

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Marion County by Tradewinds Utilities, Inc. | DOCKET NO. 100127-WS
ORDER NO. PSC-11-0385-PAA-WS
ISSUED: September 13, 2011

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING IN PART APPLICATION FOR INCREASED WATER
AND WASTEWATER RATES AND REQUIRING PARTIAL REFUND
OF INTERIM RATES WITH INTEREST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that, except for the statutory four-year rate reduction and the requirement for Tradewinds Utilities, Inc. (Tradewinds or Utility) to adjust its books in accordance with our decisions in this Order which are final agency action, the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.).

I. Background

Tradewinds is a Class B utility providing water and wastewater services in Marion County. The Utility serves approximately 501 water and 292 wastewater customers. Water and wastewater rate bases were last established for this Utility in 1994.¹ The instant rate case is Tradewinds' first rate case.

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

¹ See Order No. PSC-94-0245-FOF-WS, issued March 4, 1994, in Docket No. 930524-WS, In re: Application for a staff-assisted rate case in Marion County by Tradewinds Utilities, Inc. This order was effectuated through a stipulation approved by Order No. PSC-95-0064-S-WS, issued January 12, 1995.

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FPSC-COMMISSION CLERK

By Order No. PSC-10-0731-PCO-WS, Tradewinds was granted an interim rate increase designed to generate annual water revenues of \$199,011 and annual wastewater revenues of \$229,595.² This represents a water revenue increase on an annual basis of \$75,669 (61.35 percent) and a wastewater revenue increase on an annual basis of \$20,716 (9.92 percent). The Utility requested final rates designed to generate annual water revenues of \$207,284 and wastewater revenues of \$240,138. This represents a revenue increase of \$83,750 (67.80 percent) for water and \$35,750 (17.49 percent) for wastewater.

This Order addresses Tradewinds' requested final rates. We have jurisdiction pursuant to Sections 367.082 and 367.081, Florida Statutes (F.S.).

II. Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service provided by a utility by evaluating three separate components of operations. These components are the quality of the utility's product, the operational condition of the utility's plants and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by this Commission from customers are reviewed, as well as the utility's compliance with the rules and regulations of the Department of Environmental Protection (DEP).

A. Quality of Utility's Product and Operational Condition of Plants and Facilities

Tradewinds is current in all of the DEP-required chemical analyses and treatment standards for water. In an April 13, 2011 Compliance Inspection Report concerning Tradewinds' water treatment system, DEP found deficiencies concerning failures to establish and implement a cross-connection control program and to maintain records documenting flushing of dead-end mains. For wastewater, a November 16, 2010 inspection report found the wastewater treatment plant to be out of compliance for effluent quality, records and reporting concerning acknowledgement of exceeding total suspended solids limits, plant operational problems, and out-dated flow measurement calibration.

In November 2010, the Utility changed the contract operators who operate and maintain Tradewinds' facilities. With this change, it appears that the water and wastewater compliance issues are being adequately addressed. For water, with the help of the new operating company, the Utility has formulated a flushing program plan, and implemented a backflow prevention and cross-connection control policy. For wastewater, the Utility's new operators have reported to DEP that it is in the process of evaluating the treatment process and making necessary adjustments to ensure that the facility will be in compliance. It appears that the Utility's attempts to address the compliance situations have helped address DEP's concerns. The Utility timely responded to DEP's concerns within weeks of the inspections. Currently there are no outstanding warning letters or compliance orders issued. It appears that the new operators are improving the operational condition of the Tradewinds facilities.

² See Order No. PSC-10-0731-PCO-WS, issued December 15, 2010.

In reference to compliance with the St. Johns River Water Management District (SJRWMD), the Utility is currently working to reconcile data discrepancies which were reflected in a water use audit. There is no enforcement activity at this time; therefore, it appears that the Utility is maintaining compliance with the SJRWMD.

B. The Utility's Attempt to Address Customer Satisfaction

1. Customer Meeting

A customer meeting was held on June 16, 2011, in Ocala, Florida. Nine customers attended the meeting and two of the customers spoke. Although they had concerns over the level of the proposed rate increase, neither of the customers who spoke had problems with the quality of service provided by the Utility.

2. Customer Complaints and Correspondence

During the past three years, no customer complaints have been filed with us and we currently have no active complaints on file. We did receive correspondence from three customers who expressed concern over the proposed rate increase. In review of the customer complaints as reported in Tradewinds' filing, there was an April 2008 incident resulting from a lift station back-up malfunction. This situation allowed wastewater to back-up in the collection system, causing property damage for a customer. As indicated in a November 20, 2008 DEP consent order agreement with the Utility, as a compromise with the customer, Tradewinds obtained permission from the Marion County Health Department to release the customer from the Utility's system. This was necessary so that an On-Site Treatment System (septic tank) could be installed at the home. At the Utility's expense, a septic tank was installed on August 7, 2009, and is presently in use by the former customer. This matter appears to have been resolved and there has been no further indications of back-up problems.

C. Summary

In the Utility's last rate case, Docket No. 930524-WS, the quality of service was found to be satisfactory. We believe that the Utility is currently doing a satisfactory job of providing a quality product and maintaining good operational conditions at its plants and facilities. Also, based on the level of customer participation at the customer meeting and through complaints and correspondences received, it appears that the customers are generally satisfied with the Utility's provision of water and wastewater service. Therefore, we find that Tradewinds' quality of service is satisfactory.

III. Agreed Audit Adjustments

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

Audit Findings

<u>Audit Finding</u>	<u>Description</u>
Finding No. 1	Commission-Ordered Adjustments, Retirements & Reclassification of Utility Plant
Finding No. 2	Commission-Ordered Adjustments for Accumulated Depreciation
Finding No. 3	Commission-Ordered Adjustments and Reclassification of Land
Finding No. 4	Reallocation and Reclassification of CIAC
Finding No. 5	Commission-Ordered Adjustments to Accumulated Amortization of CIAC
Finding No. 7	Remove Charitable Contribution from Operation and Maintenance (O&M) Expense
Finding No. 9	Correction of Taxes Other Than Income (TOTI) Tax Expense

Specific Adjustments to Water

<u>Audit Finding</u>	<u>Plant & Land</u>	<u>Depr. Expense</u>	<u>Accum. Depr.</u>	<u>Amort. Expense of CIAC</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>O&M Expense</u>	<u>TOTI</u>
No. 1	(\$52,582)							
No. 2		(\$5,478)	\$57,073					
No. 3	(112,500)							
No. 4					(\$12,535)			
No. 5				\$1,624		(\$27,144)		
No. 7							(\$250)	
No. 9								(\$536)
Total	(\$165,082)	(\$5,478)	\$57,073	\$1,624	(\$12,535)	(\$27,144)	(\$250)	(\$ 536)

Specific Adjustments to Wastewater

<u>Audit Finding</u>	<u>Plant & Land</u>	<u>Depr. Expense</u>	<u>Accum. Depr.</u>	<u>Amort. Expense of CIAC</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>	<u>TOTI</u>
No. 1	(\$15,776)						
No. 2		(\$6,431)	\$14,617				
No. 3	(\$24,717)						
No. 4					(\$12,669)		
No. 5				(\$4,311)		(\$31,744)	
No. 9							(\$14,287)
Total	(\$40,493)	(\$6,431)	\$14,617	(\$4,311)	(\$12,669)	(\$31,744)	(\$14,287)

IV. Rate Base

A. Used and Useful (U&U) Percentages

The Utility's service area is located adjacent to the City of Ocala in Marion County. The Utility serves 447 residential and 54 general service water customers. For wastewater, the Utility

serves 254 residential and 38 general service customers. Because the service area is built out, the Utility asserts that its water and wastewater systems are 100 percent U&U.

1. Water Treatment Plant and Storage

The Utility's water system includes a water treatment plant (WTP) composed of three wells, a hypo-chlorination system for disinfection, two hydropneumatic/flow tanks, and one elevated storage tank. The water distribution system extends throughout the service area. Pursuant to Rule 25-30.4325(7), F.A.C., the used and useful calculation for a WTP with storage capacity is based on the peak demand, required fire flow, adjustment for any excessive unaccounted for water (EUW), and a growth allowance, divided by the firm reliable capacity of the wells.

The Utility has three wells with capacities of 185 gallons per minute (gpm) each for two of the wells and 950 gpm for the third well. Pursuant to Rule 25-30.4325(6), F.A.C., for systems with storage capacity, the firm reliable capacity shall be based on 16 hours of pumping, excluding the capacity of the largest well. Therefore, the Utility's firm reliable capacity is 355,200 gallons per day (gpd). However, the Utility used total usable storage capacity of 185,000 gallons instead of its firm reliable capacity in its proposed U&U calculation.

Pursuant to Rule 25-30.4325(7)(b)1., F.A.C., the single maximum day in the test year when there is no unusual occurrence should be included in the U&U calculation. The actual peak day for the test year was 228,000 gallons which occurred on November 24, 2009. However, this number appears to be an anomaly and an unusual occurrence, in that this figure was more than double the preceding and following days. The Utility used an average day in the peak month (March 2009) during the test year of 141,000 gallons, instead of the peak day in the test year. Having determined that November 24, 2009, was an anomaly, we find that the next highest peak day shall be used as the single maximum day. This day occurred on March 14, 2009, and 191,000 gallons were pumped on that day.

Pursuant to Rule 25-30.4325(1)(e), F.A.C., EUW is unaccounted for water in excess of ten percent of the amount produced. The Utility included 3,315 gpd of EUW in its U&U calculation. However, it appears that 3,315 gpd is the total unaccounted for water per day and not the EUW. The Utility's records reflect unaccounted for water of 2.8 percent. Therefore, because unaccounted for water does not exceed 10 percent of the amount pumped, we shall make no adjustment for EUW.

The Utility included an allowance for fire flow of 120,000 gpd based on local fire flow requirements. However, a growth allowance was not included in the Utility's U&U calculation because the system is built out. Based on peak day demand of 191,000 gpd and a fire flow allowance of 120,000 gpd, divided by the firm reliable capacity of 355,200 gpd, the WTP is 88 percent U&U. However, because the service territory is built out, we find that the WTP shall be considered 100 percent U&U.

Tradewinds has an elevated storage tank with useable storage capacity of 200,000 gallons. The U&U storage capacity is determined by dividing the peak demand by the useable storage capacity. Pursuant to Rule 25-30.4325(9)(a), F.A.C., an elevated storage tank is 100 percent usable. Therefore, pursuant to Rule 25-30.4325, F.A.C., the storage tank shall be considered 100 percent U&U because the Utility's 191,000 gpd peak day plus 120,000 gpd fire flow exceeds the useable storage capacity of 200,000 gpd.

2. Wastewater Treatment Plant

With a permitted capacity of 81,000 gpd based on annual average daily flow, the wastewater treatment plant is an extended aeration facility which consists of flow equalization, aeration, secondary clarification, chlorination, and aerobic digestion of residuals. Its treated effluent facility is a holding pond and a 2.34 acre sprayfield used for irrigation. Pursuant to Rule 25-30.432, F.A.C., the U&U analysis of the Utility's wastewater treatment plant (WWTP) is determined by dividing the average annual daily flow (58,715 gpd) by the permitted plant capacity (81,000 gpd). Consideration is given for growth and inflow and infiltration (I&I.)

Excessive I&I occurs in areas that are prone to flooding as surface runoff water flows into the collection system through manholes and other exposed openings to the sewer system. That process is known as inflow. Infiltration occurs when groundwater gains entrance to sewers through pipe joints, broken pipes, cracks, and other similar faults in the collection piping system and lift stations. While wastewater collection systems are designed to carry unavoidable I&I amounts, when these amounts become excessive, a potential strain is put on the treatment system which could affect the quality of the treatment. Because it is the utility's responsibility to control the levels of I&I, its customers are not expected to pay for treatment of the excessive amounts. Therefore, adjustments to certain expenses such as purchased power and chemicals could result.

In its filing the Utility identified excess I&I of 19 percent; however, no calculation was provided. In response to inquiries, Tradewinds explained that its I&I calculation was based on the amount of water used to bill residential and general service customers, which does not include usage in excess of the 10,000 gallon cap on residential customer usage, compared with the total wastewater treated.

We recalculated the estimated I&I based on a comparison of 90 percent of the total residential usage (11,226,000), 96 percent of the total general service usage (5,779,000), an estimate of the allowable infiltration and inflow (5,000,000), and the total wastewater treated during the test year (21,431,000), consistent with the method we typically use. Although the residential demand is often adjusted by 80 percent, in this case, we adjusted the residential demand by 90 percent to reflect that a portion of the residential homes are low income, multi-family homes and more of the demand is expected to be returned to the sewer system. The estimated amount of allowable I&I is typically based on the size and length of the collection system lines. However, the Utility did not have sufficient records to provide that calculation; therefore, we relied on comparable information for similar systems. In addition, based on our staff's review of the Utility's operational records, DEP reports, and onsite field investigation, there is little indication of any problems that would typically result in excessive I&I. The Utility's service area is not prone to flooding, and the water table does not appear to be a factor

to affect the system. The collection system appears to be sound. Based on this review, we find there is no excessive I&I.

Based on the annual average daily flow during the test year, the wastewater treatment plant is 73 percent U&U. However, pursuant to Rule 25-30.432, F.A.C., we find that the wastewater treatment plant is 100 percent U&U because the Utility's service territory is built out.

3. Water Distribution and Wastewater Collection Systems

The U&U analysis for the water distribution and wastewater collection systems are typically based on a comparison of the lots connected to the systems with the total number of lots within the distribution and collection systems. Consideration is also given for growth. In this case, growth is not considered a factor because the systems are built out. Therefore, the water distribution and wastewater collection systems shall be considered 100 percent U&U.

B. Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The Utility properly filed its allowance for working capital using the one-eighth of O&M expenses method. However, based on our adjustments to Tradewinds' O&M expenses, we calculate a working capital allowance of \$15,082 for water and \$22,112 for wastewater. This reflects a decrease of \$596 for water and \$1,369 for wastewater from the Utility's requested working capital allowances of \$15,678 for water and \$23,481 for wastewater.

C. Total Rate Base

Consistent with our adjustments, the appropriate rate base for water is \$559,307 and wastewater is \$170,597. The schedules for rate base are attached as Schedule No. 1-A for water and Schedule No. 1-B for wastewater. Our adjustments to rate base are shown on Schedule No. 1-C.

V. Cost of Capital

A. Return on Equity

The return on equity (ROE) included in the Utility's filing is 10.85 percent. Based on the current leverage formula approved in Order No. PSC-11-0287-PAA-WS and an equity ratio of 14.50 percent, the appropriate ROE is 11.16 percent.³ Also, we find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

³ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

B. Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 6.11 percent. Tradewinds' capital structure consists of long-term debt, common equity, customer deposits, and shareholder loans. However, we find that adjustments need to be made to the Utility's filed capital structure.

First, in Audit Finding 10, our staff auditors reduced long-term debt by \$668 to reconcile the loan balance to the correct year-end amount. In its response to the audit, the Utility did not object to this adjustment.

Second, our auditors removed the related party refundable advance and loan balances of \$67,936 and \$5,903 because there was no documentation reflecting the terms, repayment or interest rate for these loans. In its response to the audit, Tradewinds asserted these monies were loaned to the Utility by its shareholders when needed and they plan on being paid back. We find that these monies from shareholders to Tradewinds are essentially additional paid-in capital and that they shall therefore be reclassified as common equity. In addition, the Utility did not reflect its negative retained earnings balance of \$117,850. Therefore, we calculate a common equity balance of \$132,605, as shown below:

Common Equity Balance per Company	\$176,616
Negative Retained Earnings	(117,850)
Shareholder Loans (\$67,936 + \$5,903)	<u>73,839</u>
Comm. Adjusted Common Equity Balance	<u>\$132,605</u>

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2009, we calculate a weighted average cost of capital of 6.09 percent. This represents a 2-basis points reduction from Tradewinds' requested overall cost of capital of 6.11 percent. Our calculation of the overall cost of capital is shown on Schedule No. 2-A, and our adjustments to the capital structure are reflected on Schedule No. 2-B.

VI. Net Operating Income

A. Annualized Revenue Adjustments

The Utility did not include annualized revenue adjustments for either its water or wastewater operations. Using the test year billing determinants, the appropriate annualized revenue adjustments are \$4,120 for water and \$9,121 for wastewater. Accordingly, we have decreased revenues by \$4,120 for water and \$9,121 for wastewater.

B. Pro Forma Expenses

In its filing, the Utility requested pro forma expense increases of \$3,526 for salaries, \$721 for healthcare costs, and \$2,062 for bad debt expense for its water operations. The requested pro forma expense increases for wastewater were \$3,526 for salaries, \$721 for healthcare, and \$3,412 for bad debt expense. We believe that healthcare costs have and will continue to increase

each year and that the requested healthcare costs of \$721 for each division are immaterial in nature. Accordingly, we find the requested increases for healthcare costs are reasonable and shall be allowed. However, we find adjustments are necessary for Tradewinds' pro forma salary and bad debt expense increases.

1. Pro Forma Salary Increase

The Utility's requested salary increase for water represents an increase of approximately 8.6 percent. The requested salary increase for wastewater represents an increase of approximately 4.3 percent. We find that, in light of the economic climate in Florida and throughout the U.S., a 3-percent increase in salaries is more reasonable. Although a 3-percent increase exceeds our 2010 and 2011 Price Indices of 0.56 percent and 1.18 percent, we have recently allowed salary increases for a water utility of 3-percent.⁴ Also, we note that this instant case is Tradewinds' first rate case. A 3-percent increase equates to an increase of \$1,224 for water and \$2,448 for wastewater salaries instead of the proposed \$3,526 for water and \$3,526 for wastewater. The result is a decrease of \$2,302 to the Utility's request for water salaries (\$3,526 - \$1,224) and a decrease of \$1,078 for wastewater salaries (\$3,526 - \$2,448).

2. Pro Forma Bad Debt Expense

In its filing, Tradewinds reflected no bad debt expenses during the test year. However, it subsequently requested pro forma bad debt expense of \$3,528 for water and \$4,038 for wastewater. We believe that these levels of bad expense are overstated based on the historical bad debt expense experienced by the Utility. We have set bad debt expense using the 3-year average in multiple electric,⁵ gas,⁶ and water and wastewater cases.⁷ We approved a 3-year average in these cases based on the premise that a 3-year average fairly represented the expected bad debt expense. Overall, the basis for determining the appropriate level of bad debt expense has been whether the amount is representative of the bad debt expense to be incurred by the Utility. Based on the 3-year average calculation, Tradewinds shall be entitled to bad debt expense of \$1,344 for water and \$783 for wastewater. As a result, we find that Tradewinds'

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

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

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

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

proposed bad debt expense levels shall be decreased by \$2,184 (\$3,528 - \$1,344) for water and \$3,255 (\$4,038 - \$783) for wastewater.

C. Costs of the Wastewater Lawsuit Settlement

In its filing, Tradewinds removed \$62,500 from miscellaneous expenses related to a litigation settlement resulting from a sewage back-up in a customer's home. We agree with the Utility's removal of those expenses. In addition to the \$62,500 mediated settlement amount, the Utility incurred \$5,578 in legal fees and \$1,205 in miscellaneous expenses associated with this litigation.

We find that these expenses totaling \$6,783 shall also be removed. However, Tradewinds has increased its insurance premiums to cover any future problems like the events that gave rise to the mediated settlement mentioned above. Therefore, the increase in insurance premium of \$196 allocated to Tradewinds wastewater shall be recognized and allowed as a prudent increase in O&M expenses to avoid much larger cash outlays for any possible lawsuit settlements. Accordingly, in addition to the \$62,500 already removed by the Utility, wastewater O&M expenses shall be reduced by \$6,587 (\$6,783 - \$196).

D. Rate Case Expense

Tradewinds included rate case expense of \$21,000 in its MFRs. Our staff requested an update of the actual rate case expenses incurred, with supporting documentation, as well as an estimate of the amount necessary to complete the case.

Pursuant to Section 367.08(7), F.S., we "shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable." Also, it is a utility's burden to justify its requested costs.⁸ Further, although we have broad discretion with respect to allowance of rate case expense, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.⁹ As such, our staff examined the requested actual expenses, supporting documentation, and estimated expenses as listed below for the current rate case. Based on this review, we find that a few adjustments need to be made.

1. Legal Fees

Tradewinds included \$6,000 in its MFR's for legal representation from Rutledge, Ecenia & Purnell (REP). The Utility submitted actual rate case expenses from REP of \$439 related to the application of Mr. Charles deMenzes to be the qualified representative for Tradewinds in this docket. The Utility also submitted actual expenses from Rose, Sundstrom & Bentley, LLP (RSB) of \$346 for the test year approval letter. Based on the above, we find that rate case expense related to legal services is \$785 (\$439 + \$346). This level of legal expenses is

⁸ See *Florida Power Corp. v. Cresse*, 413 So. 2d 1187, 1191 (Fla. 1982).

⁹ See *Meadowbrook Util. Sys., Inc. v. FPSC*, 518 So. 2d 326, 326 (Fla. 1st DCA 1987), *rev. denied* 529 So. 2d 694 (Fla. 1988).

consistent with the amount of legal expenses we recently approved for Tradewinds' sister company, C.F.A.T. H2O, Inc., at our August 9, 2011, Commission Conference.

2. Consultant Fees

Tradewinds included \$15,000 in its filing for preparation of MFRs, data request responses, and audit facilitation from Tangibl LLC (Tangibl). Based on the Utility's agreement with Tangibl, Tradewinds paid Tangibl a total of \$12,500 for preparing the MFRs in this case. We find that the actual amount of \$12,500 shall be approved as prudent for the preparation of MFRs for this Utility. This allowance is also consistent with the amount of MFR preparation fees we recently approved for Tradewinds' sister company, C.F.A.T. H2O, Inc., at our August 9, 2011, Commission Conference.

3. Miscellaneous

At one time in this proceeding, the Utility retained RSB as its legal counsel. By letter dated August 27, 2011, RSB filed a Notice of Withdrawal of Counsel and stated that Tradewinds would be represented by Mr. deMenzes as a qualified representative.¹⁰

In its filing, Tradewinds did not include any amount for Mr. deMenzes to process this case as a qualified representative. In response to one of our staff data requests, the Utility requested \$7,200 for Mr. deMenzes' time as a qualified representative. This was based on 180 hours (60 weeks at 3 hours per week) at an hourly rate of \$40 for a total of \$7,200. The Utility's hourly rate of \$40 is appropriate because it is in line with Mr. deMenzes' total officer salary of \$83,200. Dividing \$83,200 by 2,080 typical work hours in a year yields an hourly rate of \$40.

The Utility did not provide a breakdown for each task performed and the associated hours as requested in staff's data request. However, we note that Mr. deMenzes has assisted our staff auditors, attended the interim commission conference, attended the customer meeting, and responded to numerous staff data requests. Because Mr. deMenzes substituted himself for previous legal counsel, as a qualified representative, our staff looked at four recent rate cases that were processed by RSB in order to analyze the reasonableness of the 180 hours requested by the Utility. Based on calculations of those four rate cases, the actual average hours were approximately 122 hours per case. Due to the lack of detail for its requested costs, we find that recovery of 122 hours at an hourly rate of \$40 is appropriate. This equates to \$4,880 (122 hours at \$40) resulting in a reduction of \$2,320 (\$7,200 - \$4,880) to the Utility's request.

In addition, we find it is appropriate to allow noticing costs and filing fees. There will be a total of three notices through the PAA portion of this rate case, assuming no protest. Given the number of customers and the total number of pages for these notices, we find \$1,087 is a reasonable amount for the noticing requirements for this case. Therefore, we calculate miscellaneous rate case expenses of \$5,967 (\$4,880 + \$1,087). This allowance is consistent with

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

our recent approval, at the August 9, 2011, Commission Conference, for Tradewinds sister company, C.F.A.T. H2O, Inc. Separately, the Utility also paid a rate case filing fee of \$1,500.

4. Conclusion

In summary, we find that the appropriate total rate case expense is \$20,752. Amortized over four years pursuant to Section 367.0816, F.S., this represents an annual expense of \$5,188, comprised of \$2,594 for water and \$2,594 for wastewater. Our breakdown of rate case expense is as follows:

	<u>MFR B-10 Estimate</u>	<u>Actual & Estimated</u>	<u>Commission Adjustments from Actual and Estimated</u>	<u>Total</u>
Legal Fees	\$6,000	\$785	\$0	\$785
Tangibl LLC	15,000	12,500	0	12,500
PSC Filing Fee	0	1,500	0	1,500
Miscellaneous	0	7,200	(1,233)	5,967
Total Rate Case Expense	\$21,000	\$21,985	(\$1,233)	\$20,752

In its MFRs, the Utility requested total rate case expense of \$21,000, for an annual expense of \$5,250, comprised of \$2,625 for water and \$2,625 for wastewater. Therefore, annual rate case expense shall be decreased by \$31 $((\$5,250 - \$5,188)/2)$ for water and \$31 for wastewater.

E. Test Year Operating Income Before Any Revenue Increase

Based on our decisions on issues related to revenue, operating expenses, and rate base, we calculate the Utility had a net operating loss of \$31,527 for water and a positive net income of \$7,919 for wastewater. Our calculations are shown on Schedules No. 3-A and 3-B, and our adjustments to operating income are shown on Schedule No. 3-C.

VII. Revenue Requirement

Based on the above, we calculate a revenue requirement of \$188,080 for water which represents an increase of \$68,666 or 57.50 percent, and a revenue requirement of \$197,849 for wastewater which represents an increase of \$2,582, or 1.32 percent, as shown below:

	<u>Adjusted Test Year Revenues</u>	<u>\$ Increase/ Decrease</u>	<u>Revenue Requirement</u>	<u>% Change</u>
Water	\$119,414	\$68,666	\$188,080	57.50
Wastewater	\$195,267	\$2,582	\$197,849	1.32

Our computations of the revenue requirements are shown on Schedule No. 3-A for water and Schedule No. 3-B for wastewater.

VIII. Rate Structure and Rates

A. Appropriate Water Rate Structure

The Utility's current water system rate structure for both the residential and general service classes is the monthly base facility charge (BFC) and uniform gallonage charge rate structure. Prior to the Utility's application, the BFC for a 5/8" x 3/4" meter was \$9.21, with a gallonage charge rate of \$1.52 for all kgals¹¹ used.

Tradewinds is located in Marion County within the St. Johns River Water Management District (SJRWMD or District). The Utility's Consumptive Use Permit (CUP) No. 2995-4 expired on December 2, 2007. The Utility has received multiple extensions of time to complete the requirements for obtaining its CUP renewal. At this point, the District prefers to issue a "short term" CUP with the requirement that the Utility complete any outstanding requirements for renewal of its expired CUP. District staff intends to present a technical staff report to this effect to the District's Governing Board at its September 13, 2011 regulatory meeting.

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

Based on our staff's analysis of the residential billing data, the overall average consumption is 5.3 kgals per month, and the appropriate threshold for a customer's discretionary usage is 5.0 kgals per month.¹² This does not indicate high overall average consumption. However, the billing data indicates that at monthly consumption greater than 10 kgals, there are 10 percent of residential customers who account for 20 percent of all residential kgals billed. Furthermore, based on the rates in effect during the test year, the Utility collected approximately 55 percent of its revenues from the BFC. This is well outside the guideline of the five water management districts (WMDs) that the BFC recover no more than 40 percent of the Utility's revenues. For these reasons, we find that a three-tier inclining block rate structure shall be implemented, with the BFC set to recover 36.75 percent of the Utility's annual revenues. This will place virtually all of the revenue requirement increase into the kgal charge.

This BFC cost recovery will enable customers at nondiscretionary levels of consumption to pay a lower price for their water consumption while targeting customers who use a greater volume of water. The usage blocks shall be set at 0-5 kgals; 5.001-10 kgals; and usage in excess

¹¹ Thousand gallons.

¹² This figure is derived based on the average number of persons per household, gallons used per day per person, and the number of days per month ($3 \times 50 \times 30 = 4.5$ kgals, rounded up to 5 kgals).

of 10 kgals. This rate structure has the effect of: 1) complying with WMD guidelines regarding BFC cost recovery; 2) restricting repression being applied to non-discretionary usage below five kgals in the first block; 3) targeting greater-than-average consumption in the second block; and 4) sending the strongest conservation signals to those customers whose consumption exceeds ten kgals per month in the third block. We find that the rate structure for the water system's non-residential class shall remain unchanged. This rate structure has been our choice for non-residential customer classes.¹³

Our approved rate design for the water system's residential customers is shown below:

TRADEWINDS UTILITIES, INC.				
COMMISSION APPROVED WATER RATE STRUCTURES AND RATES				
FOR RESIDENTIAL SERVICE				
Rate Structure and Rates Prior to Filing		Approved Rate Structure and Rates		
BFC/uniform gallonage charge rate structure BFC = 55.4 percent		3-Tier Inclining Block Rate Structure Rate Factors 0.67, 1.00 and 1.25 BFC = 36.75 percent		
BFC	\$9.21	BFC		\$9.23
Gallonage Charge (all kgals)	\$1.52	1 st tier (no repression)	0-5 kgals*	\$3.11
		2 nd tier (discretionary)	5.001-10 kgals*	\$4.66
		3 rd tier (discretionary)	10+ kgals*	\$5.83
Typical Monthly Bills (1)		Typical Monthly Bills		
Cons (kgals)		Cons (kgals)		
0	\$9.21	0		\$9.23
1	\$10.73	1		\$12.34
3	\$13.77	3		\$18.56
5	\$16.81	5		\$24.78
10	\$24.41	10		\$48.10
20	\$39.61	20		\$106.40
30	\$54.81	30		\$164.69

*Per one thousand gallons.

Based on the foregoing, the appropriate rate structure for the water system's residential class is a three-tier inclining block rate structure. Originally, our staff's preliminary rate design called for a two-tier rate structure with usage blocks of 0-10 kgals in the first usage block and all usage in excess of 10 kgals in the second usage block. As discussed below, we did not apply a repression adjustment to non-discretionary usage. As a result, an additional tier is necessary for non-discretionary usage below 5 kgals per month. This results in a three-tier rate structure for

¹³ See Order Nos. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.; and PSC-09-0647-PAA-WS, issued September 24, 2009, in Docket No. 080714-WS, In re: Application for staff-assisted rate case in Lake County by Hidden Valley SPE LLC d/b/a Orange Lake Utilities.

monthly consumption with usage blocks of: a) 0-5 kgals; b) 5.001-10 kgals; and c) all usage in excess of 10 kgals and usage block rate factors of 0.67, 1.0, and 1.25 respectively. The appropriate rate structure for the water system's non-residential class is a continuation of its BFC/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system is set at 36.75 percent.

B. Wastewater Rate Structure

The current wastewater system rate structure for both the residential and general service classes is the BFC/gallonage charge rate structure. The monthly BFC prior to filing (regardless of meter size) for the residential customers was \$18.82. The residential gallonage charge prior to filing was \$5.79 per kgal, with a monthly cap on billed usage of 10 kgals. The general service monthly BFC prior to filing for a 5/8" x 3/4" meter was \$20.61. The general service gallonage charge prior to filing was \$6.97 for all kgals used.

There are two areas of inconsistency in Tradewinds' wastewater rate design compared to our practice. First, Tradewinds' residential customers' BFC is not equal to the general service BFC for a 5/8" x 3/4" meter. All residential customers' BFC shall be billed at the rate for a 5/8" x 3/4" meter. Second, the BFC cost recovery for the wastewater system is 45 percent. This BFC cost recovery is inconsistent with our practice of setting the BFC such that it recovers at least 50 percent of the wastewater system's revenues. This is done in order to recognize the capital intensive nature of wastewater plants. Therefore, we find it is appropriate to design wastewater rates to correct these inconsistencies.

The Utility's current wastewater monthly gallonage cap is set at 10 kgals. It is our practice to set the residential wastewater gallonage cap at a consumption level equal to at least 80 percent of the total number of residential gallons sold.¹⁴ Our staff's review of the wastewater billing data indicates that greater than 80 percent of the residential gallons are captured at 10 kgals. Therefore, the Utility's wastewater cap shall remain unchanged, and the general service gallonage charge shall remain at 1.2 times greater than the residential charge.

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

¹⁴ See Order Nos. 12350, issued August 10, 1983, in Docket No. 820073-WS, In re: Application of Seacoast Utilities, Inc. for an increase in water and sewer service rates to its customers in Palm Beach County, Florida.; and PSC-11-0015-PAA-WS, issued January 5, 2011, in Docket No. 090531-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities, Inc.

C. Repression Adjustments

As stated above, the threshold for residential customers' essential usage is five kgals per month. Therefore, the approved repression adjustment shall only apply to water consumption above five kgals per month.

Using the database of utilities that have previously had repression adjustments made, our staff calculated a repression adjustment for this Utility based upon the approved increase in revenue requirements in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases.¹⁵ This methodology also restricts any price changes due to repression from being applied to non-discretionary consumption (consumption equal to or less than five kgals per month), and allocates all cost recovery due to repression to discretionary levels of consumption (consumption greater than five kgals per month).

The appropriate repression adjustment results in a reduction of test year residential water kgals sold by 15.6 percent, yielding consumption reduction of 4,440 kgals. Purchased power expense shall be reduced by \$1,326, chemicals expense shall be reduced by \$153, and regulatory assessment fees (RAFs) shall be reduced by \$70. The final post-repression revenue requirement for the water system shall be \$182,175. For the wastewater system, test year kgals sold shall be reduced by 9.2 percent, resulting in a consumption reduction of 1,592 kgals. Sludge removal expense shall be reduced by \$748, purchased power expense shall be reduced by \$2,164, chemicals expense shall be reduced by \$552, and RAFs shall be reduced by \$156. The final post-repression revenue requirement for the wastewater system is \$194,230.

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

D. Appropriate Water and Wastewater Rates

Excluding miscellaneous service revenues, the rates shall be designed to produce revenues of \$182,175 for the water system and \$194,230 for the wastewater system. We have determined the appropriate rate structures and repression adjustments as set out above. Based on

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

the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

IX. Other Issues

A. Miscellaneous Service Charges

The Utility believes that its miscellaneous service charges should be updated to reflect current costs. We agree. As a follow up to our staff's discovery, Tradewinds provided the cost estimates for the expenses associated with initial connection, normal reconnection, violation reconnection, and premises visit fees during business hours and after hours. These cost justifications included \$16 for transportation expense for each service, \$30 per hour clerk labor (\$45 after hours), and \$8 of overhead for each service. The after-hours charges are based on a factor of 1.5 times the business hours charges rounded down to the nearest whole dollar to reflect the cost of overtime associated with after hours services. The cost justifications ranged between \$56 and \$71. We believe the cost justifications are excessive, but find that the proposed charges shown in Tradewinds' MFRs are reasonable and comparable to fees we have approved for other utilities.¹⁶ Below is a depiction of the current and approved amounts for the miscellaneous service charges:

<u>Water Miscellaneous Service Charges</u>				
	<u>Current Charges</u>		<u>Approved Charges</u>	
	<u>Business Hrs</u>	<u>After Hrs</u>	<u>Business Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$32
Normal Reconnect	\$15	N/A	\$21	\$32
Violation Reconnect	\$15	N/A	\$21	\$32
Premises Visit	\$10	N/A	\$14	N/A

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

<u>Wastewater Miscellaneous Service Charges</u>				
	<u>Current Charges</u>		<u>Approved Charges</u>	
	<u>Business Hrs</u>	<u>After Hrs</u>	<u>Business Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$21	\$32
Normal Reconnect	\$15	N/A	\$21	\$32
Violation Reconnect	Actual Cost	N/A	Actual Cost	
Premises Visit	\$10	N/A	\$14	N/A

Because the increased charges are reasonable and comparable to charges approved in our prior decisions,¹⁷ Tradewinds shall be allowed to implement the fees and charges as set out above. The Utility shall file a proposed customer notice to reflect the approved charges. The approved charges shall be effective for service rendered on or after the stamped approval date of the revised tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the Order is final, the Utility shall provide notice of the tariff changes to all customers. This notice may be combined with the notice required in other issues. Tradewinds shall provide proof the customers have received notice within ten days after the date the notice was sent.

B. Partial Refund of Interim Rates

By Order No. PSC-10-0731-PCO-WS, we authorized the collection of interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement was \$199,011 for water and \$229,595 for wastewater. This represented a revenue increase of \$75,669, or 61.35 percent for water and a revenue increase of \$20,716 or 9.92 percent for wastewater.

According to Section 367.082, F.S., any refund shall 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 are 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, 2009. Tradewinds' approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range of return on equity.

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

¹⁷ Id.

Using the principles discussed above, the \$199,011 water revenue requirement and the \$229,595 wastewater revenue requirement granted in Order No. PSC-10-0731-PCO-WS for the interim test year are greater than the revenue requirements for the interim collection period of \$185,364 for water and \$195,132 for wastewater. This results in a 7.01 percent refund of interim water rates, after miscellaneous revenues have been removed, and a 15.01 percent refund of interim wastewater rates. The Utility shall refund 7.01 percent of water and 15.01 percent of wastewater revenues collected under interim rates. The refund shall be made with interest in accordance with Rule 25-30.360(4), F.A.C. The Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The Utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. Further, the escrow account shall be released upon our staff's verification that the required refunds have been made.

C. Four-Year Rate Reduction

Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return included in working capital, and the gross-up for RAFs, which is \$2,737 for water and \$2,737 for wastewater. The decreased revenue will result in the rate reduction shown on Schedule No. 4.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the approved lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The rates shall not be implemented until our staff has approved the proposed customer notice. Tradewinds shall provide proof of the date notice was given within 10 days of the date of the notice.

If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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 expenses.

D. Proof of Adjustments

To ensure that the Utility adjusts its books in accordance with our decisions, Tradewinds shall provide proof, within 90 days of the Final Order in this docket, that the adjustments for all the applicable National Association of Regulatory Utility Commissioners Uniform System of Accounts primary accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Tradewinds Utilities, Inc., for increased water and wastewater rates is granted in part as set out in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that Tradewinds Utilities, Inc. is authorized to charge the water rates as shown on Schedule No. 4-A, and the wastewater rates as shown on Schedule No. 4-B. It is further

ORDERED that the Utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates. It is further

ORDERED that the approved rates shall 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. It is further

ORDERED that the approved water and wastewater rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. It is further

ORDERED that the Utility shall provide proof of the date the notice was given no less than 10 days after the date of the notice. It is further

ORDERED that to monitor the effect of both the changes in revenues and rate structure, the Utility shall file reports detailing the number of bills rendered, the consumption billed, and the revenues billed for each system for each month. It is further

ORDERED that the reports shall be prepared by customer class and meter size. It is further

ORDERED that the reports shall be filed with our staff, on a semi-annual basis, for a period of two years beginning the first billing period after the approved rates go into effect. It is further

ORDERED that to the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the Utility shall be authorized to charge the miscellaneous service charges as set forth in the body of this Order. It is further

ORDERED that the Utility shall file a proposed customer notice to reflect the approved miscellaneous service charges. It is further

ORDERED that the approved charges shall be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by our staff. It is further

ORDERED that within ten days of the date the Order is final, the Utility shall provide notice of the tariff changes to all customers. It is further

ORDERED that the Utility shall provide proof the customers have received notice within ten days after the date the notice was sent. It is further

ORDERED that this notice may be combined with the notice required in other issues. It is further

ORDERED that the Utility shall refund 7.01 percent of water revenues and 15.01 percent of wastewater revenues collected under interim rates. It is further

ORDERED that the refund shall be with interest in accordance with Rule 25-30.360(4), F.A.C. It is further

ORDERED that the Utility shall submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C, and shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. It is further

ORDERED that the escrow account shall be released upon our staff's verification that the required refunds have been made. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice as set forth in the body of this Order to reflect the approved rates for the statutory four-year rate reduction as shown on Schedules 4-A and 4-B. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period in accordance with Section 367.0816, F.S. It is further

ORDERED the approved rates shall 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. It is further

ORDERED the rates shall not be implemented until our staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that if the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

ORDERED that the provisions of this Order, except for the statutory four-year rate reduction and the requirement to provide proof that the Utility has adjusted its books in accordance with the Commission approved adjustments which are final agency action, are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that the Utility shall provide proof, within 90 days of the Final Order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of this Order, a Consummating Order will be issued. It is further

ORDERED that this docket shall remain open for our staff's verification that the revised tariff sheets and customer notices have been filed by the Utility and approved, and that the interim refund has been completed and verified by our staff. It is further

ORDERED that once these actions are complete, this docket shall be closed administratively, and the escrow account shall be released.

By ORDER of the Florida Public Service Commission this 13th day of September, 2011.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

RRJ

DISSENT BY: CHAIRMAN GRAHAM

CHAIRMAN GRAHAM dissents without separate opinion with the Commission's decision to disallow litigation costs.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this Order, except for the statutory four-year rate reduction and the requirement for Tradewinds Utilities, Inc. to adjust its books in accordance with our decisions in this Order which are final agency action, our action is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this Order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 4, 2011. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this Order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Tradewinds Utilities, Inc. Schedule of Water Rate Base Test Year Ended 12/31/09			Schedule No. 1-A Docket No. 100127-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,075,251	\$0	\$1,075,251	(\$52,582)	\$1,022,669
2 Land and Land Rights	182,500	0	182,500	(112,500)	70,000
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(483,494)	0	(483,494)	57,073	(426,421)
5 CIAC	(328,985)	0	(328,985)	(12,535)	(341,520)
6 Amortization of CIAC	246,641	0	246,641	(27,144)	219,497
7 Working Capital Allowance	<u>0</u>	<u>15,678</u>	<u>15,678</u>	<u>(596)</u>	<u>15,082</u>
8 Rate Base	<u>\$691,913</u>	<u>\$15,678</u>	<u>\$707,591</u>	<u>(\$148,284)</u>	<u>\$559,307</u>

Tradewinds Utilities, Inc.			Schedule No. 1-B		
Schedule of Wastewater Rate Base			Docket No. 100127-WS		
Test Year Ended 12/31/09					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$949,207	\$0	\$949,207	(\$15,776)	\$933,431
2 Land and Land Rights	93,388	0	93,388	(24,717)	68,671
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(698,111)	0	(698,111)	14,617	(683,494)
5 CIAC	(531,404)	0	(531,404)	(12,669)	(544,073)
6 Amortization of CIAC	405,694	0	405,694	(31,744)	373,950
7 Working Capital Allowance	<u>0</u>	<u>23,481</u>	<u>23,481</u>	<u>(1,369)</u>	<u>22,112</u>
8 Rate Base	<u>\$218,774</u>	<u>\$23,481</u>	<u>\$242,255</u>	<u>(\$71,658)</u>	<u>\$170,597</u>

Tradewinds Utilities, Inc.		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 100127-WS	
Test Year Ended 12/31/09			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$52,582)	(\$15,776)	
<u>Land</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$112,500)	(\$24,717)	
<u>Accumulated Depreciation</u>			
Agreed upon Audit Adjustments. (Issue 2)	\$57,073	\$14,617	
<u>CIAC</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$12,535)	(\$12,669)	
<u>Accumulated Amortization of CIAC</u>			
Agreed upon Audit Adjustments. (Issue 2)	(\$27,144)	(\$31,744)	
<u>Working Capital</u>			
	(\$596)	(\$1,369)	

Tradewinds Utilities, Inc. Capital Structure Test Year Ended 12/31/09						Schedule No. 2-A Docket No. 100127-WS		
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$856,725	\$0	\$856,725	(\$84,574)	\$772,151	81.29%	5.13%	4.17%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	176,616	0	176,616	(17,435)	159,181	16.76%	10.85%	1.82%
5 Customer Deposits	20,544	0	20,544	(2,028)	18,516	1.95%	6.00%	0.12%
6 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
7 Total Capital	<u>\$1,053,885</u>	<u>\$0</u>	<u>\$1,053,885</u>	<u>(\$104,037)</u>	<u>\$949,848</u>	<u>100.00%</u>		<u>6.11%</u>
Per Commission								
8 Long-term Debt	\$856,725	(\$74,507)	\$782,218	(\$171,823)	\$610,395	83.63%	5.23%	4.37%
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	176,616	(44,011)	132,605	(29,128)	103,477	14.18%	11.16%	1.58%
12 Customer Deposits	20,544	0	20,544	(4,513)	16,031	2.20%	6.00%	0.13%
13 Deferred Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
14 Total Capital	<u>\$1,053,885</u>	<u>(\$118,518)</u>	<u>\$935,367</u>	<u>(\$205,463)</u>	<u>\$729,904</u>	<u>100.00%</u>		<u>6.09%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>10.16%</u>	<u>12.16%</u>	
OVERALL RATE OF RETURN						<u>5.95%</u>	<u>6.23%</u>	

Tradewinds Utilities, Inc. Adjustments to Capital Structure Test Year Ended 12/31/09		Schedule No. 2-B Docket No. 100127-WS	
Description	Beginning Balance	Adjustments	Ending Balance
1	Long-term Debt	\$856,725	
2	Adjustment to Correct Loan Balance	(668)	
3	Adjustment to remove Shareholder Loan 1	(67,936)	
4	Adjustment to remove Shareholder Loan 2	(5,903)	
5	Total Adjustments to Long-term Debt	<u>(\$74,507)</u>	
6	Adjusted Long-term Debt		<u>\$782,218</u>
1	Common Equity	\$176,616	
2	Reflect Retained Earnings	(117,850)	
3	Include Shareholder Loan 1	67,936	
4	Include Shareholder Loan 2	5,903	
5	Total Adjustments to Common Equity	<u>(\$44,011)</u>	
6	Adjusted Common Equity		<u>\$132,605</u>

Tradewinds Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/09						Schedule No. 3-A Docket No. 100127-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$123,534</u>	<u>\$83,750</u>	<u>\$207,284</u>	<u>(\$87,870)</u>	<u>\$119,414</u>	<u>\$68,666</u> 57.50%	<u>\$188,080</u>
Operating Expenses							
2 Operation & Maintenance	\$115,021	\$10,400	\$125,421	(\$4,767)	\$120,654		\$120,654
3 Depreciation	26,857	0	26,857	(3,854)	23,003		23,003
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	8,006	3,769	11,775	(4,490)	7,285	3,090	10,375
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>149,884</u>	<u>14,169</u>	<u>164,053</u>	<u>(13,111)</u>	<u>150,942</u>	<u>3,090</u>	<u>154,032</u>
8 Operating Income	<u>(\$26,350)</u>	<u>\$69,581</u>	<u>\$43,231</u>	<u>(\$74,758)</u>	<u>(\$31,527)</u>	<u>\$65,576</u>	<u>\$34,048</u>
9 Rate Base	<u>\$691,913</u>		<u>\$707,591</u>		<u>\$559,307</u>		<u>\$559,307</u>
10 Rate of Return	<u>-3.81%</u>		<u>6.11%</u>		<u>-5.64%</u>		<u>6.09%</u>

Tradewinds Utilities, Inc. Statement of Wastewater Operations Test Year Ended 12/31/09						Schedule No. 3-B Docket No. 100127-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$204,388</u>	<u>\$35,750</u>	<u>\$240,138</u>	<u>(\$44,871)</u>	<u>\$195,267</u>	<u>\$2,582</u> 1.32%	<u>\$197,849</u>
Operating Expenses							
2 Operation & Maintenance	\$239,436	(\$51,590)	\$187,846	(\$10,951)	\$176,895		\$176,895
3 Depreciation	11,143	0	11,143	(10,742)	401		401
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	24,748	1,609	26,357	(16,306)	10,051	116	10,167
6 Income Taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>275,327</u>	<u>(49,981)</u>	<u>225,346</u>	<u>(37,999)</u>	<u>187,347</u>	<u>116</u>	<u>187,463</u>
8 Operating Income	<u>(\$70,939)</u>	<u>(\$14,231)</u>	<u>\$14,792</u>	<u>(\$6,873)</u>	<u>\$7,919</u>	<u>\$2,466</u>	<u>\$10,385</u>
9 Rate Base	<u>\$218,774</u>		<u>\$242,255</u>		<u>\$170,597</u>		<u>\$170,597</u>
10 Rate of Return	<u>-32.43%</u>		<u>6.11%</u>		<u>4.64%</u>		<u>6.09%</u>

Tradewinds Utilities, Inc.		Schedule No. 3-C	
Adjustments to Operating Income		Docket No. 100127-WS	
Test Year Ended 12/31/09			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase.	(\$83,750)	(\$35,750)	
2 Appropriate Annualized Revenues.	(4,120)	(9,121)	
Total	<u>(\$87,870)</u>	<u>(\$44,871)</u>	
<u>Operation and Maintenance Expense</u>			
1 Agreed upon Audit Adjustments. (Issue 2)	(\$250)	\$0	
2 Reflect appropriate Pro Forma Salary. (Issue 9)	(2,302)	(1,078)	
3 Reflect appropriate Pro Forma Bad Debt Expense. (Issue 9)	(2,184)	(3,255)	
4 Adjust expenses related to law suit/insurance (Issue 10)	0	(6,587)	
5 Reflect the appropriate rate case expense. (Issue 11)	(31)	(31)	
Total	<u>(\$4,767)</u>	<u>(\$10,951)</u>	
<u>Depreciation Expense - Net</u>			
1 Agreed upon Audit Adjustments. (Issue 2) Depr.Exp.	(\$5,478)	(\$6,431)	
2 Agreed upon Audit Adjustments. (Issue 2) Amort. Exp.	1,624	(4,311)	
Total	<u>(\$3,854)</u>	<u>(\$10,742)</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$3,954)	(\$2,019)	
2 Agreed upon Audit Adjustments. (Issue 2)	(536)	(14,287)	
Total	<u>(\$4,490)</u>	<u>(\$16,306)</u>	

Tradewinds Utilities, Inc.			Schedule No. 4-A		
Water Monthly Service Rates			Docket No. 100127-WS		
Test Year Ended 12/31/09					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-Year Rate Reduction
Residential, General Service and Multi-Residential					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$9.39	\$15.30	\$15.52	\$9.23	\$0.13
1"	\$23.45	\$38.21	\$38.74	\$23.08	\$0.34
1-1/2"	\$46.93	\$76.46	\$77.53	\$46.15	\$0.67
2"	\$75.02	\$122.23	\$123.94	\$73.84	\$1.07
3"	\$150.08	\$244.52	\$247.95	\$147.68	\$2.15
4"	\$234.58	\$382.19	\$387.55	\$230.75	\$3.36
6"	n/a	n/a	n/a	\$461.50	\$6.72
8"	n/a	n/a	n/a	\$830.70	\$12.09
Gallonge Charge, per Kgal	\$1.55	\$2.53	\$2.57		
Residential Gallonge Charges					
0-5 kgal				\$3.11	\$0.05
5-10 kgal				\$4.66	\$0.07
in excess of 10 kgal				\$5.83	\$0.08
GS/MS Gallonge Charge				\$3.71	\$0.05
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$14.04	\$22.89	\$23.23	\$18.56	
5,000 Gallons	\$17.14	\$27.95	\$28.37	\$24.78	
10,000 Gallons	\$24.89	\$40.60	\$41.22	\$48.08	

Tradewinds Utilities, Inc.		Schedule No. 4-B				
Wastewater Monthly Service Rates		Docket No. 100127-WS				
Test Year Ended 12/31/09		Rates	Commission	Utility	Commission	4-Year
		Prior to	Approved	Requested	Approved	Rate
		Filing	Interim	Final	Final	Reduction
<u>Residential</u>						
Base Facility Charge All Meter Size	\$19.16	\$21.06	\$22.15	\$21.48	\$0.30	
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$5.90	\$6.49	\$6.85	\$5.73	\$0.08	
<u>General Service</u>						
Base Facility Charge by Meter Size:						
5/8" x 3/4"	\$20.98	\$23.06	\$24.23	\$21.48	\$0.30	
1"	\$52.51	\$57.72	\$60.64	\$53.70	\$0.74	
1-1/2"	\$104.95	\$115.36	\$121.20	\$107.40	\$1.49	
2"	\$167.92	\$184.57	\$193.92	\$171.84	\$2.38	
3"	\$335.84	\$369.15	\$387.83	\$343.68	\$4.75	
4"	\$524.76	\$576.80	\$606.00	\$537.00	\$7.43	
6"	\$1,049.63	\$1,153.73	\$0.00	\$1,074.00	\$14.86	
8"	n/a	n/a	n/a	\$1,933.20	\$26.74	
Gallage Charge, per Kgal	\$7.09	\$7.79	\$0.00	\$6.88	\$0.10	
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>						
3,000 Gallons	\$36.86	\$40.53	\$42.70	\$38.67		
5,000 Gallons	\$48.66	\$53.51	\$56.40	\$50.13		
10,000 Gallons	\$78.16	\$85.96	\$90.65	\$78.78		
(Wastewater Gallage Cap - 10,000 Gallons)						