemical, electrical and purchased water costs 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. According to the MFRs, during the test year the Utility had seven systems with EUW, including Crystal Lake (14.7 percent), Phillips (1.3 percent), Ravenna Park (1 percent), and Little Wekiva (2.3 percent) in Seminole County, Orangewood (9.1 percent) and Summertree (1.6 percent) in Pasco County, and Lake Tarpon (12.4 percent) in Pinellas County.

For Lake Tarpon, Orangewood, and Little Wekiva, customer meter inaccuracy is suspected as the cause of EUW. The Utility indicated that it has initiated a comprehensive water meter changeout effort in order to reduce EUW for these systems. For Summertree, the Utility believes that, after reviewing its flushing logs, the water used for flushing was understated and if adjusted based on that information, EUW would be non-existent. For Crystal Lake, in early 2010, the Utility replaced the well flow meter that was suspected to be over-registering the pumped volume. Plant flows and customer usage levels are now more in line. For the other two systems, Phillips and Ravenna Park, EUW is considered minimal and the resulting adjustments

would be immaterial. Staff agrees with the Utility that no adjustments should be made for EUW. Additionally, in the MFRs, the Golden Hills system in Marion County had adjusted flow figures listed for corrected gallons pumped because of known piping configuration problems which caused well pump flow meters to read high. It was noted that a permit was granted in October 2009 from the St. Johns River Water Management District to revise the measuring points for this system. Staff has since verified that work on that project was completed in the spring of 2010.

Infiltration and Inflow (I&I)

In the Utility's last rate case, it was determined that the Ravenna Park wastewater system in Seminole County had 19.3 percent excessive I&I resulting in a \$20,600 reduction in purchased wastewater treatment. Infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints. 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 used and useful plant, the Commission will consider I&I. Additionally, adjustments to operating expenses such as chemical, electrical and purchased wastewater treatment costs are also considered necessary. Staff reviewed the flows from the Ravenna Park wastewater system in Seminole County and the Summertree wastewater system in Pasco County. It appears that these systems were sending more wastewater to be treated than expected based on the amount of water billed to its customers. This finding, which the Utility was asked to review, is considered a possible indication of excessive I&I.

The Utility's review resulted in studies which estimated excessive I&I at 40.79 percent for Ravenna Park and 20.02 percent for Summertree. The Utility calculated that Ravenna Park had 13,773,581 gallons and Summertree had 10,300,071 gallons in excess I&I during the test year. For Ravenna Park, the Utility has provided information to show that it has attempted to improve the situation with spot repairs made to manholes and a gravity main in 2008, installed rainwater interceptors in manholes where surface runoff has historically inundated manhole lids in 2010, and plans in 2010 to clean and video inspect the system to identify the actual cost to correct the deficiencies in the collection system. In the MFRs, as a pro forma plant addition for 2010, the Utility allocated \$120,000 towards the correction of the I&I situation at Ravenna Park. However, the Utility later indicated that, along with most of the other pro forma plant additions in this case, the project had been postponed past the year 2010. In addition, for Summertree, the Utility has communicated that there may have been a power supply problem with the flow readings of the wastewater treated by Pasco County. The Utility intends to investigate and correct the situation.

Staff agrees with the Utility's calculations that show excessive I&I at 20.02 percent for Summertree and 40.79 percent for Ravenna Park. Purchased wastewater expense for Summertree (Pasco County) was \$316,638 and therefore should be decreased by \$63,391 (\$316,638 times 20.02 percent). Purchased wastewater expense for Ravenna Park (Seminole County) was \$211,911 and therefore should be reduced by \$87,662 (\$211,911 times 40.79 percent).

Summary

Based on the analysis above, staff recommends that except for the Crownwood wastewater treatment plant, UIF's water plants, water transmission and distribution systems, and wastewater collection systems should be considered to be 100 percent U&U. The Crownwood wastewater treatment plant should be considered 68.65 percent U&U. Staff recommends that no adjustment be made for EUW for any of the Utility's water systems. A 20.02 percent adjustment to purchased wastewater treatment expense for Summertree should be made and a 40.79 percent adjustment to purchased wastewater treatment expense for Ravenna Park should be made to reflect the Utility's excessive I&I. Accordingly, purchased wastewater expense should be decreased by \$63,391 for Pasco County – Wastewater and by \$87,662 for Seminole County – Wastewater.

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance for each system is shown in the table below.

<u>County</u>	<u>As Filed</u>	<u>Staff Adjustment</u>	<u>Staff Adjusted</u>
Marion – Water	\$157,348	(\$110,946)	\$46,402
Marion - Wastewater	\$23,248	(\$15,288)	\$7,960
Orange – Water	\$89,873	(\$59,116)	\$30,757
Pasco - Water	\$891,638	(\$586,463)	\$305,175
Pasco – Wastewater	\$350,701	(\$230,672)	\$120,029
Pinellas – Water	\$128,146	(\$84,283)	\$43,863
Seminole – Water	\$778,234	(\$511,867)	\$266,367
Seminole – Wastewater	\$415,909	(\$273,559)	\$142,350
TOTAL	<u>\$2,835,097</u>	<u>(\$1,872,194)</u>	<u>\$962,903</u>

(Wright)

Staff Analysis: For the historical test year ended December 31, 2008, the Utility used the balance sheet approach to calculate working capital, which is appropriate for a Class A Utility. The calculated total company working capital was \$2,835,097, and it was allocated to each of UIF's systems based on Equivalent Residential Connections (ERCs) at December 31, 2008.

In UIF's last rate Order No. PSC-07-0505-SC-WS, working capital was decreased by \$1,903,373 from the Utility's thirteen-month average cash balance of \$1,979,643 or by approximately 96.15 percent to remove the cash amounts that were transferred to the parent company. The Utility included a thirteen-month average balance of \$1,972,664 for cash in a Bank of America bank account in Florida. This is part of UIF's \$1,979,643 cash amount that is included in its requested working capital allowance. The Bank of America account was used to transfer funds to the cash account to the parent company. The actual balances from the bank statements from the 2007 Order are displayed in Table 7-1. Order No. PSC-07-0505-SC-WS stated that timing differences created differences between the general ledger and the bank statements. The 2007 Order stated that since the purpose of the working capital allowance is to give the company enough current funds to cover its expenses and because the intercompany payable/receivable is excluded from both the capital structure and rate base, the Commission found it reasonable to reduce cash in working capital allowance by \$1,903,372, to \$76,270 as shown in Table 7-1 below.

Table 7-1
Bank Balances

	End of Month Balance
December 2004	69,491.47
2005	
January	57,880.04
February	81,762.25
March	92,263.83
April	57,521.56
May	62,917.12
June	63,824.27
July	54,978.23
August	93,832.76
September	54,152.90
October	145,765.01
November	89,547.07
December	67,574.21
Average	76,270.06
Amount in MFRs	\$1,979,643.00
Difference	(1,903,372.94)

Staff believes a similar adjustment to the one made in UIF's last rate proceeding for excess cash in working capital also needs to be made in this docket. The following are the month-end cash balances for 2008 included in staff's final audit report dated May 19, 2010.

Table 7-2
Bank Balances

	End of Month Balance
December 2007	\$3,828,901
2008	
January	(16,500)
February	1,919,587
March	656,144
April	507,366
May	1,438,106
June	379,804
July	115,309
August	168,160
September	1,928,625
October	(45,287)
November	(284,340)
December	(43,109)
Total 13-Months	\$10,551,958
13-Month Average	\$811,689
Cash Amount in MFRs	\$2,364,377
Difference	(1,552,688)

Staff would revise the table above to exclude the amounts over \$1 million and the negative month-end balances as outliers, which results in the following adjustment shown in Table 7-3 below.

Table 7-3
Bank Balances

	End of Month Balance	Revised Calculation
December 2007	\$3,828,901	
2008		
January	(16,500)	
February	1,919,587	
March	656,144	656,144
April	507,366	507,366
May	1,438,106	
June	379,804	379,804
July	115,309	115,309
August	168,160	168,160
September	1,928,625	
October	(45,287)	
November	(284,340)	
December	(43,109)	
Total 13-Months	\$10,551,958	
13-Month Average	\$811,689	
Cash Amount in MFRs	\$2,364,377	
Difference per Audit Report	(\$1,552,688)	
Total 5-Months		\$1,826,783
5-Month Average		365,357
Cash Amount in MFRs		\$2,364,377
Difference		(\$1,999,020)
Deferred Expense Rate Case Exp. Adj.		\$126,826
Total Working Capital Adjustment		(\$1,872,194)

In addition to the reduction in cash in working capital in the amount of \$1,999,020, staff also recommends that working capital be increased for deferred rate case expense in the amount of \$126,826.¹⁴ Staff's \$1,999,020 reduction to the cash balance in working capital netted against the increase of \$126,826 results in a working capital reduction of \$1,872,194 as shown in the

¹⁴(Consistent with Commission practice, one-half of the total rate case expense should be included in working capital). See Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; and PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. UIF included only \$24,950 of deferred current rate case expense in working capital for this docket. As discussed in Issue 14, the total recommended amount of rate case expense is \$303,552. As such, the appropriate amount to include in working capital is \$151,776. Thus, work capital should be increased by \$126,826 (\$151,776-\$24,950).

table above. The \$1,872,194 reduction in working capital results in a working capital allowance of \$962,903. The following Table 7-4 shows working capital allowance by county and by water and wastewater service as filed by the Utility and as recommended by staff.

Table 7-4

<u>County</u>	<u>As Filed</u>	<u>Staff Adjustment</u>	<u>Staff Adjusted</u>
Marion – Water	\$157,348	(\$110,946)	\$46,402
Marion - Wastewater	\$23,248	(\$15,288)	\$7,960
Orange – Water	\$89,873	(\$59,116)	\$30,757
Pasco - Water	\$891,638	(\$586,463)	\$305,175
Pasco – Wastewater	\$350,701	(\$230,672)	\$120,029
Pinellas – Water	\$128,146	(\$84,283)	\$43,863
Seminole – Water	\$778,234	(\$511,867)	\$266,367
Seminole – Wastewater	\$415,909	(\$273,559)	\$142,350
TOTAL	<u>\$2,835,097</u>	<u>(\$1,872,194)</u>	<u>\$962,903</u>

Issue 8: What are the appropriate rate bases for the December 31, 2008, test year?

Recommendation: The appropriate rate bases for the UIF systems for the test year ended December 31, 2008, are as shown below.

County	Water	Wastewater	Total
Marion	\$444,429	\$111,892	\$556,321
Orange	\$225,363	N/A	\$225,363
Pasco	\$3,368,786	\$792,657	\$4,161,443
Pinellas	\$336,788	N/A	\$336,788
Seminole	\$3,141,040	\$2,124,710	\$5,265,750
Total	\$7,516,406	\$3,029,259	\$10,545,665

(Wright, Deason, Linn)

Staff Analysis: Staff has calculated UIF's water and wastewater rate bases by system and by county using the Utility's MFRs with adjustments as recommended in the preceding issues. The appropriate rate bases for the UIF systems for the test year ended December 31, 2008, are shown in Table 8-1.

Table 8-1

County	Water	Wastewater	Total
Marion	\$444,429	\$111,892	\$556,321
Orange	\$225,363	N/A	\$225,363
Pasco	\$3,368,786	\$792,657	\$4,161,443
Pinellas	\$336,788	N/A	\$336,788
Seminole	\$3,141,040	\$2,124,710	\$5,265,750
Total	\$7,516,406	\$3,029,259	\$10,545,665

COST OF CAPITAL

Issue 9: What is the appropriate return on equity?

Recommendation: Based on the Commission leverage formula currently in effect, the appropriate return on equity (ROE) is 10.69 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes. (Wright)

Staff Analysis: The ROE included in the Utility's filing is 11.17 percent. Based on the current leverage formula and an equity ratio of 41.92 percent, the appropriate ROE is 10.69 percent.¹⁵ This represents a forty-eight basis point reduction from UIF's requested ROE of 11.17 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

¹⁵ See Order Nos. PSC-10-0401-PAA-WS, issued June 18, 2010, and PSC-10-0466-CO-WS, issued July 13, 2010, in Docket No. 100006-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 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2008, is 6.89 percent for Marion County, 6.61 percent for Orange County, 6.98 percent for Pasco County, 6.68 percent for Pinellas County, and 7.25 percent for Seminole County. (Wright)

Staff Analysis:

Marion County

The weighted average cost of capital included in the Utility's filing is 7.28 percent. The test year per book amounts were taken directly from Marion County's MFR filing Schedule D-2. Staff revised the cost rate for common equity proposed by the Utility. The appropriate ROE of 10.69 percent is discussed in Issue 9. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 6.89 percent.¹⁶ Schedule No. 2 details staff's recommendation.

Orange County

The weighted average cost of capital included in the Utility's filing is 7.08 percent. The test year per book amounts were taken directly from Orange County's MFR filing Schedule D-2. Staff revised the cost rate for common equity proposed by the Utility. The appropriate ROE of 10.69 percent is discussed in Issue 9. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 6.61 percent.¹⁷ Schedule No. 2 details staff's recommendation.

Pasco County

The weighted average cost of capital included in the Utility's filing is 7.40 percent. The test year per book amounts were taken directly from Pasco County's MFR filing Schedule D-2. Staff revised the cost rate for common equity proposed by the Utility. The appropriate ROE of 10.69 percent is discussed in Issue 9. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 6.98 percent.¹⁸ Schedule No. 2 details staff's recommendation.

Pinellas County

The weighted average cost of capital included in the Utility's filing is 7.14 percent. The test year per book amounts were taken directly from Pinellas County's MFR filing Schedule D-2. Staff revised the cost rate for common equity proposed by the Utility. The appropriate ROE of 10.69 percent is discussed in Issue 9. Based on the proper components, amounts, and cost rates associated

¹⁶ This represents a thirty-eight basis point reduction to UIF's requested cost of capital for Marion County.

¹⁷ This represents a thirty-seven basis point reduction to UIF's requested cost of capital for Orange County.

¹⁸ This represents a forty-two basis point reduction to UIF's requested cost of capital for Pasco County.

with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 6.68 percent.¹⁹ Schedule No. 2 details staff's recommendation.

Seminole County

The weighted average cost of capital included in the Utility's filing is 7.63 percent. The test year per book amounts were taken directly from Seminole County's MFR filing Schedule D-2. Staff revised the cost rate for common equity proposed by the Utility. The appropriate ROE of 10.69 percent is discussed in Issue 9. Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2008, staff recommends a weighted average cost of capital of 7.25 percent.²⁰ Schedule No. 2 details staff's recommendation.

Summary

Based on staff's analyses, the appropriate weighted average cost of capital for the test year ended December 31, 2008, is 6.89 percent for Marion County, 6.61 percent for Orange County, 6.98 percent for Pasco County, 6.68 percent for Pinellas County, and 7.25 percent for Seminole County.

¹⁹ This represents a forty-six basis point reduction to UIF's requested cost of capital for Pinellas County.

²⁰ This represents a thirty-eight basis point reduction to UIF's requested cost of capital for Seminole County.

NET OPERATING INCOME

Issue 11: Should an adjustment be made to the Utility's salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. UIF's salaries and wages expense should be decreased by the amounts shown in the chart below:

<u>County</u>	<u>Water Salaries</u>	<u>Wastewater Salaries</u>	<u>Water Pension and Benefits</u>	<u>Wastewater Pension and Benefits</u>	<u>Water Payroll Taxes</u>	<u>Wastewater Payroll Taxes</u>
Marion	(\$1,065)	(\$130)	(\$354)	(\$43)	(\$81)	(\$10)
Orange	(1,066)	0	(254)	0	(82)	0
Pasco	(107,015)	(42,083)	(25,431)	(10,000)	(8,187)	(3,219)
Pinellas	(11,848)	0	(3,142)	0	(906)	0
Seminole	(1,827)	(62)	(480)	(16)	(140)	(5)
Totals	<u>(\$122,821)</u>	<u>(\$42,275)</u>	<u>(\$29,661)</u>	<u>(\$10,059)</u>	<u>(\$9,396)</u>	<u>(\$3,234)</u>

(Deason, Fletcher)

Staff Analysis: On MFR Schedules B-5 and B-6, the Utility reported water salaries and wages, pensions and benefits, and payroll taxes of \$416,938, \$105,000, and \$36,773, respectively, and reported wastewater salaries and wages, pensions and benefits, and payroll taxes of \$156,762, \$39,108, and \$13,712, respectively. The proposed salaries and wages expense represents an increase of 61.15 percent for water and 58.83 percent for wastewater over the levels reflected in the Utility's last rate case in 2006. The proposed pensions and benefits expense represents increases of 49.99 percent for water and 50.20 percent for wastewater over the same period.

Staff's review of O&M expenses included a comparison of reported expenses with those approved in UIF's last rate case. Schedules B-7 and B-8 requires the Utility to explain why any increases in expenses exceed customer growth and inflation (collectively, "benchmark"). UIF calculated the following benchmarks for water and wastewater respectively.

Table 11-1

	<u>Marion</u>	<u>Orange</u>	<u>Pasco</u>	<u>Pinellas</u>	<u>Seminole</u>
Water	11.44%	7.69%	15.71%	14.37%	12.48%
Wastewater	30.12%	N/A	19.44%	N/A	12.62%

For salaries and wages and pensions and benefits, the Utility stated that the reason for the increases was due to the number of employees and available positions that increased between the 2005 and 2008 year-end test periods, as well as the associated cost of living increases.

In staff's data request, dated May 12, 2010, the Utility was asked to explain why its salaries and wages expense was significantly greater than the relative level of salaries the Commission approved in its 2006 rate case. In its response, UIF explained that several field employees were transitioned out of the UI family due to the recent sales of certain systems. In addition, there have been employees terminated at the corporate level as well. However, UI stated that revenues have grown since the last UIF rate case in 2005, and personnel are needed to support the administrative functions of WSC that are passed down to all UI customers. In addition, three out of the five UIF systems had pro forma adjustments made to the test year that effectively decreased their test year salaries (Orange, Pinellas, and Seminole all have salary reductions in their pro forma adjustments). The salary adjustments that were made were threefold: (1) it annualized current employees' salaries as of the date the salary workpaper was prepared (July 2009), (2) it accounted for current salary allocation profiles and for sold systems as of the point in time, and (3) it incorporated salary increases through April 2010.

Staff does not agree with the Utility's justification for increased salaries. As stated above, the Utility believes that more personnel are needed to support the administrative functions of WSC, the costs of which are passed down to all UI customers based on the increase in revenues from 2005 to 2008. However, the increase in revenues is due to UI having many rate cases since 2005, not from an increase in customers. As discussed in Issue 3, the number of customers in Florida have decreased due to the recent divestitures of several systems.

Based on the above, staff believes the requested increase in salaries and wages expense is excessive. The Utility has the burden of proving that its costs are reasonable.²¹ Staff believes that the Utility has not met its burden of proof for the proposed increase in salaries and wages expense from 2005 to 2008. Further, staff believes UIF has not demonstrated any substantial benefit to the Utility as a result of the additional allocated personnel since the last rate case.

The Commission has utilized the benchmark analysis found on MFR Schedules B-7 and B-8²² to support a reduction to salaries and wages expense in three recent cases for sister companies of UIF.²³ Accordingly, pensions and benefits expense should be reduced by \$29,660 for water and \$10,060 for wastewater.²⁴ Finally, payroll taxes should be reduced by \$9,396 for water and \$3,234 for wastewater. Table 11-2 below is a breakdown of the above adjustments for each county:

²¹ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982)

²² See Order Nos. PSC-92-0578-FOF-SU, issued June 29, 1992, in Docket No. 910540-SU, In re: Application for sewer service rate adjustment in Aloha Gardens service area by Aloha Utilities, Inc. in Pasco County; and PSC-92-0336-FOF-WS, issued May 12, 1992, in Docket No. 911194-WS, In re: Application for a rate increase in Collier County by Florida Cities Water Company, Golden Gate Division.

²³ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

²⁴ Staff notes that it utilized the Utility's test year ratio of pensions & benefits to salaries in order to determine the corresponding adjustments for pensions & benefits.

Table 11-2

<u>County</u>	<u>Water Salaries</u>	<u>Wastewater Salaries</u>	<u>Water Pension and Benefits</u>	<u>Wastewater Pension and Benefits</u>	<u>Water Payroll Taxes</u>	<u>Wastewater Payroll Taxes</u>
Marion	(\$1,065)	(\$130)	(\$354)	(\$43)	(\$81)	(\$10)
Orange	(1,066)	0	(254)	0	(82)	0
Pasco	(107,015)	(42,083)	(25,431)	(10,000)	(8,187)	(3,219)
Pinellas	(11,848)	0	(3,142)	0	(906)	0
Seminole	<u>(1,827)</u>	<u>(62)</u>	<u>(480)</u>	<u>(16)</u>	<u>(140)</u>	<u>(5)</u>
Totals	<u>(\$122,821)</u>	<u>(\$42,275)</u>	<u>(\$29,661)</u>	<u>(\$10,059)</u>	<u>(\$9,396)</u>	<u>(\$3,234)</u>

Issue 12: Should there be an adjustment made to relocation expenses?

Recommendation: Yes. Consistent with Commission practice, relocation expense should be based on a 4-year average. Accordingly, UIF's allocated relocation expense of \$5,420 should be reduced by \$1,874 for water and \$1,199 for wastewater as indicated below:

<u>County</u>	<u>Water</u>	<u>Wastewater</u>
Marion	(\$169)	(\$27)
Orange	(\$98)	N/A
Pasco	(\$631)	(\$719)
Pinellas	(\$142)	N/A
Seminole	(\$835)	(\$453)
Total:	(\$1,875)	(\$1,199)

(Linn)

Staff Analysis: UI reported relocation expenses for the 2008 test year of \$156,647,²⁵ which represented a 59 percent increase over the amount in 2007. UIF's allocated portion of this expense was \$5,420. UI's relocation expenses have varied significantly from year to year. For example, UI did not have any relocation expenses in 2004 and 2005. However, UI recorded relocation expenses of \$16,145 for 2006 and \$98,577 for 2007.²⁶ Recognizing that relocation expenses have varied significantly from year to year, it has been Commission practice to base this expense on a 4-year average of actual expense rather than the specific expense in any given year. To be consistent with Commission practice, staff recommends that relocation expenses should be based on a 4-year average.²⁷ Accordingly, staff believes that relocation expenses should be reduced by \$1,875 for water and \$1,199 for wastewater as indicated in Table 12-1 below:

²⁵ The relocation expenses for 2008 related to the relocation of one headquarter employee.

²⁶ The year over year increase from 2006 to 2007 represented a 511 percent increase.

²⁷ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-04-1110-PAA-GU, issued November 8, 2004, in Docket No. 040216-GU, In re: Application for a rate increase by Florida Public Utilities Company; and PSC-02-0787-FOF-EI, issued June 10, 2002, in Docket No. 010949-EI, In re: Request for rate increase by Gulf Power Company, and PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 91150-GU, In re: Application for a rate increase by Peoples Gas System, Inc.

Table 12-1

Marion	(\$169)	(\$27)
Orange	(\$98)	N/A
Pasco	(\$631)	(\$719)
Pinellas	(\$142)	N/A
Seminole	(\$835)	(\$453)
Total:	(\$1,875)	(\$1,199)

Issue 13: Should any adjustments be made to transportation expense?

Recommendation: Yes, the Utility's transportation expense should be decreased as shown below.

<u>County</u>	<u>Water Fuel Expense in Transportation</u>	<u>Water Fuel Costs Adjustment</u>	<u>Wastewater Fuel Expense in Transportation</u>	<u>Wastewater Fuel Expense Adjustment</u>
Marion	\$3,280	(\$503)	\$613	(\$75)
Orange	\$1,571	(\$241)	N/A	N/A
Pasco	\$17,540	(\$2,690)	\$6,898	(\$1,058)
Pinellas	\$3,873	(\$594)	N/A	N/A
Seminole	\$13,523	(\$2,074)	\$7,225	(\$1,108)

(Wright)

Staff Analysis: In its filing, UIF recorded test year transportation expenses as follows:

Table 13-1

<u>County</u>	<u>Water Transportation Expense</u>	<u>Wastewater Transportation Expense</u>
Marion	\$4,141	\$613
Orange	\$2,080	N/A
Pasco	\$22,475	\$8,838
Pinellas	\$5,074	N/A
Seminole	\$18,013	\$9,624

In recent rate cases for three of UIF's sister companies, staff asked those utilities to provide the amount of their transportation expenses that related to fuel purchases and the total gallons of fuel purchased. In their response, those utilities stated that they could not determine the total gallons of fuel purchased because its parent company (Utilities, Inc. or UI) utilized GE Capital Fleet to manage its entire convoy, but recently had switched vendors and the information relating to purchased gallons was no longer available.

It is the Utility's burden to prove that its costs are reasonable.²⁸ In the recent rate cases for three of UIF's sister companies, the Commission determined that UI's gallonage data is unreliable in determining the appropriate level of fuel costs for ratemaking purposes on a prospective basis.²⁹

Based on the recent United States Energy Information Administration Short-Term Energy Outlook Report dated April 6, 2010, the average annual retail gasoline price for 2010 is expected to be \$2.76 per gallon, while the annual average for 2008 was \$3.26 per gallon. The Commission has utilized the United States Energy Information Administration Short-Term Energy Outlook Report in recent formal file and suspend rate case to determine the appropriate level of fuel cost.³⁰ The difference between the annual average price in 2008 and 2010 represents a decrease of 50 cents or 15.34 percent. In the absence of reliable gallonage data and consistent with the Commission's decisions for UIF's sister companies, staff believes a reasonable method to determine the prospective fuel expense for ratemaking purposes is to decrease test year fuel costs by 15.34 percent. Therefore, staff recommends that the Utility's transportation expense be decreased as shown below.

Table 13-2

<u>County</u>	<u>Water Fuel Expense in Transportation</u>	<u>Water Fuel Costs Adjustment</u>	<u>Wastewater Fuel Expense in Transportation</u>	<u>Wastewater Fuel Expense Adjustment</u>
Marion	\$3,280	(\$503)	\$613	(\$75)
Orange	\$1,571	(\$241)	N/A	N/A
Pasco	\$17,540	(\$2,690)	\$6,898	(\$1,058)
Pinellas	\$3,873	(\$594)	N/A	N/A
Seminole	\$13,523	(\$2,074)	\$7,225	(\$1,108)

²⁸ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (1982).

²⁹ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

³⁰ See Order No. PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc.

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate amount of rate case expense is \$303,552. This expense should be recovered over four years for an annual expense of \$75,888. Thus, rate case expense should be decreased as indicated below: (Linn)

<u>County</u>	Requested RCE	Staff Recommended	
	4-Year Amortization	4-Year Amortization	Adjustment
Marion - Water	\$6,594	\$4,206	(\$2,388)
Marion - Wastewater	983	627	(356)
Orange - Water	3,761	2,399	(1,362)
Pasco - Water	37,341	23,818	(13,523)
Pasco - Wastewater	14,789	9,433	(5,356)
Pinellas - Water	5,369	3,425	(1,945)
Seminole - Water	32,597	20,792	(11,805)
Seminole - Wastewater	17,541	11,188	(6,352)
Total:	<u>\$118,975</u>	<u>\$75,888</u>	<u>(\$43,087)</u>

Staff Analysis: UIF included rate case expense of \$475,898 in its MFRs. Staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as an estimate of the necessary amount to complete the case. On June 14, 2010, the Utility submitted a revised estimate of rate case expense through completion of the PAA process. The Utility projected an additional \$183,193 of rate case expense to complete the case, for a total rate case expense of \$544,053.

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Also, it is a utility's burden to justify its requested costs.³¹ Further, the Commission has broad discretion with respect to allowance of rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.³² As such, staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct MFR deficiencies. Based on staff's review of invoices, UIF incurred \$158 in legal fees related to deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicative filing costs.³³ Accordingly, staff recommends that \$158 be removed as duplicative and unreasonable rate case expense.

³¹ See *Florida Power Corp. v. Cresce*, 413 So. 2d 1187, 1191 (1982).

³² See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), 529 So. 2d 694 (Fla. 1988).

³³ See Order Nos. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, *In re: Application for rate increase in Martin County by Indiantown Company, Inc.*; and PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, *In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.*

The second adjustment relates to the Utility's estimated legal fees and expenses to complete the rate case. Rose, Sundstrom & Bentley, LLP (RS&B), the Utility's legal counsel, estimated 264.6 hours or \$83,268 in fees. UIF did not provide any support for the estimated legal fees. However, based on recently approved estimated legal fees for one of UIF's sister companies,³⁴ staff believes 55.1 hours is a reasonable estimate of legal fees for this case. The specific amount of time associated with each item is listed below:

Table 14-1

Estimate To Complete Through PAA Process		
Description	Hours	Fees
Attend three customer meetings. ³⁵	10.1	\$3,085
Respond to formal data requests and informal requests for information from Staff.	17.5	5,399
Legal research and documentation regarding confidentiality of work papers, NSF tariffs, WSC allocation issues, water quality and customer concerns.	6.0	1,851
Review staff recommendation; conference with client and consultant regarding recommendation; conference with staff regarding recommendation.	3.5	1,080
Prepare for and attend Agenda conference; discuss Agenda with client and staff.	12.0	3,960
Review PAA Order; Conference with client and consultant regarding PAA Order.	2.0	617
Prepare revised tariff sheets; Obtain Staff approval of tariffs; Draft and revise customer notice; Obtain Staff approval of notice; Coordinate mailing of notices and implementation of tariffs.	4.0	1,220
Total Estimated Fees	<u>55.1</u>	<u>\$17,211</u>

Based on this analysis, legal fees should be \$17,211. Therefore, staff believes that legal fees should be decreased by \$66,057 (\$83,268-\$17,211).

The third adjustment relates to Milian, Swain and Associates, Inc.'s (MS&A) actual and estimated fees of \$230,000. In UIF's last rate case, rate case expense of \$151,899 was approved for the work performed by MS&A. There was no support documentation provided for the estimated costs to complete through the PAA process. In addition, the invoices for the actual hours did not provide any detail or itemized description of the work performed. Because this case is measurably less intricate than UIF's last rate case,³⁶ staff does not believe UIF has met its burden of proof for the proposed fee for these services. Staff does not believe the processing of the instant case should require more hours than what was approved in the last rate case. Therefore, staff believes it would be reasonable to use the same number of hours approved in their last case along with MS&A's current hourly rates to determine the appropriate amount of rate case expense for this function.³⁷ Using this method, the total MS&A fees are \$174,650. Thus, staff recommends that rate case expense be decreased by \$55,350 (\$230,000-\$174,650).

³⁴ Sanlando Utilities Corporation is a Class A Utility that was also represented by RS&B.

³⁵ Hours were calculated using the travel time to and from the office address of RS&B to the customer meeting locations and added to the total time of the customer meetings.

³⁶ The Utility's last rate case involved many more issues. There were eight data requests with a total of 52 questions and 37 audit findings in the last rate case. In the current rate case, there has only been one data request with 16 questions, as well as only seven audit findings, of which the Utility agreed to six of the seven.

³⁷ In the last rate case, the hourly rate for MS&A's principal partner and associate accountant were \$160 and \$130, respectively; however, in this case, their hourly rates are \$200 and \$150, respectively.

The fourth adjustment relates to unsupported estimated expenses to complete the rate case. There was no documentation provided to support the Utility's requested consultant fees for Management & Regulatory Consultants, Inc. (M&R) of \$1,088 or for the \$1,000 for temporary employees. Accordingly, staff recommends that \$2,088 (\$1,088+\$1,000) be removed as unsupported rate case expense.

The fifth adjustment relates to WSC employee actual and estimated fees of \$142,773. No support documentation was provided for the estimated hours. In cases where rate case expense has not been supported by detailed documentation, the Commission's practice has been to disallow some portion or all unsupported amounts.³⁸ In UIF's 2007 rate case, the Commission approved a total of \$35,008 for WSC employee fees. Staff believes that limiting the current rate case expense to the amount approved in the 2007 case of \$35,008 would be fair and reasonable considering this case is measurably less intricate than UIF's last rate case. Thus, staff recommends that rate case expense should be decreased by \$107,765.

The sixth adjustment is for meal expenses for UI employees to have working dinners and lunches. Staff does not believe this should be considered a reasonable rate case expense. Thus, staff recommends reducing rate case expense by \$816.

The seventh adjustment addresses WSC travel expenses. In its MFRs, UIF estimated \$3,200 for travel. In its updated estimate of rate case expense, the Utility reduced their request from \$3,200 to \$1,578. Based on several previous UI rates cases, it is staff's experience for PAA rate cases that UI does not send a representative from their Illinois office to attend the Agenda Conference. Therefore, staff recommends that rate case expense be decreased by \$1,578.

The eighth adjustment relates to FedEx and other miscellaneous costs. In its MFRs, the Utility estimated \$5,984 for these items. In support of these expenses, the Utility provided only \$984 in FedEx invoices. Consistent with Commission practice, these requested costs should be disallowed because they are costs associated with having the records located out of state.³⁹ This is a decision of the shareholders of the Utility, and therefore the shareholders should bear the related costs. Thus, staff recommends that rate case expense be decreased by \$5,984.

The ninth adjustment relates to printing costs. The Utility requested actual expenses of \$3,338. However, the invoices provided by the Utility only totaled \$3,064. Thus, staff recommends that rate case expense be decreased by \$707 (\$3,771-\$3,064).

³⁸ See Order Nos. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of these cases, the Commission removed the entire unsupported amounts.

³⁹ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for Increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010 in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

As addressed in Issue 17, staff has recommended a revenue decrease of \$5,770 for Marion County – Water. In evaluating overearning cases, the Commission allows utilities to recover the rate case expense associated with overearnings investigations.⁴⁰ As noted earlier in this issue, staff is recommending an annual rate case expense for Marion County – Water of \$4,206. In this rate proceeding, the customers’ rates have been reduced to reflect the recommended decreases of \$5,770. Therefore, the customers have received a benefit from the rate case expense. Staff notes that this recommended allowance for rate case expense is consistent with the Commission’s decision in UIF’s last rate case.

In summary, staff recommends that the Utility’s revised rate case expense be decreased by \$240,501. The appropriate total rate case expense is \$303,552. A breakdown of rate case expense is as follows:

Table 14-2

	MFR	Utility Revised	Staff	Recommended
	<u>Estimated</u>	<u>Actual & Estimated</u>	<u>Adjustment</u>	<u>Total</u>
Legal and Filing Fees	\$85,050	\$112,919	(\$66,214)	\$46,704
Consultant Fees-MS&A	\$230,250	\$230,000	(\$55,350)	\$174,650
Consultant Fees-M&R	\$19,790	\$23,775	(\$1,088)	\$22,688
Consultant Fees-CPH	\$0	\$858	\$0	\$858
WSC Fees- In House	\$102,728	\$142,773	(\$107,765)	\$35,008
Filing Fee	\$4,000	\$9,000	\$0	\$9,000
Meals- WSC	\$0	\$816	(\$816)	\$0
Travel- WSC	\$3,200	\$1,578	(\$1,578)	\$0
Temp Employee-WSC	\$0	\$2,581	(\$1,000)	\$1,581
Fed Ex & other Misc.	\$12,000	\$5,984	(\$5,984)	\$0
Notices & printing services	\$18,880	\$13,771	(\$707)	\$13,064
Total Rate Case Expense	\$475,898	\$544,053	(\$240,501)	\$303,552

In its MFRs, the Utility requested total rate case expense of \$475,898. When amortized over four years, this represents an annual expense of \$118,975. The recommended annual rate case expense of \$75,888 (\$303,552 divided by four) should be recovered over four years, pursuant to Section 367.016, F.S. Therefore, annual rate case expense should be decreased as indicated below:

⁴⁰ See Order No. PSC-97-0847-FOF-WS, issued July 15, 1997, in Docket No. 960234-WS, In re: Investigation of rates of Gulf Utility Company in Lee County for possible overearnings.

Table 14-3

<u>County</u>	Requested RCE	Staff Recommended	
	4-Year Amortization	4-Year Amortization	Adjustment
Marion - Water	\$6,594	\$4,206	(\$2,388)
Marion - Wastewater	983	627	(356)
Orange - Water	3,761	2,399	(1,362)
Pasco - Water	37,341	23,818	(13,523)
Pasco - Wastewater	14,789	9,433	(5,356)
Pinellas - Water	5,369	3,425	(1,945)
Seminole - Water	32,597	20,792	(11,805)
Seminole - Wastewater	17,541	11,188	(6,352)
Total:	<u>\$118,975</u>	<u>\$75,888</u>	<u>(\$43,087)</u>

Issue 15: Should any adjustments be made to bad debt expense?

Recommendation: Yes. Bad debt expense should be based on a 3-year average. Accordingly, UIF's bad debt expense should be reduced as indicated below:

County	Water	Wastewater	Total
Marion	(\$23)	(\$3)	(\$26)
Orange	(\$1,167)	N/A	(\$1,167)
Pasco	(\$4,182)	(\$1,645)	(\$5,827)
Pinellas	(\$66)	N/A	(\$66)
Seminole	(\$2,509)	(\$1,341)	(\$3,850)

(Linn)

Staff Analysis: The Utility recorded bad debt expense of \$43,287 for 2008. The basis for determining the appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. The Commission has set bad debt expense using the 3-year average in three electric cases,⁴¹ two gas cases,⁴² and five water and wastewater cases.⁴³ The Commission approved a 3-year average in those cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Consistent with Commission practice, bad debt expense should be based on a 3-year average, as shown in the table below.

⁴¹ See Order Nos. PSC-94-0170-FOF-EI, issued February 10, 1994, in Docket No. 930400-EI, In re: Application for a Rate Increase for Marianna electric operations by Florida Public Utilities Company, at p. 20; PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, In re: Application for a rate increase by Tampa Electric Company, at pp. 69-70; and PSC-92-1197-FOF-EI, issued October 22, 1992, in Docket No. 910890-EI, In re: Petition for a rate increase by Florida Power Corporation, at p. 48.

⁴² See Order Nos. PSC-92-0924-FOF-GU, issued September 3, 1992, in Docket No. 911150-GU, In re: Application for a rate increase by Peoples Gas System, Inc., at p. 6; and PSC-92-0580-FOF-GU, issued June 29, 1992, in Docket No. 910778-GU, In re: Petition for a rate increase by West Florida Natural Gas Company, at pp. 30-31.

⁴³ See Order Nos. PSC-10-0407-PAA-SU, issued June 21, 2010, in Docket No. 090381-SU, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood; and PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-07-0505-SC-WS, issued June 13, 2007, in Docket No. 060253-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, at pp. 41-42; and PSC-09-0385-FOF-WS, issued May 29, 2009, in Docket No. 080121-WS, In re: Application for increase in water and wastewater rates in Alachua, Brevard, DeSoto, Highlands, Lake, Lee, Marion, Orange, Palm Beach, Pasco, Polk, Putnam, Seminole, Sumter, Volusia, and Washington Counties by Aqua Utilities Florida, Inc., at pp. 92-96.

Table 15-1

<u>County</u>	<u>Test Year Bad Debt Expense</u>	<u>3-year Average</u>
Marion - Water	\$569	\$546
Marion - Wastewater	85	81
Orange - Water	4,716	3,549
Pasco - Water	11,086	6,903
Pasco - Wastewater	4,359	2,715
Pinellas - Water	220	154
Seminole - Water	14,503	11,994
Seminole - Wastewater	7,749	6,408
Total:	<u>\$43,287</u>	<u>\$32,351</u>

Based on the 3-year average calculation, UIF should be expected to incur bad debt expense of \$32,351 which staff believes is representative of UIF's bad debt expense. As a result, staff recommends that UIF's bad debt expense be reduced as indicated below:

Table 15-2

<u>County</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Marion	(\$23)	(\$3)	(\$26)
Orange	(\$1,167)		(\$1,167)
Pasco	(\$4,182)	(\$1,645)	(\$5,827)
Pinellas	(\$66)		(\$66)
Seminole	(\$2,509)	(\$1,341)	(\$3,850)

Date: July 22, 2010

Issue 16: What is the test year water and wastewater operating income by county before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the following is the test year operating income by county.

<u>County</u>	<u>Water Operating Income</u>	<u>Wastewater Operating Income</u>
Marion	\$34,041	\$749
Orange	\$4,241	N/A
Pasco	\$100,029	(\$21,048)
Pinellas	\$9,981	N/A
Seminole	\$126,521	\$97,633

(Wright)

Staff Analysis: As shown on Schedules 3-A and 3-B where applicable, after applying staff's adjustments, the Utility's net operating income by county is as shown below. Staff's adjustments to operating income are shown on Schedules No. 3-C.

Table 16-1

<u>County</u>	<u>Water Operating Income</u>	<u>Wastewater Operating Income</u>
Marion	\$34,041	\$749
Orange	\$4,241	N/A
Pasco	\$100,029	(\$21,048)
Pinellas	\$9,981	N/A
Seminole	\$126,521	\$97,633

REVENUE REQUIREMENT

Issue 17: What is the appropriate revenue requirement for the December 31, 2008 test year?

Recommendation: The following revenue requirements should be approved.

System	Test Year Revenues	(\$ Decrease) \$ Increase	Revenue Requirement	(% Decrease) % Increase
Marion Water	\$180,504	(\$5,770)	\$174,734	(3.20%)
Marion Wastewater	\$39,829	\$11,678	\$51,507	29.32%
Orange Water	\$100,789	\$17,895	\$118,684	17.76%
Pasco Water	\$806,112	\$227,103	\$1,033,215	28.17%
Pasco Wastewater	\$446,272	\$128,287	\$574,559	28.75%
Pinellas Water	\$99,904	\$21,002	\$120,906	21.02%
Seminole Water	\$779,689	\$170,036	\$949,725	21.81%
Seminole Wastewater	\$743,954	\$94,788	\$838,742	12.74%

(Wright)

Staff Analysis: Consistent with staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate pre-repression revenue requirements as shown in Table 17-1.

Table 17-1

System	Test Year Revenues	(\$ Decrease) \$ Increase	Revenue Requirement	(% Decrease) % Increase
Marion Water	\$180,504	(\$5,770)	\$174,734	(3.20%)
Marion Wastewater	\$39,829	\$11,678	\$51,507	29.32%
Orange Water	\$100,789	\$17,895	\$118,684	17.76%
Pasco Water	\$806,112	\$227,103	\$1,033,215	28.17%
Pasco Wastewater	\$446,272	\$128,287	\$574,559	28.75%
Pinellas Water	\$99,904	\$21,002	\$120,906	21.02%
Seminole Water	\$779,689	\$170,036	\$949,725	21.81%
Seminole Wastewater	\$743,954	\$94,788	\$838,742	12.74%

RATES

Issue 18: What are the appropriate rate structures for the water and wastewater systems in Marion, Orange, Pasco, Pinellas, and Seminole Counties?

Recommendation: The appropriate rate structures for the five counties are as follows:

The appropriate rate structures for the systems in Marion County are continuations of the current base facility charge (BFC)/uniform gallonage charge rate structure for the water system and the traditional BFC/gallonage charge rate structure for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should remain at 33 percent for the water system and 50 percent for the wastewater system.

The appropriate rate structure for the water systems in Orange County is a continuation of the current three-tier inclining block rate structure for the residential customers. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month. The usage blocks and usage block rate factors should remain unchanged. The BFC/uniform gallonage charge rate structure should be continued for the general service customers. The BFC cost recovery percentage for the water system should remain at 26 percent.

The appropriate rate structures for the water systems in Pasco County is a continuation of the current BFC/uniform gallonage charge rate structure. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional tier will be created for non-discretionary usage below 3 kgals per month. The BFC/gallonage charge rate structure for metered customers on the wastewater system should be retained. The flat rate structure for the unmetered multi-residential Wis-Bar wastewater customers should also be retained. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 45 percent for the water system and 30 percent for the wastewater system.

In Pinellas County, the appropriate rate structure for the water system is the current BFC/uniform gallonage charge rate structure. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional tier will be created for non-discretionary usage below 3 kgals per month. The BFC cost recovery percentage should be set at 40 percent.

In Seminole County, the appropriate rate structure for the water systems is the current three-tier inclining block rate structure. The usage blocks and usage block rate factors should remain unchanged. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month. The BFC/gallonage charge rate structure should be continued for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 25 percent for the water system and 25 percent for the wastewater system. (Stallcup)

Staff Analysis: Staff performed a detailed analysis of the Utility's billing data in each county in order to evaluate various BFC cost recovery percentages, as well as usage blocks and usage block rate factors (when appropriate) for the residential rate classes. The goals of the evaluations were to select the rate design parameters that: 1) allow the Utility to recover each county's revenue requirement; 2) equitably distribute cost recovery among the Utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with both of these Water Management Districts.

The systems in Orange and Seminole Counties are located in the St. Johns River Water Management District (SJRWMD). The systems in Marion, Pasco and Pinellas Counties are located in the Southwest Florida Water Management District (SWFWMD or District). The Commission has a Memorandum of Understanding with these districts to implement water conserving rate structures whenever feasible.

The Utility's current rate structures were originally approved in the Utility's 1992 rate case. These same rate structures were subsequently approved in the Utility's last rate case in 2007. A discussion of the appropriateness of these rate structures in the instant case follows on a county-by-county basis.

Marion County

The Utility's water rates prior to filing the instant case were a BFC of \$3.84 for a 5/8" x 3/4" meter, and a gallonage charge of \$2.31 for all kgal consumed. The corresponding wastewater rates prior to filing were a BFC of \$20.25 for a 5/8" x 3/4" meter. The residential wastewater gallonage charge was \$2.16 per kgal, capped at 10 kgal of usage. General service wastewater customers were charged \$2.58 for each kgal used.

Staff's analysis of the water Utility's billing data shows that average residential consumption is 8.4 kgal per month. This indicates a moderate amount of discretionary consumption. However, this data also reveals that approximately 15 percent of customers consume over 20 kgal per month. Ordinarily under these circumstances, staff would recommend implementing an inclining block rate structure to help address water conservation concerns. However, as discussed in an earlier issue, staff is recommending a revenue reduction of 3.2 percent for the Marion County water system. This recommended reduction in revenue requirement precluded staff from designing an effective inclining block rate structure that would encourage water conservation at higher levels of consumption without simultaneously reducing rates at lower levels of consumption. Therefore, staff recommends that the Utility's current BFC/uniform gallonage charge rate structure be retained.

A BFC cost recovery level of 33 percent was approved in the Utility's last case. Based on staff's analysis, staff believes that keeping the BFC cost recovery at 33 percent is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is 21 percent, the customer base is not considered seasonal. Therefore, keeping the current BFC percentage at 33 percent should not raise revenue sufficiency concerns.

The current rate structure for the Marion County wastewater system is the traditional BFC/uniform gallonage charge rate structure with a gallonage cap set at 10 kgal per month. A BFC cost recovery level of 50 percent was approved in the Utility's last case. Due to the capital

intensive nature of wastewater plants, and consistent with how the Commission typically allocates BFC revenues for wastewater systems, staff recommends that 50 percent is the appropriate BFC cost recovery percentage for the Marion County wastewater system. Staff recommends that the current BFC/uniform gallonage charge with a cap set at 10 kgal per month be retained. Staff also recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Orange County

The Utility's water rates prior to filing the instant case were a BFC of \$6.63 for a 5/8" x 3/4" meter. Residential water charges are based on a three-tier inclining block rate structure, with monthly usage blocks of 0-8 kgal, 8.001-16 kgal, and usage in excess of 16 kgal, with usage block rate factors of 1.0, 1.25, and 1.5, respectively. Residential consumption charges per kgal before filing were \$2.74 for consumption in the first usage block, \$3.42 for consumption in the second block, and \$4.11 for consumption in excess of 16 kgal. General service water customers were charged \$2.93 for all kgal consumed.

Staff's analysis of the water Utility's billing data shows that average residential consumption is 6.5 kgal per month. Furthermore, this analysis indicates that only approximately five percent of bills were in excess of 16 kgal per month. Staff believes that these usage characteristics indicate that the Utility's existing rate structure is adequately addressing water conservation concerns. Therefore, staff recommends that the current three-tiered inclining block rate structure be retained. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgal per month.

A BFC cost recovery level of 26 percent was approved in the Utility's last case. Based on staff's analysis, staff believes that keeping the BFC cost recovery at 26 percent is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is approximately ten percent, the customer base is not considered seasonal. Therefore, keeping the current BFC percentage at 26 percent should not raise revenue sufficiency concerns.

Pasco County

The Utility's water rates prior to filing the instant case were a BFC of \$9.61 for a 5/8" x 3/4" meter, and a gallonage charge of \$3.12 for all kgal consumed. There are two wastewater systems in Pasco County, the Summertree system and the Wis-Bar system. The wastewater rates prior to filing for the Summertree system were a BFC of \$11.34 for a 5/8" x 3/4" meter, and a residential gallonage charge of \$9.63, capped at 6 kgal of usage. General service customers were charged \$11.56 for all kgal consumed. The wastewater rates prior to filing for the Wis-Bar system were a BFC of \$8.73 for a 5/8" x 3/4" meter, and a residential gallonage charge of \$6.87, capped at 6 kgal of usage. In addition, the Wis-Bar system has wastewater flat rate customers – the residential flat rate was \$25.23, while the multi-residential flat rate was \$21.09.

Staff's analysis of the water Utility's billing data shows that average residential consumption is 2.8 kgal per month. This analysis also showed that approximately 44 percent of customer bills were for consumption levels of 1 kgal per month or less. This is an indication that the customer base is very seasonal. Because of the very low average monthly usage, staff

recommends that the current BFC/uniform gallonage charge rate structure be retained. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, a second tier will be created for non-discretionary usage below 3 kgal per month.

A BFC cost recovery level of 45 percent was approved in the Utility's last case. Based on staff's analysis, staff believes that keeping the BFC cost recovery at 45 percent is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is approximately 44 percent, the customer base is considered very seasonal. Therefore, keeping the current BFC percentage at 45 percent should help address revenue sufficiency concerns while the customers are not in residence.

The rate structures for the two wastewater systems consist of the traditional BFC/uniform gallonage rate structure with a gallonage cap set at 6 kgal per month. Based upon initial accounting allocations, approximately 27 percent of staff's recommended wastewater revenue requirement is considered fixed costs and the remaining 73 percent is considered to be variable costs. The seemingly low percentage of fixed costs is due to this Utility purchasing its sewage treatment from Pasco County. This reduces the capital intensive nature of the wastewater plant. Therefore, staff recommends that 30 percent is the appropriate BFC cost recovery percentage for the Pasco County wastewater systems. Staff also recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Staff notes that in the Utility's last rate case, there were some residential customers of the Wis-Bar system who were not metered and were billed using a flat rate. In the Utility's current filing, all individual residential customers of the Wis-Bar system are now metered. Since metered data is now available for these customers, staff recommends that all residential customers of the Wis-Bar wastewater system be charged for wastewater service using the BFC/uniform gallonage rate structure. However, there continues to be a single unmetered multi-residential customer in the Wis-Bar service territory. Staff recommends the appropriate flat rate for this customer be set by adjusting the current rate of \$21.82 per month for a 5/8" meter by the percentage increase in the approved revenue requirement for the Pasco County wastewater systems.

Pinellas County

The Utility's water rates prior to filing the instant case were a BFC of \$6.43 for a 5/8" x 3/4" meter and a uniform gallonage charge of \$3.63 per kgal .

Staff's analysis of the water Utility's billing data shows that average residential consumption is 2.5 kgal per month. This analysis also showed that approximately 45 percent of customer bills were for consumption levels of 1 kgal per month or less. This is an indication that the customer base is very seasonal. Because of the very low average monthly usage, staff recommends that the current BFC/uniform gallonage charge rate structure be retained. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, a second tier will be created for non-discretionary usage below 3 kgal per month.

A BFC cost recovery level of 40 percent was approved in the Utility's last case. Based on staff's analysis, staff believes that keeping the BFC cost recovery at 40 percent is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is approximately 45 percent, the customer base is considered very seasonal. Therefore, keeping the current BFC percentage at 40 percent should help address revenue sufficiency concerns while the customers are not in residence.

Seminole County

The Utility's water rates prior to filing the instant case were a BFC of \$6.15 for a 5/8" x 3/4" meter. Residential water charges are based on a three-tier inclining block rate structure, with monthly usage blocks of 0-8 kgal, 8.001-16 kgal, and usage in excess of 16 kgal, with usage block rate factors of 1.0, 1.75, and 2.25, respectively. Residential consumption charges per kgal before filing were \$2.25 for consumption in the first usage block, \$3.95 for consumption in the second block, and \$5.07 for consumption in excess of 16 kgal. General service water customers were charged \$2.74 for all kgal consumed. The corresponding wastewater rates prior to filing were a BFC of \$11.11 for a 5/8" x 3/4" meter, and a residential gallonage charge of \$6.20, capped at 10 kgal of usage. General service customers were charged \$7.43 for all kgal consumed.

Staff's analysis of the water Utility's billing data shows that average residential consumption is 6.4 kgals per month. This analysis also showed that only 13 percent of customer bills were for consumption levels of 1 kgal per month or less. This is an indication that the customer base is not very seasonal. Additionally, the Utility's billing data indicated that only nine percent of bills are for monthly consumption in excess of 16 kgals per month. Staff believes that these usage characteristics indicate that the Utility's existing rate structure is adequately addressing water conservation concerns. Therefore, staff recommends that the current three-tiered inclining block rate structure be retained. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month.

A BFC cost recovery level of 25 percent was approved in the Utility's last case. Based on staff's analysis, staff believes that keeping the BFC cost recovery at 25 percent is appropriate. Since the percentage of bills captured at 1 kgal or less of consumption is approximately 13 percent, the customer base is not considered seasonal. Therefore, keeping the current BFC percentage at 25 percent should not raise revenue sufficiency concerns.

The Utility's current wastewater rate structure consists of the traditional BFC/uniform gallonage charge rate structure with a gallonage cap set at 10 kgals per month. A BFC cost recovery level of 25 percent was approved in the Utility's last case. Based upon initial accounting allocations, approximately 23 percent of staff's recommended wastewater revenue requirement would be recovered from the BFC and the remaining 77 percent from the gallonage charge. The seemingly low percentage of revenues recovered through the BFC is due to this Utility purchasing its sewage treatment. This reduces the capital intensive nature of the wastewater plant. Therefore, staff recommends that 25 percent is the appropriate BFC cost recovery percentage for the Seminole County wastewater system. Staff recommends that the current general service/residential service wastewater gallonage charge differential of 1.2 be retained.

Conclusion

Based on the foregoing, the appropriate rate structures for the systems in Marion County are continuations of the current base facility charge (BFC)/uniform gallonage charge rate structure for the water system and the traditional BFC/gallonage charge rate structure for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 33 percent for the water system and 50 percent for the wastewater system.

The appropriate rate structure for the water systems in Orange County is a continuation of the current three-tier inclining block rate structure for its residential customers. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month. The usage blocks and usage block rate factors should remain unchanged. The BFC/uniform gallonage charge rate structure should be continued for the general service customers. The BFC cost recovery percentage for the water system should be set at 26 percent.

The appropriate rate structures for the water system in Pasco County is a continuation of the BFC/uniform gallonage charge rate structure. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional tier will be created for non-discretionary usage below 3 kgals per month. The appropriate rate structure for the wastewater systems are a continuation of the BFC/gallonage charge rate structure for metered customers on the wastewater system. The flat rate structure for the one unmetered Wis-Bar wastewater customer should also be retained. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 45 percent for the water system and 30 percent for the wastewater system.

In Pinellas County, the appropriate rate structure for the water system is the current BFC/uniform gallonage charge rate structure. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional tier will be created for non-discretionary usage below 3 kgals per month. The BFC cost recovery percentage should be set at 40 percent.

In Seminole County, the appropriate rate structure for the water system is the current three-tier inclining block rate structure. The usage blocks and usage block rate factors should remain unchanged. However, as discussed in the following issue, by restricting any cost recovery due to repression from being applied to non-discretionary usage, an additional fourth tier will be created for non-discretionary usage below 6 kgals per month. The BFC/gallonage charge rate structure should be continued for the wastewater system. The general service wastewater gallonage charge should be 1.2 times the corresponding residential charge. The BFC cost recovery percentages should be set at 25 percent for the water system and 25 percent for the wastewater system.

Issue 19: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for the water and wastewater systems, what are the corresponding expense adjustments to make, and what are the resulting final revenue requirements for the respective systems?

Recommendation: Yes, repression adjustments are appropriate for the water systems in Orange, Pasco, Pinellas, and Seminole Counties.

In Orange County, test year consumption should be reduced by 625 kgal., purchased water expense should be reduced by \$1,143, and RAFs should be reduced by \$54. The final post-repression revenue requirement for the water system should be \$117,390.

In Pasco County, test year consumption should be reduced by 4,443 kgal., purchased water expense should be reduced by \$2,800, chemicals expense should be reduced by \$348, and RAFs should be reduced by \$149. The final post-repression revenue requirement for the water system should be \$1,020,727.

In Pinellas County, test year consumption should be reduced by 561 kgal., purchased water expense should be reduced by \$295, chemicals expense should be reduced by \$49, purchase power expense should be reduced by \$95, and RAFs should be reduced by \$21. The final post-repression revenue requirement for the water system should be \$119,947.

In Seminole County, test year consumption should be reduced by 7,464 kgal., chemicals expense should be reduced by \$1,115, purchase power expense should be reduced by \$1,422, and RAFs should be reduced by \$119. The final post-repression revenue requirement for the water system should be \$937,890.

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

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers in each of the five counties, as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption, and allocates all cost recovery due to repression to discretionary levels of consumption. The analysis indicates that repression adjustments are appropriate for the water systems in Pasco and Seminole Counties, and not appropriate for the water systems in Marion, Orange, and Pinellas Counties.

Marion County

In Marion County, staff is recommending a reduction in water system's revenue requirements which will result in a reduction in rates. Therefore, staff believes that a repression adjustment is not appropriate for the water system in Marion County.

Orange County

In Orange County, staff is recommending a 17.8 percent increase in revenue requirements. This system consists primarily of single family residences and is non-seasonal in nature. Staff estimates that the appropriate threshold for discretionary usage is 6 kgal per month. Average usage per residential customer is 6.5 kgal per month. Based on the customer billing data provided by the Utility, 32 percent of total residential consumption is discretionary usage and therefore subject to the effects of repression.

Staff calculated its repression adjustment using the same methodology approved in prior cases. These calculations show that residential discretionary consumption can be expected to decline by 625 kgal. This represents a 2.5 percent reduction in total residential consumption, and a 7.8 percent reduction in discretionary consumption. Therefore, staff recommends that a repression adjustment is appropriate for this system.

Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 625 kgal., purchased water expense should be reduced by \$1,143, and RAFs should be reduced by \$54. The final post-repression revenue requirement for the water system should be \$117,390.

Pasco County

In Pasco County, staff is recommending a 28.5 percent increase in revenue requirements. This system consists primarily of single family residences and is very seasonal in nature. Staff estimates that the appropriate threshold for discretionary usage is 3 kgal per month. Average usage per residential customer is 2.8 kgal per month. Based on the customer billing data provided by the utility, 42 percent of total residential consumption is discretionary usage and therefore subject to the effects of repression.

Staff calculated its repression adjustment using the same methodology approved in prior cases. These calculations show that residential discretionary consumption can be expected to decline by 4,443 kgal. This represents a 4.7 percent reduction in total residential consumption, and a 11.3 percent reduction in discretionary consumption. Therefore, staff recommends that a repression adjustment is appropriate for this system.

Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 4,443 kgal., purchased water expense should be reduced by \$2,800, chemicals expense should be reduced by \$348, and RAFs should be reduced by \$149. The final post-repression revenue requirement for the water system should be \$1,020,727.

Pinellas County

In Pinellas County, staff is recommending a 21.1 percent increase in revenue requirements. This system consists primarily of mobile homes and is very seasonal in nature. Staff estimates that the appropriate threshold for discretionary usage is 3 kgals per month. Average usage per residential customer is 2.5 kgals per month. Based on the customer billing data provided by the Utility, 34 percent of total residential consumption is discretionary usage and therefore subject to the effects of repression.

Staff calculated its repression adjustment using the same methodology approved in prior cases. These calculations show that residential discretionary consumption can be expected to decline by 561 kgals. This represents a 3.8 percent reduction in total residential consumption, and a 11.4 percent reduction in discretionary consumption. Therefore, staff recommends that a repression adjustment is appropriate for this system.

Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 561 kgal., purchased water expense should be reduced by \$295, chemicals expense should be reduced by \$49, purchase power expense should be reduced by \$95, and RAFs should be reduced by \$21. The final post-repression revenue requirement for the water system should be \$119,947.

Seminole County

In Seminole County, staff is recommending a 22.1 percent increase in revenue requirements. This system consists primarily of single family residences and is not seasonal in nature. Staff estimates that the appropriate threshold for discretionary usage is 6 kgals per month. Average usage per residential customer is 6.4 kgals per month. Based on the customer billing data provided by the utility, 34 percent of total residential consumption is discretionary usage and therefore subject to the effects of repression.

Staff calculated its repression adjustment using the same methodology approved in prior cases. These calculations show that residential discretionary consumption can be expected to decline by 7,464 kgals. This represents a 3.7 percent reduction in total residential consumption, and a 11.1 percent reduction in discretionary consumption. Therefore, staff recommends that a repression adjustment is appropriate for this system.

Based on this methodology, staff calculated that test year residential consumption for this utility should be reduced by 7,464 kgal., chemicals expense should be reduced by \$1,115, purchase power expense should be reduced by \$1,422, and RAFs should be reduced by \$119. The final post-repression revenue requirement for the water system should be \$937,890.

Conclusion

Based on the foregoing, staff recommends that repression adjustments are appropriate for the water systems in Orange, Pasco, Pinellas, and Seminole Counties.

In Orange County, test year consumption should be reduced by 625 kgal., purchased water expense should be reduced by \$1,143, and RAFs should be reduced by \$54. The final post-repression revenue requirement for the water system should be \$117,390.

In Pasco County, test year consumption should be reduced by 4,443 kgal., purchased water expense should be reduced by \$2,800, chemicals expense should be reduced by \$348, and RAFs should be reduced by \$149. The final post-repression revenue requirement for the water system should be \$1,020,727.

In Pinellas County, test year consumption should be reduced by 561 kgal., purchased water expense should be reduced by \$295, chemicals expense should be reduced by \$49, purchase power expense should be reduced by \$95, and RAFs should be reduced by \$21. The final post-repression revenue requirement for the water system should be \$119,947.

In Seminole County, test year consumption should be reduced by 7,464 kgal., chemicals expense should be reduced by \$1,115, purchase power expense should be reduced by \$1,422, and RAFs should be reduced by \$119. The final post-repression revenue requirement for the water system should be \$937,890.

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

Issue 20: What are the appropriate rates for monthly service for the water and wastewater systems?

Recommendation: The appropriate monthly water rates are shown on Schedules No. 4-A, and the appropriate monthly wastewater rates are shown on Schedule Nos. 4-B. Excluding miscellaneous service charges, the recommended water and wastewater rates produce revenues as shown below.

System	Revenues
Marion County - Water	\$173,642
Marion County - Wastewater	\$51,405
Orange County - Water	\$117,390
Pasco County - Water	\$1,020,727
Pasco County - Wastewater	\$574,460
Pinellas County - Water	\$119,947
Seminole County - Water	\$937,890
Seminole County - Wastewater	\$837,631

The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Stallcup, Wright)

Staff Analysis: As discussed in Issue 19, staff recommends that the appropriate revenues from monthly service rates, after all repression adjustments and excluding miscellaneous service revenues are: 1) \$169,237 for the Marion County water system and \$51,398 for the corresponding wastewater system; 2) \$116,076 for the Orange County water system; 3) \$1,020,495 for the Pasco County water system and \$574,341 for its wastewater system; 4) \$119,908 for the Pinellas County water system; and 5) \$937,669 for the Seminole County water system and \$837,480 for its wastewater system. Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedules Nos. 4-A and 4-B.

The Utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The Utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

OTHER ISSUES

Issue 21: In determining whether any portion of the water or wastewater interim increases granted should be refunded, how should the refunds be calculated, and what are the amounts of the refunds, if any?

Recommendation: The appropriate refund amounts should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. With the exception of Orange County – Water, the appropriate refund percentages for the systems are shown below.

County	(A) Interim Test Year Revenues Granted	(B) Recalculated Interim Period Revenues	(C) Excess Revenue Collected from Rates (A)-(B)	(D) Refund Percentage (C)/(A)
Marion – Water	N/A	N/A	N/A	N/A
Marion – Wastewater	\$51,869	\$49,907	(\$1,962)	3.78%
Orange – Water	\$116,368	\$116,165	(\$203)	0.17%
Pasco – Water	\$1,192,914	\$983,342	(\$209,572)	17.57%
Pasco – Wastewater	\$699,438	\$555,541	(\$143,897)	20.57%
Pinellas - Water	\$134,731	\$113,687	(\$21,044)	15.62%
Seminole - Water	\$956,813	\$905,533	(\$51,280)	5.36%
Seminole - Wastewater	\$806,028	\$815,192	\$9,164	No Refund

The Utility would ordinarily be required to refund the difference for Orange County – Water. However, because the amount is immaterial, the total amount of what would have been the interim refund plus interest should be credited to Contributions in Aid of Construction (CIAC). Upon issuance of the consummating order in this docket, the corporate undertaking should be released after the appropriate amounts of interim revenues are refunded and the refund amounts are verified by staff. (Wright, Fletcher)

Staff Analysis: By Order No. PSC-10-0300-PCO-WS, issued May 10, 2010, the Commission authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. An interim increase was not requested or approved for the Marion County water system. Table 21-1 shows the Commission-approved interim revenue requirements.

Table 21-1

<u>County</u>	<u>Adjusted Test Year Revenues</u>	<u>Revenue Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Marion - Water	\$175,128	\$0	\$175,317	0%
Marion - Wastewater	\$38,780	\$13,089	\$51,869	33.75%
Orange – Water	\$97,996	\$18,372	\$116,368	18.75%
Pasco – Water	\$803,213	\$389,701	\$1,192,914	48.52%
Pasco -Wastewater	\$443,502	\$255,936	\$699,438	57.71%
Pinellas – Water	\$99,613	\$35,118	\$134,731	35.25%
Seminole - Water	\$744,946	\$211,868	\$956,813	28.44%
Seminole - Wastewater	\$703,420	\$102,608	\$806,028	14.59%

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2008. UIF's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity.

To establish the proper refund amount, staff calculated revised interim revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the revenue requirements for Marion County - Wastewater, Orange County - Water, Pasco County - Water and Wastewater, Pinellas County - Water, and Seminole County - Water and Wastewater granted in Order No. PSC-10-0300-PCO-WS, for the interim test year, are less than the revenue requirement for the interim collection period minus rate case expense. Table 29-2 shows the recommended interim refund percentages.

Table 21-2
Recommended Interim Refund Percentages

County	(A) Interim Test Year Revenues Granted	(B) Recalculated Interim Period Revenues	(C) Excess Revenue Collected from Rates (A)-(B)	(D) Refund Percentage (C)/(A)
Marion – Water	N/A	N/A	N/A	N/A
Marion – Wastewater	\$51,869	\$49,907	(\$1,962)	3.78%
Orange – Water	\$116,368	\$116,165	(\$203)	0.17%
Pasco – Water	\$1,192,914	\$983,342	(\$209,572)	17.57%
Pasco – Wastewater	\$699,438	\$555,541	(\$143,897)	20.57%
Pinellas - Water	\$134,731	\$113,687	(\$21,044)	15.62%
Seminole - Water	\$956,813	\$905,533	(\$51,280)	5.36%
Seminole - Wastewater	\$806,028	\$815,192	\$9,164	No Refund

With the exception of Orange County – Water, staff recommends the above refund percentages in Table 21-2. The Utility would ordinarily be required to refund the difference for Orange County – Water. However, because the amount is immaterial, staff recommends that the total amount of what would have been the interim refund plus interest be credited to CIAC.⁴⁴ Upon issuance of the consummating order in this docket, the corporate undertaking should be released after the appropriate amounts of interim revenues are refunded and the refund amounts are verified by staff.

⁴⁴ See Order Nos. PSC-03-0351-PAA-SU, pp. 23-24, issued March 11, 2003, in Docket No. 020344-SU, In re: Application for rate increase in Monroe County by Key Haven Utility Corporation; PSC-93-0284-FOF-WS, p. 3, issued February 23, 1993, in Docket No. 921241-WS, In re: Disposition of contributions-in-aid-of-construction (CIAC) gross-up funds received by Rolling Oaks Utilities, Inc. in Citrus County; and PSC-92-0563-FOF-WS, p. 15, issued June 24, 1992, in Docket No. 910976-WS, In re: Application for Rate Increase in Brevard County By Florida Cities Water Company, Barefoot Bay Division.

Date: July 22, 2010

Issue 22: What are the appropriate amounts 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 rates should be reduced as shown on Schedule Nos. 4-A and 4-B to remove the revenue impact of rate case expense. This amount was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance by system, as well as grossed-up for regulatory assessment fees as shown below.

	Staff Recommended Amount
Marion Water	\$4,556
Marion Wastewater	\$680
Orange Water	\$2,595
Pasco Water	\$25,811
Pasco Wastewater	\$9,878
Pinellas Water	\$3,706
Seminole Water	\$22,561
Seminole	\$11,716
Total	\$81,502

The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility should be required to file revised tariffs and proposed customer notices for each system setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The rates should not be implemented until staff has approved the proposed customer notices, and the notice has been received by the customers. The Utility should provide proof of the date notices were given no less than ten days after the date of the notices. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. (Wright, Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of total company revenues of \$81,502 as shown in Table 30-1 associated with the amortization of rate case expense and the return on the provision included in working capital, as well as the gross-up for regulatory assessment fees. The reduction in revenues will result in the rate reduction recommended by staff on Schedule Nos. 4-A and 4-B.

UIF should be required to file revised tariff sheets for each system to reflect the Commission-approved rates no later than one month prior to the actual date of the required rate reduction. The Utility should also be required to file a proposed customer notice for each system setting forth the lower rates and the reason for the reduction with the revised tariffs. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved

the proposed customer notices, and the notice has been received by the customers. The Utility should provide proof of the date notices were given no less than ten days after the date of the notices.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense. The appropriate reduction was calculated by taking the annual amount of rate case expense and the return on the provision included in working capital allowance by system, as well as grossed-up for regulatory assessment fees as shown below.

Table 22-1

	Staff Recommended Amount
Marion Water	\$4,556
Marion Wastewater	\$680
Orange Water	\$2,595
Pasco Water	\$25,811
Pasco Wastewater	\$9,878
Pinellas Water	\$3,706
Seminole Water	\$22,561
Seminole	\$11,716
Total	\$81,502

Issue 23: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) 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, UIF should provide proof, within 90 days of the final order in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Wright)

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

Issue 24: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Young, Wright)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.

Utilities, Inc. of Florida - Marion County Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$681,677	\$98,766	\$780,443	(\$2,107)	\$778,336
2 Land and Land Rights	28,058	(10,797)	17,261	0	17,261
3 Non-used and Useful Components	\$0	\$0	0	0	0
4 Accumulated Depreciation	(296,031)	(24,017)	(320,048)	2,781	(317,267)
5 CIAC	(157,814)	0	(157,814)	0	(157,814)
6 Amortization of CIAC	75,070	2,441	77,511	0	77,511
7 CWIP	14,634	(\$14,634)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>157,348</u>	<u>157,348</u>	<u>(110,946)</u>	<u>46,402</u>
9 Rate Base	<u>\$345,594</u>	<u>\$209,107</u>	<u>\$554,701</u>	<u>(\$110,272)</u>	<u>\$444,429</u>

Docket No. 090462-WS

Date: July 22, 2010

Utilities, Inc. of Florida - Marion County Schedule of Wastewater Rate Base Test Year Ended 12/31/08			Schedule No. 1-B Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$175,502	\$7,440	\$182,942	(\$313)	\$182,629
2 Land and Land Rights	0	10,826	10,826	0	10,826
3 Non-used and Useful Components	0	(20,958)	(20,958)	0	(20,958)
4 Accumulated Depreciation	(46,897)	(15,601)	(62,498)	413	(62,085)
5 CIAC	(7,200)	0	(7,200)	0	(7,200)
6 Amortization of CIAC	643	76	719	0	719
7 CWIP	4,680	(4,680)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>23,248</u>	<u>23,248</u>	<u>(15,288)</u>	<u>7,960</u>
9 Rate Base	<u>\$126,728</u>	<u>\$351</u>	<u>\$127,079</u>	<u>(\$15,187)</u>	<u>\$111,892</u>

Utilities Inc. of Florida - Marion County		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 090462-WS	
Test Year Ended 12/31/08			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$552	\$81	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	(2,910)	(431)	
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>250</u>	<u>37</u>	
Total	<u>(\$2,107)</u>	<u>(\$313)</u>	
<u>Accumulated Depreciation</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$1,151	\$172	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	937	139	
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>693</u>	<u>102</u>	
Total	<u>\$2,781</u>	<u>\$413</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$110,946)</u>	<u>(\$15,288)</u>	

Utilities, Inc. of Florida - Marion County Capital Structure Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090462-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Pro rata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,716,863)	\$283,137	41.53%	6.65%	2.76%
2 Short-term Debt	39,713,462	0	39,713,462	(39,650,979)	62,483	9.16%	4.30%	0.39%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	158,595,058	0	158,595,058	(158,345,602)	249,456	36.59%	11.17%	4.09%
5 Customer Deposits	4,586	0	4,586	0	4,586	0.67%	6.00%	0.04%
6 Tax-credits - Zero Cost	6,398	0	6,398	0	6,398	0.94%	0.00%	0.00%
7 Deferred Income Taxes	75,720	0	75,720	0	75,720	10.75%	0.00%	0.00%
8 Total Capital	<u>\$378,395,224</u>	<u>\$0</u>	<u>\$378,395,224</u>	<u>(\$377,713,444)</u>	<u>\$681,780</u>	<u>100.00%</u>		<u>7.28%</u>
Per Staff								
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,776,556)	\$223,444	40.16%	6.65%	2.67%
10 Short-term Debt	39,713,462	0	39,713,462	(39,664,163)	49,299	8.86%	4.30%	0.38%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	158,595,058	0	158,595,058	(158,398,185)	196,873	35.39%	10.69%	3.78%
13 Customer Deposits	4,586	0	4,586	0	4,586	0.82%	6.00%	0.05%
14 Tax-credits - Zero Cost	6,398	0	6,398	0	6,398	1.15%	0.00%	0.00%
15 Deferred Income Taxes	75,720	0	75,720	0	75,720	13.61%	0.00%	0.00%
16 Total Capital	<u>\$378,395,224</u>	<u>\$0</u>	<u>\$378,395,224</u>	<u>(\$377,838,904)</u>	<u>\$556,320</u>	<u>100.00%</u>		<u>6.89%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.69%</u>	<u>11.69%</u>	
OVERALL RATE OF RETURN						<u>6.53%</u>	<u>7.24%</u>	

Utilities, Inc. of Florida - Marion County Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$169,225</u>	<u>\$29,001</u>	<u>\$198,226</u>	<u>(\$17,722)</u>	<u>\$180,504</u>	<u>(\$5,770)</u> (3.20%)	<u>\$174,734</u>
2 Operating Expenses							
Operation & Maintenance	105,959	(258)	105,701	(8,124)	97,577		97,577
3 Depreciation	30,432	(6,761)	23,671	(874)	22,797		22,797
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	17,285	(2,459)	14,826	(959)	13,867	(260)	13,608
6 Income Taxes	<u>0</u>	<u>13,659</u>	<u>13,659</u>	<u>(1,437)</u>	<u>12,222</u>	<u>(2,073)</u>	<u>10,148</u>
7 Total Operating Expense	<u>153,675</u>	<u>4,181</u>	<u>157,857</u>	<u>(\$11,394)</u>	<u>\$146,463</u>	<u>(\$2,333)</u>	<u>\$144,130</u>
8 Operating Income	<u>\$15,549</u>	<u>\$24,820</u>	<u>\$40,369</u>	<u>(\$6,328)</u>	<u>\$34,041</u>	<u>(\$3,437)</u>	<u>\$30,604</u>
9 Rate Base	<u>\$345,594</u>		<u>\$554,701</u>		<u>\$444,429</u>		<u>\$444,429</u>
10 Rate of Return	<u>4.50%</u>		<u>7.28%</u>		<u>7.66%</u>		<u>6.89%</u>

Utilities, Inc. of Florida - Marion County Statement of Wastewater Operations Test Year Ended 12/31/08						Schedule No. 3-B Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$37,332</u>	<u>\$17,763</u>	<u>\$55,095</u>	<u>(\$15,266)</u>	<u>\$39,829</u>	<u>\$11,678</u> 29.32%	<u>\$51,507</u>
Operating Expenses							
2 Operation & Maintenance	18,425	14,129	32,554	(1,157)	31,397		31,397
3 Depreciation	4,347	2,194	6,541	(131)	6,410		6,410
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	3,623	3,623	(709)	2,914	526	3,440
6 Income Taxes	<u>0</u>	<u>3,128</u>	<u>3,128</u>	<u>(4,770)</u>	<u>(1,642)</u>	<u>4,197</u>	<u>2,555</u>
7 Total Operating Expense	<u>22,772</u>	<u>23,074</u>	<u>45,846</u>	<u>(\$6,766)</u>	<u>\$39,080</u>	<u>\$4,722</u>	<u>\$43,802</u>
8 Operating Income	<u>\$14,560</u>	<u>(\$5,311)</u>	<u>\$9,249</u>	<u>(\$8,500)</u>	<u>\$749</u>	<u>\$6,956</u>	<u>\$7,705</u>
9 Rate Base	<u>\$126,728</u>		<u>\$127,079</u>		<u>\$111,892</u>		<u>\$111,892</u>
10 Rate of Return	<u>11.49%</u>		<u>7.28%</u>		<u>0.67%</u>		<u>6.89%</u>

Utilities Inc. of Florida - Marion County		Schedule No. 3-C	
Adjustment to Operating Income		Docket No. 090462-WS	
Test Year Ended 12/31/08			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested final revenue increase.	<u>(\$17,722)</u>	<u>(\$15,266)</u>	
<u>Operation and Maintenance Expense</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(\$3,622)	(\$523)	
2 Appropriate Salary Adjustment. (Issue 11)	(1,065)	(130)	
3 Appropriate Benefits Adjustment. (Issue 11)	(354)	(43)	
4 Reflect Appropriate Allocated Relocation Expenses. (Issue 12)	(169)	(27)	
5 Appropriate Transportation Expense. (Issue 13)	(503)	(75)	
6 Reflect Appropriate Rate Case Expense. (Issue 14)	(2,388)	(356)	
7 Appropriate Bad Debt Expense. (Issue 15)	<u>(23)</u>	<u>(3)</u>	
Total	<u>(\$8,124)</u>	<u>(\$1,157)</u>	
<u>Depreciation Expense - Net</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$36	\$4	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	(937)	(139)	
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>27</u>	<u>4</u>	
Total	<u>(\$874)</u>	<u>(\$131)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$797)	(\$687)	
2 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(94)	(14)	
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	14	2	
4 Payroll taxes associated with Salary Adjustment. (Issue 11)	<u>(81)</u>	<u>(10)</u>	
Total	<u>(\$959)</u>	<u>(\$709)</u>	

Utilities, Inc. of Florida - Marion County Water Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-A Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$3.84	\$3.84	\$4.22	\$3.72	\$0.10
1"	\$9.60	\$9.60	\$10.55	\$9.30	\$0.24
1-1/2"	\$19.20	\$19.20	\$21.10	\$18.60	\$0.48
2"	\$30.72	\$30.72	\$33.75	\$29.76	\$0.78
3"	\$61.44	\$61.44	\$67.51	\$59.52	\$1.55
4"	\$96.00	\$96.00	\$105.48	\$93.00	\$2.42
6"	\$192.00	\$192.00	\$210.97	\$186.00	\$4.85
Gallage Charge, per 1,000 Gallons	\$2.31	\$2.31	\$2.53	\$2.24	\$0.06
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$3.84	\$3.84	\$4.22	\$3.72	\$0.10
1"	\$9.60	\$9.60	\$10.55	\$9.30	\$0.24
1-1/2"	\$19.20	\$19.20	\$21.10	\$18.60	\$0.48
2"	\$30.72	\$30.72	\$33.75	\$29.76	\$0.78
3"	\$61.44	\$61.44	\$67.51	\$59.52	\$1.55
4"	\$96.00	\$96.00	\$105.48	\$93.00	\$2.42
6"	\$192.00	\$192.00	\$210.97	\$186.00	\$4.85
Gallage Charge, per 1,000 Gallons	\$2.31	\$2.31	\$2.53	\$2.24	\$0.06
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$10.77	\$10.77	\$11.81	\$10.44	
5,000 Gallons	\$15.39	\$15.39	\$16.87	\$14.92	
10,000 Gallons	\$26.94	\$26.94	\$29.52	\$26.12	

Utilities, Inc. of Florida - Marion County Wastewater Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-B Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	\$20.25	\$26.41	\$28.03	\$26.20	\$0.35
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$2.16	\$2.81	\$2.99	\$2.79	\$0.04
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$20.25	\$26.41	\$28.03	\$26.20	\$0.35
1"	\$50.63	\$66.03	\$70.09	\$65.50	\$0.86
1-1/2"	\$101.25	\$132.04	\$140.16	\$131.00	\$1.73
2"	\$162.02	\$211.27	\$224.28	\$209.60	\$2.76
3"	\$324.02	\$422.53	\$448.54	\$419.20	\$5.53
4"	\$506.29	\$660.21	\$700.86	\$655.00	\$8.64
6"	\$1,012.58	\$1,401.72	\$1,401.72	\$1,310.00	\$17.28
Gallonge Charge, per 1,000 Gallons	\$2.58	\$3.36	\$3.57	\$3.35	\$0.04
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$26.73	\$34.84	\$37.00	\$34.57	
5,000 Gallons	\$31.05	\$40.46	\$42.98	\$40.15	
10,000 Gallons	\$41.85	\$54.51	\$57.93	\$54.10	
(Wastewater Gallonge Cap - 10,000 Gallons)					

Utilities, Inc. of Florida - Orange County Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$351,708	(\$68,586)	\$283,122	(\$1,513)	\$281,609
2 Land and Land Rights	87	14	101	0	101
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(134,640)	53,835	(80,625)	1,684	(78,941)
5 CIAC	46,633	(85,736)	(39,103)	0	(39,103)
6 Amortization of CIAC	27,683	3,257	30,940	0	30,940
7 CWIP	10,032	(10,032)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>89,873</u>	<u>89,873</u>	<u>(59,116)</u>	<u>30,757</u>
9 Rate Base	<u>\$301,683</u>	<u>(\$17,375)</u>	<u>\$284,308</u>	<u>(\$59,945)</u>	<u>\$225,363</u>

Utilities, Inc. of Florida – Orange County Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-B Docket No. 090462-WS
Explanation		Water
<u>Plant In Service</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$4
2 To reflect Project Phoenix Adjustment. (Issue 3)		(1,660)
3 To reflect Other Pro Forma Adjustments. (Issue 5)		<u>143</u>
Total		<u>(\$1,513)</u>
<u>Accumulated Depreciation</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$754
2 To reflect Project Phoenix Adjustment. (Issue 3)		534
3 To reflect Other Pro Forma Adjustments. (Issue 5)		<u>396</u>
Total		<u>\$1,684</u>
<u>Working Capital</u>		
To reflect the appropriate working capital allowance. (Issue 7)		<u>(\$59,116)</u>

Utilities, Inc. of Florida - Orange County Capital Structure Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090462-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Pro rata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,885,221)	\$114,779	40.37%	6.65%	2.68%
2 Short-term Debt	39,713,462	0	39,713,462	(39,688,132)	25,330	8.91%	4.30%	0.38%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	158,595,058	0	158,595,058	(158,493,933)	101,125	35.57%	11.17%	3.97%
5 Customer Deposits	2,278	0	2,278	0	2,278	0.80%	6.00%	0.05%
6 Tax-credits - Zero Cost	3,178	0	3,178	0	3,178	1.12%	0.00%	0.00%
7 Deferred Income Taxes	37,618	0	37,618	0	37,618	13.23%	0.00%	0.00%
8 Total Capital	<u>\$378,351,594</u>	<u>\$0</u>	<u>\$378,351,594</u>	<u>(\$378,067,286)</u>	<u>\$284,308</u>	<u>100.00%</u>		<u>7.08%</u>
Per Staff								
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,913,266)	\$86,623	38.49%	6.65%	2.56%
10 Short-term Debt	39,713,462	0	39,713,462	(39,694,326)	19,136	8.49%	4.30%	0.37%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	158,595,058	0	158,595,058	(158,518,638)	76,420	33.91%	10.69%	3.62%
13 Customer Deposits	2,278	0	2,278	0	2,278	1.01%	6.00%	0.06%
14 Tax-credits - Zero Cost	3,178	0	3,178	0	3,178	1.41%	0.00%	0.00%
15 Deferred Income Taxes	37,618	0	37,618	0	37,618	16.69%	0.00%	0.00%
16 Total Capital	<u>\$378,351,594</u>	<u>\$0</u>	<u>\$378,351,594</u>	<u>(\$378,126,231)</u>	<u>\$225,363</u>	<u>100.00%</u>		<u>6.61%</u>
						LOW	HIGH	
RETURN ON EQUITY						9.69%	11.69%	
OVERALL RATE OF RETURN						6.27%	6.95%	

Utilities, Inc. of Florida - Orange County Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$93,791</u>	<u>\$39,840</u>	<u>\$133,631</u>	<u>(\$32,842)</u>	<u>\$100,790</u>	<u>\$17,895</u> 17.76%	<u>\$118,684</u>
2 Operating Expenses							
Operation & Maintenance	89,963	(885)	89,078	(\$6,455)	82,623		82,623
3 Depreciation	22,630	(15,248)	7,382	(\$556)	6,826		6,826
4 Amortization	0	2,016	2,016	0	2,016		2,016
5 Taxes Other Than Income	9,026	(821)	8,206	(1,622)	6,583	805	7,388
6 Income Taxes	<u>0</u>	<u>6,808</u>	<u>6,808</u>	<u>(8,308)</u>	<u>(1,500)</u>	<u>6,431</u>	<u>4,931</u>
7 Total Operating Expense	<u>121,619</u>	<u>(8,130)</u>	<u>113,489</u>	<u>(16,941)</u>	<u>96,548</u>	<u>7,236</u>	<u>103,784</u>
8 Operating Income	<u>\$(27,828)</u>	<u>\$47,970</u>	<u>\$20,142</u>	<u>(\$15,901)</u>	<u>\$4,241</u>	<u>\$10,659</u>	<u>\$14,900</u>
9 Rate Base	<u>\$301,683</u>		<u>\$284,308</u>		<u>\$225,363</u>		<u>\$225,363</u>
10 Rate of Return	<u>(9.22%)</u>		<u>7.08%</u>		<u>1.88%</u>		<u>6.61%</u>

Utilities Inc. of Florida - Orange County Adjustment to Operating Income Test Year Ended 12/31/08		Schedule No. 3-B Docket No. 090462-WS
Explanation		Water
<u>Operating Revenues</u>		
Remove requested final revenue increase.		<u>(\$32,842)</u>
<u>Operation and Maintenance Expense</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		(\$2,267)
2 Appropriate Salary Adjustment. (Issue 11)		(1,066)
3 Appropriate Benefits Adjustment. (Issue 11)		(254)
4 Reflect Appropriate Allocated Relocation Expense. (Issue 12)		(98)
5 Appropriate Transportation Expense. (Issue 13)		(241)
6 Reflect Appropriate Rate Case Expense. (Issue 14)		(1,362)
7 Appropriate Bad Debt Expense. (Issue 15)		<u>(1,167)</u>
Total		<u>(\$6,455)</u>
<u>Depreciation Expense - Net</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		(\$37)
2 To reflect Project Phoenix Adjustment. (Issue 3)		(534)
3 To reflect Other Pro Forma Adjustments. (Issue 5)		15
Total		<u>(\$556)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.		(\$1,478)
2 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		(72)
3 To reflect Other Pro Forma Adjustments. (Issue 5)		9
4 Payroll taxes associated Salary Adjustment. (Issue 11)		<u>(82)</u>
Total		<u>(\$1,622)</u>

Utilities, Inc. of Florida - Orange County Water Monthly Service Rates Test Year Ended 12/31/08				Schedule No. 4-A Docket No. 090462-WS	
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.63	\$7.68	\$8.82	\$7.99	\$0.17
1"	\$16.59	\$19.20	\$22.07	\$19.98	\$0.44
1-1/2"	\$33.19	\$38.41	\$44.16	\$39.95	\$0.87
2"	\$53.10	\$61.45	\$70.64	\$63.92	\$1.40
3"	\$106.19	\$122.90	\$141.27	\$127.84	\$2.80
4"	\$165.92	\$192.02	\$220.74	\$199.75	\$4.37
6"	\$331.84	\$384.04	\$441.48	\$399.50	\$8.73
Gallonage Charge, per 1,000 Gallons					
First 8,000 gallons	\$2.74	\$3.17	\$3.64	\$3.25	\$0.07
Next 8,000 gallons	\$3.42	\$3.96	\$4.55	\$4.30	\$0.09
Over 16,000 gallons	\$4.11	\$5.47	\$5.47	\$5.15	\$0.11
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.63	\$7.68	\$0.44	\$7.99	\$0.17
1"	\$16.59	\$19.20	\$0.87	\$19.98	\$0.44
1-1/2"	\$33.19	\$38.41	\$1.40	\$39.95	\$0.87
2"	\$53.10	\$61.45	\$2.80	\$63.92	\$1.40
3"	\$106.19	\$122.90	\$4.37	\$127.84	\$2.80
4"	\$165.92	\$192.02	\$8.73	\$199.75	\$4.37
6"	\$331.84	\$384.04	\$441.48	\$399.50	\$8.73
Gallonage Charge, per 1,000 Gallons	\$2.93	\$3.39	\$3.90	\$3.53	\$0.08
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$14.85	\$17.19	\$19.74	\$17.74	
5,000 Gallons	\$20.33	\$23.53	\$27.02	\$24.24	
10,000 Gallons	\$35.39	\$40.96	\$47.04	\$42.59	

Utilities, Inc. of Florida - Pasco County Schedule of Water Rate Base Test Year Ended 12/31/08				Schedule No. 1-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,641,036	\$696,004	\$4,337,040	(\$270,034)	\$4,067,006
2 Land and Land Rights	12,042	(11,522)	520	(1,673)	(1,153)
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(652,975)	(90,740)	(743,715)	(18,518)	(762,233)
5 CIAC	(594,329)	0	(594,329)	0	(594,329)
6 Amortization of CIAC	386,629	(32,310)	354,319	0	354,319
7 Construction Work In Progress	82,871	(82,871)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>891,638</u>	<u>891,638</u>	<u>(586,463)</u>	<u>305,175</u>
9 Rate Base	<u>\$2,875,274</u>	<u>\$1,370,199</u>	<u>\$4,245,473</u>	<u>(\$876,687)</u>	<u>\$3,368,786</u>

Utilities, Inc. of Florida - Pasco County Schedule of Wastewater Rate Base Test Year Ended 12/31/08			Schedule No. 1-B Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$1,252,475	\$123,879	\$1,376,354	(\$4,642)	\$1,371,712
2 Land and Land Rights	0	1,218	1,218	0	1,218
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(333,948)	(44,893)	(378,841)	6,210	(372,631)
5 CIAC	(531,736)	(38,287)	(570,023)	0	(570,023)
6 Amortization of CIAC	369,711	(127,359)	242,352	0	242,352
7 CWIP	42,674	(42,674)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>350,701</u>	<u>350,701</u>	<u>(230,672)</u>	<u>120,029</u>
9 Rate Base	<u>\$799,176</u>	<u>\$222,585</u>	<u>\$1,021,761</u>	<u>(\$229,104)</u>	<u>\$792,657</u>

Utilities, Inc. of Florida - Pasco County Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-C Docket No. 090462-WS	
Explanation		Water	Wastewater
<u>Plant In Service</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$3,260	\$1,280
2 To Reflect Phoenix Project Adjustment. (Issue 3)		(16,478)	(6,480)
3 To Remove Pro Forma Adjustments. (Issue 4)		(258,234)	0
4 To Reflect Other Pro Forma Adjustments. (Issue 5)		1,419	558
Total		<u>(\$270,034)</u>	<u>(\$4,642)</u>
<u>Land</u>			
Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		<u>(\$1,673)</u>	<u>\$0</u>
<u>Accumulated Depreciation</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$6,561	\$2,580
2 To Reflect Phoenix Project Adjustment. (Issue 3)		5,306	2,087
3 To Remove Pro Forma Adjustments. (Issue 4)		(34,310)	0
4 To Reflect Other Pro Forma Adjustments. (Issue 5)		3,925	1,544
Total		<u>(\$18,518)</u>	<u>\$6,210</u>
<u>Working Capital</u>			
To reflect the appropriate working capital allowance. (Issue 7)		<u>(\$586,463)</u>	<u>(\$230,672)</u>

Utilities, Inc. of Florida - Pasco County Capital Structure Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090462-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Pro rata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$177,777,358)	\$2,222,642	42.02%	6.65%	2.81%
2 Short-term Debt	39,713,462	0	39,713,462	(39,222,967)	490,495	9.31%	4.30%	0.40%
3 Preferred Stock	0	0	0	0	\$0	0.00%	0.00%	0.00%
4 Common Equity	158,595,058	0	158,595,058	(156,636,816)	1,958,242	37.18%	11.17%	4.15%
5 Customer Deposits	31,515	0	31,515	0	31,515	0.60%	6.00%	0.04%
6 Tax Credits - Zero Cost	43,966	0	43,966	0	43,966	0.83%	0.00%	0.00%
7 Deferred Income Taxes	520,374	0	520,374	0	520,374	9.88%	0.00%	0.00%
8 Total Capital	<u>\$378,904,375</u>	<u>\$0</u>	<u>\$378,904,375</u>	<u>(\$373,637,141)</u>	<u>\$5,267,234</u>	<u>100.00%</u>		<u>7.40%</u>
Per Staff								
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,303,486)	\$1,696,514	40.77%	6.65%	2.71%
10 Short-term Debt	39,713,462	0	39,713,462	(39,339,159)	374,303	8.99%	4.30%	0.39%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	158,595,058	0	158,595,058	(157,100,287)	1,494,771	35.92%	10.69%	3.84%
13 Customer Deposits	31,515	0	31,515	0	31,515	0.76%	6.00%	0.04%
14 Tax Credits - Zero Cost	43,966	0	43,966	0	43,966	1.06%	0.00%	0.00%
15 Deferred Income Taxes	520,374	0	520,374	0	520,374	12.50%	0.00%	0.00%
16 Total Capital	<u>\$378,904,375</u>	<u>\$0</u>	<u>\$378,904,375</u>	<u>(\$374,742,932)</u>	<u>\$4,161,443</u>	<u>100.00%</u>		<u>6.98%</u>
						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.69%</u>	<u>11.69%</u>	
OVERALL RATE OF RETURN						<u>6.63%</u>	<u>7.34%</u>	

Utilities, Inc. of Florida - Pasco County Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$800,466</u>	<u>\$563,370</u>	<u>\$1,363,836</u>	<u>(\$557,724)</u>	<u>\$806,112</u>	<u>\$227,103</u> 28.17%	<u>\$1,033,215</u>
Operating Expenses							
2 Operation & Maintenance	\$718,400	(\$42,392)	676,008	(\$184,884)	494,124		494,124
3 Depreciation	166,678	(\$21,336)	145,342	(11,307)	134,035		134,035
4 Amortization	0	(3,186)	(3,186)	0	(3,186)		(3,186)
5 Taxes Other Than Income	139,346	(14,400)	124,946	(37,300)	87,646	10,220	97,866
6 Income Taxes	<u>0</u>	<u>106,520</u>	<u>106,520</u>	<u>(110,056)</u>	<u>(3,536)</u>	<u>81,613</u>	<u>78,077</u>
7 Total Operating Expense	<u>1,024,424</u>	<u>25,207</u>	<u>1,049,630</u>	<u>(343,547)</u>	<u>706,083</u>	<u>91,833</u>	<u>797,916</u>
8 Operating Income	<u>(\$223,957)</u>	<u>\$538,163</u>	<u>\$314,206</u>	<u>(\$214,177)</u>	<u>\$100,029</u>	<u>\$135,270</u>	<u>\$ 235,299</u>
9 Rate Base	<u>\$2,875,274</u>		<u>\$4,245,473</u>		<u>\$3,368,786</u>		<u>\$3,368,786</u>
10 Rate of Return	<u>(7.79%)</u>		<u>7.40%</u>		<u>2.97%</u>		<u>6.98%</u>

Utilities, Inc. of Florida - Pasco County Statement of Wastewater Operations Test Year Ended 12/31/08						Schedule No. 3-B Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$443,411</u>	<u>\$308,410</u>	<u>\$751,821</u>	<u>(\$305,549)</u>	<u>\$446,272</u>	<u>\$128,287</u> 28.75%	<u>\$574,559</u>
Operating Expenses							
2 Operation & Maintenance	385,324	165,898	551,222	(136,630)	414,592		414,592
3 Depreciation	30,285	13,933	44,218	(1,940)	42,278		42,278
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	0	55,124	55,124	(16,943)	38,181	5,773	43,954
6 Income Taxes	<u>0</u>	<u>25,634</u>	<u>25,634</u>	<u>(53,397)</u>	<u>(27,731)</u>	<u>46,102</u>	<u>18,371</u>
7 Total Operating Expense	<u>415,609</u>	<u>260,589</u>	<u>676,198</u>	<u>(208,911)</u>	<u>467,320</u>	<u>51,875</u>	<u>519,195</u>
8 Operating Income	<u>\$27,803</u>	<u>\$47,821</u>	<u>\$75,623</u>	<u>(\$96,638)</u>	<u>(\$21,048)</u>	<u>\$76,412</u>	<u>\$55,365</u>
9 Rate Base	<u>\$799,176</u>		<u>\$1,021,761</u>		<u>\$792,657</u>		<u>\$795,657</u>
10 Rate of Return	<u>3.48%</u>		<u>7.40%</u>		<u>(2.66%)</u>		<u>6.98%</u>

Utilities, Inc. of Florida - Pasco County		Schedule No. 3-C	
Adjustment to Operating Income		Docket No. 090462-WS	
Test Year Ended 12/31/08			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested final revenue increase.	<u>(\$557,724)</u>	<u>(\$305,549)</u>	
<u>Operation and Maintenance Expense</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(\$31,413)	(\$12,378)	
2 To Adjust for Excessive I & I. (Issue 6)	0	(63,391)	
3 Appropriate Salary Adjustment. (Issue 11)	(107,015)	(42,083)	
4 Appropriate Benefit Adjustment. (Issue 11)	(25,431)	(10,000)	
5 Reflect Appropriate Allocated Relocation Adjustment. (Issue 12)	(631)	(719)	
6 Appropriate Transportation Expense. (Issue 13)	(2,690)	(1,058)	
7 Reflect Appropriate Rate Case Expense. (Issue 14)	(13,523)	(5,356)	
8 Appropriate Bad Debt Expense. (Issue 15)	<u>(4,182)</u>	<u>(1,645)</u>	
Total	<u>(\$184,884)</u>	<u>(\$136,630)</u>	
<u>Depreciation - net</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$221	\$86	
2 To Reflect Phoenix Project Adjustment (Issue 3)	(5,306)	(2,087)	
3 To Remove Pro Forma Adjustments. (Issue 4)	(6,375)	0	
4 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>154</u>	<u>60</u>	
Total	<u>(\$11,307)</u>	<u>(\$1,940)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$25,098)	(\$13,750)	
2 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(20)	(7)	
3 To Remove Pro Forma Adjustments. (Issue 4)	(4,080)	0	
4 To Reflect Other Pro Forma Adjustments. (Issue 5)	84	33	
5 Payroll Taxes Associated Salary Adjustment. (Issue 11)	<u>(8,187)</u>	<u>(3,219)</u>	
Total	<u>(\$37,300)</u>	<u>(\$16,943)</u>	

Utilities, Inc. of Florida - Pasco County Water Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-A Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Irrigation</u>					
Base Facility Charge by Meter Size:					
5/8"	\$9.61	\$14.27	\$16.34	\$12.55	\$0.31
3/4"	\$14.41	\$21.39	\$24.49	\$18.83	\$0.47
1"	\$24.03	\$35.66	\$40.85	\$31.38	\$0.78
1-1/2"	\$48.06	\$71.33	\$81.69	\$62.75	\$1.57
2"	\$76.89	\$114.12	\$130.70	\$100.40	\$2.51
3"	\$153.78	\$228.26	\$261.40	\$200.80	\$5.02
4"	\$240.28	\$356.64	\$408.44	\$313.75	\$7.84
6"	\$480.57	\$713.29	\$816.90	\$627.50	\$15.68
Gallonage Charge, per 1,000 Gallons	\$3.12	\$4.64	\$5.30	\$3.95	\$0.10
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$18.97	\$28.19	\$32.24	\$24.73	
5,000 Gallons	\$25.21	\$37.47	\$42.84	\$32.85	
10,000 Gallons	\$40.81	\$60.67	\$69.34	\$53.15	

Utilities, Inc. of Florida - Pasco County Wastewater Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-B Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential</u>					
ALL (Summertree)	\$11.34	\$17.78	\$19.11	\$14.60	\$0.25
5/8" (Wis Bar)	\$8.73	\$13.68	\$14.71	\$11.24	\$0.19
5/8" (Wis Bar) - Flat	\$25.23	\$39.55	\$42.52	N/A	N/A
<u>Multi-Residential</u>					
5/8" (Wis Bar)	\$21.09	\$33.05	\$35.54	\$27.16	\$0.47
1" (Wis Bar)	\$21.82	\$34.20	\$36.77	\$28.10	\$0.48
<u>General Service</u>					
All areas served by the Company					
Base Facility Charge by Meter Size:					
5/8"	\$11.45	\$17.95	\$19.30	\$14.60	\$0.25
3/4"	\$17.17	\$26.91	\$28.94	\$21.90	\$0.38
1"	\$28.62	\$44.87	\$48.23	\$36.50	\$0.63
1-1/2"	\$57.25	\$89.73	\$96.48	\$73.00	\$1.25
2"	\$91.60	\$143.57	\$154.37	\$116.80	\$2.01
3"	\$183.20	\$287.15	\$308.74	\$233.60	\$4.02
4"	\$286.25	\$448.66	\$482.40	\$365.00	\$6.27
6"	\$572.50	\$897.32	\$964.80	\$730.00	\$12.55
<u>Gallonge Charge (per 1,000 Gallons)</u>					
All Residential (Summertree)	\$9.63	\$15.10	\$16.23	\$12.40	\$0.21
Max 6,000 Gallons					
All Residential (Wis Bar)	\$6.87	\$10.77	\$11.57	\$8.85	\$0.15
Max 6,000 Gallons					
All General Service	\$11.56	\$18.13	\$19.48	\$16.43	\$0.28
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
Summertree					
3,000 Gallons	\$40.23	\$63.08	\$67.80	\$51.80	
5,000 Gallons	\$59.49	\$93.28	\$100.26	\$76.60	
6,000 Gallons	\$69.12	\$108.38	\$116.49	\$89.00	
(Wastewater Gallonge Cap - 6,000 Gallons)					
Wis-Bar					
3,000 Gallons	\$29.34	\$45.99	\$49.42	\$37.79	
5,000 Gallons	\$43.08	\$67.53	\$72.56	\$55.49	
6,000 Gallons	\$49.95	\$78.30	\$84.13	\$64.34	
(Wastewater Gallonge Cap - 6,000 Gallons)					

Utilities, Inc. of Florida - Pinellas County Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$362,956	\$84,794	\$447,750	(\$1,697)	\$446,053
2 Land and Land Rights	6,231	20	6,251	0	6,251
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(65,868)	(30,905)	(96,773)	2,232	(94,541)
5 CIAC	(138,847)	0	(138,847)	0	(138,847)
6 Amortization of CIAC	70,677	3,332	74,009	0	74,009
7 Construction Work in Progress	14,323	(14,323)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>128,146</u>	<u>128,146</u>	<u>(84,283)</u>	<u>43,863</u>
9 Rate Base	<u>\$249,472</u>	<u>\$171,064</u>	<u>\$420,536</u>	<u>(\$83,748)</u>	<u>\$336,788</u>

Utilities, Inc. of Florida - Pinellas County Adjustments to Rate Base Test Year Ended 12/31/08		Schedule No. 1-B Docket No. 090462-WS
Explanation		Water
<u>Plant In Service</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$470
2 To Reflect Phoenix Project Adjustment. (Issue 3)		(2,370)
3 To Reflect Other Pro Forma Adjustments. (Issue 5)		204
Total		<u>(\$1,697)</u>
<u>Accumulated Depreciation</u>		
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)		\$905
2 To Reflect Phoenix Project Adjustment. (Issue 3)		763
3 To Reflect Other Pro Forma Adjustments. (Issue 5)		564
Total		<u>\$2,232</u>
<u>Working Capital</u>		
To Reflect the Appropriate Working Capital Allowance. (Issue 7)		<u>(\$84,283)</u>

Utilities, Inc. of Florida - Pinellas County Capital Structure Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090462-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Pro rata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,829,170)	\$170,830	40.62%	6.65%	2.70%
2 Short-term Debt	39,713,462	0	39,713,462	(39,675,763)	37,699	8.96%	4.30%	0.39%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	158,595,058	0	158,595,058	(158,444,549)	150,509	35.79%	11.17%	4.00%
5 Customer Deposits	3,253	0	3,253	0	3,253	0.77%	6.00%	0.05%
6 Tax Credits - Zero Cost	4,538	0	4,538	0	4,538	1.08%	0.00%	0.00%
7 Deferred Income Taxes	53,707	0	53,707	0	53,707	12.77%	0.00%	0.00%
8 Total Capital	<u>\$378,370,018</u>	<u>\$0</u>	<u>\$378,370,018</u>	<u>(\$377,949,482)</u>	<u>\$420,536</u>	<u>100.00%</u>		<u>7.14%</u>
Per Staff								
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$179,869,016)	\$130,984	38.89%	6.65%	2.59%
10 Short-term Debt	39,713,462	0	39,713,462	(39,684,563)	28,899	8.58%	4.30%	0.37%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	158,595,058	0	158,595,058	(158,479,650)	115,408	34.27%	10.69%	3.66%
13 Customer Deposits	3,253	0	3,253	0	3,253	0.97%	6.00%	0.06%
14 Tax Credits - Zero Cost	4,538	0	4,538	0	4,538	1.35%	0.00%	0.00%
15 Deferred Income Taxes	53,707	0	53,707	0	53,707	15.95%	0.00%	0.00%
16 Total Capital	<u>\$378,370,018</u>	<u>\$0</u>	<u>\$378,370,018</u>	<u>(\$378,033,230)</u>	<u>\$336,788</u>	<u>100.00%</u>		<u>6.68%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.69%</u>	<u>11.69%</u>	
OVERALL RATE OF RETURN						<u>6.33%</u>	<u>7.02%</u>	

Utilities, Inc. of Florida - Pinellas County Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$101,480</u>	<u>\$52,289</u>	<u>\$153,769</u>	<u>(\$53,865)</u>	<u>\$99,904</u>	<u>\$21,002</u> 21.02%	<u>\$120,906</u>
Operating Expenses							
2 Operation & Maintenance	109,778	(19,144)	90,634	(19,556)	71,078		71,078
3 Depreciation	17,738	(6,354)	11,384	(709)	10,675		10,675
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	6,348	5,242	11,590	(3,320)	8,270	945	9,215
6 Income Taxes	<u>0</u>	<u>10,154</u>	<u>10,154</u>	<u>(10,255)</u>	<u>(101)</u>	<u>7,547</u>	<u>7,447</u>
7 Total Operating Expense	<u>133,864</u>	<u>(10,102)</u>	<u>123,762</u>	<u>(33,839)</u>	<u>89,923</u>	<u>8,492</u>	<u>98,415</u>
8 Operating Income	<u>(\$32,384)</u>	<u>\$62,391</u>	<u>\$30,007</u>	<u>(\$20,026)</u>	<u>\$9,981</u>	<u>\$12,509</u>	<u>\$22,491</u>
9 Rate Base	<u>\$249,472</u>		<u>\$420,536</u>		<u>\$336,788</u>		<u>\$336,788</u>
10 Rate of Return	<u>(12.98%)</u>		<u>7.14%</u>		<u>2.96%</u>		<u>6.68%</u>

Utilities, Inc. of Florida - Pinellas County Adjustment to Operating Income Test Year Ended 12/31/08	Schedule No. 3-B Docket No. 090462-WS
Explanation	Water
<u>Operating Revenues</u>	
Remove requested final revenue increase.	<u>(\$53,865)</u>
<u>Operation and Maintenance Expense</u>	
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(\$1,819)
2 Appropriate Salary Adjustment. (Issue 11)	(11,848)
3 Appropriate Benefit Adjustment. (Issue 11)	(3,142)
4 Reflect Appropriate Allocated Relocation Expense. (Issue 12)	(142)
5 Appropriate Transportation Expense. (Issue 13)	(594)
6 Reflect Appropriate Rate Case Expense. (Issue 14)	(1,945)
7 Appropriate Bad Debt Expense. (Issue 15)	<u>(66)</u>
Total	<u>(\$19,556)</u>
<u>Depreciation Expense - Net</u>	
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$32
2 To Reflect Phoenix Project Adjustment. (Issue 3)	(763)
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>22</u>
Total	<u>(\$709)</u>
<u>Taxes Other Than Income</u>	
1 RAFs on revenue adjustments above.	(\$2,424)
2 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(3)
3 To Reflect Other Pro Forma Adjustments. (Issue 5)	13
4 Payroll Taxes Associated Salary Adjustment (Issue 11)	<u>(906)</u>
Total	<u>(\$3,320)</u>

Utilities, Inc. of Florida - Pinellas County Water Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-A Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Multi-Family</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.43	\$8.68	\$9.91	\$7.30	\$0.22
1"	\$16.08	\$21.70	\$24.79	\$18.25	\$0.56
1-1/2"	\$32.16	\$43.39	\$49.59	\$36.50	\$1.12
2"	\$51.46	\$69.44	\$79.35	\$58.40	\$1.79
3"	\$102.92	\$138.87	\$158.69	\$116.80	\$3.58
4"	\$160.80	\$216.98	\$247.93	\$182.50	\$5.59
6"	\$321.61	\$433.95	\$495.88	\$365.00	\$11.19
Gallage Charge, per 1,000 Gallons	\$3.63	\$4.90	\$5.59	\$4.59	\$0.14
<u>General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.43	\$8.68	\$9.91	\$7.30	\$0.22
1"	\$16.08	\$21.70	\$24.79	\$18.25	\$0.56
1-1/2"	\$32.16	\$43.39	\$49.59	\$36.50	\$1.12
2"	\$51.46	\$69.44	\$79.35	\$58.40	\$1.79
3"	\$102.92	\$138.87	\$158.69	\$116.80	\$3.58
4"	\$160.80	\$216.98	\$247.93	\$182.50	\$5.59
6"	\$321.61	\$433.95	\$495.88	\$365.00	\$11.19
Gallage Charge, per 1,000 Gallons	\$3.63	\$4.90	\$5.59	\$4.74	\$0.15
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$17.32	\$23.38	\$26.68	\$21.07	
5,000 Gallons	\$24.58	\$33.18	\$37.86	\$30.25	
10,000 Gallons	\$42.73	\$57.68	\$65.81	\$54.70	

Utilities, Inc. of Florida - Seminole County Schedule of Water Rate Base Test Year Ended 12/31/08			Schedule No. 1-A Docket No. 090462-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$6,339,298	(\$1,781,599)	\$4,557,699	(\$563,224)	\$3,994,475
2 Land and Land Rights	184,795	(165,113)	19,682	(3,564)	16,118
3 Non-used and Useful Components	0	0	0	0	0
4 Construction Wok in Progress	72,343	(72,343)	0	0	0
5 Accumulated Depreciation	(2,275,057)	1,396,638	(878,419)	(71,870)	(950,289)
6 CIAC	(914,894)	3,888	(911,006)	0	(911,006)
7 Amortization of CIAC	663,753	61,622	725,375	0	725,375
8 Working Capital Allowance	<u>0</u>	<u>778,234</u>	<u>778,234</u>	<u>(511,867)</u>	<u>266,367</u>
9 Rate Base	<u>\$4,070,238</u>	<u>\$221,327</u>	<u>\$4,291,565</u>	<u>(\$1,150,525)</u>	<u>\$3,141,040</u>

Utilities, Inc. of Florida - Seminole County Schedule of Wastewater Rate Base Test Year Ended 12/31/08				Schedule No. 1-B Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$2,329,527	\$668,447	\$2,997,974	(\$150,510)	\$2,847,464
2 Land and Land Rights	0	470	470	0	470
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(433,733)	(173,132)	(606,865)	2,933	(603,932)
5 CIAC	(772,777)	1,795	(770,982)	0	(770,982)
6 Amortization of CIAC	506,911	2,430	509,341	0	509,341
7 CWIP	45,375	(45,375)	0	0	0
8 Working Capital Allowance	<u>0</u>	<u>415,909</u>	<u>415,909</u>	<u>(273,559)</u>	<u>142,350</u>
9 Rate Base	<u>\$1,675,303</u>	<u>\$870,544</u>	<u>\$2,545,847</u>	<u>(\$421,137)</u>	<u>\$2,124,710</u>

Utilities, Inc. of Florida - Seminole County		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 090462-WS	
Test Year Ended 12/31/08			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$72	\$331	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	(14,383)	(7,685)	
3 To Remove Pro Forma Adjustments. (Issue 4)	(505,573)	(120,000)	
4 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>(43,340)</u>	<u>(23,156)</u>	
Total	<u>(\$563,224)</u>	<u>(\$150,510)</u>	
<u>Land</u>			
Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	<u>(\$3,564)</u>	\$0	
<u>Accumulated Depreciation</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	\$6,579	\$3,484	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	4,632	2,475	
3 To Remove Pro Forma Adjustments. (Issue 4)	(72,427)	2,667	
4 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>(10,654)</u>	<u>(5,693)</u>	
Total	<u>(\$71,870)</u>	<u>\$2,933</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$511,867)</u>	<u>(\$273,559)</u>	

Utilities, Inc. of Florida - Seminole County Capital Structure Test Year Ended 12/31/08						Schedule No. 2 Docket No. 090462-WS		
Description	Total Capital	Specific Adjust- ments	Subtotal Adjusted Capital	Pro rata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$177,019,307)	\$2,980,693	43.59%	6.65%	2.90%
2 Short-term Debt	39,713,462	0	39,713,462	(39,055,680)	657,782	9.62%	4.30%	0.41%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	158,595,058	0	158,595,058	(155,968,941)	2,626,117	38.41%	11.17%	4.29%
5 Customer Deposits	30,297	0	30,297	0	30,297	0.44%	6.00%	0.03%
6 Tax Credits - zero cost	42,266	0	42,266	0	42,266	0.62%	0.00%	0.00%
7 Deferred Income Taxes	500,257	0	500,257	0	500,257	7.32%	0.00%	0.00%
8 Total Capital	<u>\$378,881,340</u>	<u>\$0</u>	<u>\$378,881,340</u>	<u>(\$372,043,928)</u>	<u>\$6,837,412</u>	<u>100.00%</u>		<u>7.63%</u>
Per Staff								
9 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$177,767,094)	\$2,232,906	42.40%	6.65%	2.82%
10 Short-term Debt	39,713,462	0	39,713,923	(39,220,815)	492,647	9.36%	4.30%	0.40%
11 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
12 Common Equity	158,595,058	0	158,595,058	(156,627,681)	1,967,377	37.36%	10.69%	4.00%
13 Customer Deposits	30,297	0	30,297	0	30,297	0.58%	6.00%	0.03%
14 Tax Credits - zero cost	42,266	0	42,266	0	42,266	0.80%	0.00%	0.00%
15 Deferred Income Taxes	500,257	0	500,257	0	500,257	9.51%	0.00%	0.00%
16 Total Capital	<u>\$378,881,340</u>	<u>\$0</u>	<u>\$378,881,340</u>	<u>(\$373,615,590)</u>	<u>\$5,265,750</u>	<u>100.00%</u>		<u>7.25%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.69%</u>	<u>11.69%</u>	
OVERALL RATE OF RETURN						<u>6.88%</u>	<u>7.63%</u>	

Utilities, Inc. of Florida - Seminole County Statement of Water Operations Test Year Ended 12/31/08						Schedule No. 3-A Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$728,392</u>	<u>\$444,027</u>	<u>\$1,172,419</u>	<u>(\$392,730)</u>	<u>\$779,689</u>	<u>\$170,036</u> 21.81%	<u>\$949,725</u>
Operating Expenses							
2 Operation & Maintenance	904,918	(450,836)	454,082	(40,252)	413,830		413,830
3 Depreciation	176,595	(22,666)	153,929	(27,345)	126,584		126,584
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	201,190	(75,381)	125,809	(27,672)	98,137	7,652	105,789
6 Income Taxes	<u>0</u>	<u>111,115</u>	<u>111,115</u>	<u>(96,498)</u>	<u>14,617</u>	<u>61,105</u>	<u>75,722</u>
7 Total Operating Expense	<u>1,282,703</u>	<u>(437,768)</u>	<u>844,935</u>	<u>(191,767)</u>	<u>653,168</u>	<u>68,757</u>	<u>721,925</u>
8 Operating Income	<u>\$(554,311)</u>	<u>\$881,795</u>	<u>\$327,484</u>	<u>(\$200,963)</u>	<u>\$126,521</u>	<u>\$101,279</u>	<u>\$227,800</u>
9 Rate Base	<u>\$4,070,238</u>		<u>\$4,291,565</u>		<u>\$3,141,040</u>		<u>\$3,141,040</u>
10 Rate of Return	<u>(13.62)%</u>		<u>7.63%</u>		<u>4.03%</u>		<u>7.25%</u>

Utilities, Inc. of Florida - Seminole County Statement of Wastewater Operations Test Year Ended 12/31/08						Schedule No. 3-B Docket No. 090462-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$689,590</u>	<u>\$324,658</u>	<u>\$1,014,248</u>	<u>(\$270,294)</u>	<u>\$743,954</u>	<u>\$94,788</u> 12.74%	<u>\$838,742</u>
Operating Expenses							
2 Operation & Maintenance	291,686	319,488	611,174	(\$102,185)	508,989	0	508,989
3 Depreciation	65,776	23,338	89,114	(7,556)	81,558	0	81,558
4 Amortization	0	(24,289)	(24,289)	0	(24,289)	0	(24,289)
5 Taxes Other Than Income	0	78,063	78,063	(15,157)	62,906	4,265	67,171
6 Income Taxes	<u>0</u>	<u>65,920</u>	<u>65,920</u>	<u>(48,762)</u>	<u>17,158</u>	<u>34,064</u>	<u>51,221</u>
7 Total Operating Expense	<u>357,462</u>	<u>462,520</u>	<u>819,982</u>	<u>(173,661)</u>	<u>646,321</u>	<u>38,329</u>	<u>684,650</u>
8 Operating Income	<u>\$332,128</u>	<u>(\$137,862)</u>	<u>\$194,266</u>	<u>(\$96,633)</u>	<u>\$97,633</u>	<u>\$56,459</u>	<u>\$154,092</u>
9 Rate Base	<u>\$1,675,303</u>		<u>\$2,545,847</u>		<u>\$2,124,710</u>		<u>\$2,124,710</u>
10 Rate of Return	<u>19.82%</u>		<u>7.63%</u>		<u>4.60%</u>		<u>7.25%</u>

Utilities, Inc. of Florida - Seminole County Adjustment to Operating Income Test Year Ended 12/31/08		Schedule No. 3-C Docket No. 090462-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
Remove requested final revenue increase.	<u>(\$392,730)</u>	<u>(\$270,294)</u>	
<u>Operation and Maintenance Expense</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(\$20,722)	(\$5,191)	
2 To Adjust for Excessive I & I. (Issue 6)	0	(87,662)	
3 Appropriate Salary Adjustment. (Issue 11)	(1,827)	(62)	
4 Appropriate Benefits Adjustment. (Issue 11)	(480)	(16)	
5 Reflect Appropriate Allocated Relocation Expense. (Issue 12)	(835)	(453)	
6 Appropriate Transportation Expense. (Issue 13)	(2,074)	(1,108)	
7 Reflect Appropriate Rate Case Expense. (Issue 14)	(11,805)	(6,352)	
8 Appropriate Bad Debt Expense. (Issue 15)	<u>(2,509)</u>	<u>(1,341)</u>	
Total	<u>(\$40,252)</u>	<u>(\$102,185)</u>	
<u>Depreciation Expense - net</u>			
1 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(\$272)	(\$105)	
2 To Reflect Phoenix Project Adjustment. (Issue 3)	(4,632)	(2,475)	
3 To Remove Pro Forma Adjustments. (Issue 4)	(18,117)	(2,667)	
4 To Reflect Other Pro Forma Adjustments. (Issue 5)	<u>(4,324)</u>	<u>(2,309)</u>	
Total	<u>(\$27,345)</u>	<u>(\$7,556)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$17,673)	(\$12,163)	
2 Staff and Utility Agreed Upon Audit Adjustments. (Issue 2)	(1,336)	(781)	
3 To Reflect Pro Forma Adjustments. (Issues 4 and 5)	(8,523)	(2,208)	
4 Payroll taxes associated Salary Adjustment. (Issue 11)	<u>(140)</u>	<u>(5)</u>	
Total	<u>(\$27,672)</u>	<u>(\$15,157)</u>	

Utilities, Inc. of Florida - Seminole County Water Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-A Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
<u>Residential, General Service and Irrigation</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$6.15	\$7.56	\$9.28	\$7.30	\$0.17
1"	\$15.38	\$18.89	\$23.21	\$18.25	\$0.43
1-1/2"	\$30.76	\$37.79	\$46.43	\$36.50	\$0.87
2"	\$49.21	\$60.46	\$74.29	\$58.40	\$1.39
3"	\$98.42	\$120.91	\$148.58	\$116.80	\$2.77
4"	\$153.79	\$188.93	\$232.17	\$182.50	\$4.34
6"	\$307.58	\$377.86	\$464.35	\$365.00	\$8.67
<u>Gallage Charge, per 1,000 Gallons</u>					
First 8,000 Gallons	\$2.25	\$2.77	\$3.40	\$2.77	\$0.07
Next 8,000 Gallons	\$3.95	\$4.86	\$5.96	\$5.41	\$0.13
Over 16,000 gallons	\$5.07	\$6.23	\$7.65	\$6.96	\$0.17
<u>General Service</u>					
Gallage Charge, per 1,000 Gallons	\$2.74	\$3.36	\$4.13	\$3.53	\$0.08
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$12.90	\$15.87	\$19.48	\$15.61	
5,000 Gallons	\$17.40	\$21.41	\$26.28	\$21.15	
10,000 Gallons	\$32.05	\$39.44	\$48.40	\$40.28	

Utilities, Inc. of Florida - Seminole County Wastewater Monthly Service Rates Test Year Ended 12/31/08			Schedule No. 4-B Docket No. 090462-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-Year Rate Reduction
Residential					
Base Facility Charge All Meter Sizes:	\$11.11	\$12.05	\$15.15	\$12.53	\$0.18
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$6.20	\$6.72	\$8.45	\$6.99	\$0.10
Flat Rate (unmetered)	\$37.64	\$40.80	\$51.34	\$42.44	\$0.59
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$11.11	\$12.05	\$15.15	\$12.53	\$0.18
1"	\$27.77	\$30.11	\$37.87	\$31.33	\$0.44
1-1/2"	\$55.53	\$60.20	\$75.74	\$62.65	\$0.88
2"	\$89.07	\$96.56	\$121.48	\$100.24	\$1.40
3"	\$177.70	\$192.65	\$242.36	\$200.48	\$2.80
4"	\$277.66	\$301.01	\$378.69	\$313.25	\$4.38
6"	\$555.33	\$602.02	\$757.39	\$626.50	\$8.75
Gallage Charge, per 1,000 Gallons	\$7.43	\$8.06	\$10.13	\$8.39	\$0.12
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$29.71	\$32.21	\$40.50	\$33.50	
5,000 Gallons	\$42.11	\$45.65	\$57.40	\$47.48	
10,000 Gallons	\$73.11	\$79.25	\$99.65	\$82.43	
(Wastewater Gallage Cap - 10,000 Gallons)					