

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and
wastewater rates in Seminole County by
Sanlando Utilities Corporation.

DOCKET NO. 110257-WS
ORDER NO. PSC-13-0085-PAA-WS
ISSUED: February 14, 2013

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER APPROVING
FOUR YEAR RATE REDUCTION AND
PROOF OF ADJUSTMENT OF BOOKS AND RECORDS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction and proof of adjustment of books and records, 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.).

BACKGROUND

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

On October 31, 2011, Sanlando filed its application for the rate increase at issue in the instant docket. The Utility requested that the application be processed using the Proposed

¹ See Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

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Agency Action (PAA) procedure and requested interim rates. The Utility's application did not meet the minimum filing requirements (MFRs). On November 30, 2011, our staff sent Sanlando a letter indicating deficiencies in the filing of the MFRs. The Utility responded on December 22, 2011, which corrected its deficiencies, and thus the official filing date has been established as December 22, 2011.

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

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

This order addresses Sanlando's requested final rates. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), F.A.C., we determine the quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are the quality of the utility's product, the operating condition of the utility's plant and facilities, and the utility's attempt to address customer satisfaction. Comments or complaints received by us from customers are reviewed and the utility's compliance with the Florida Department of Environmental Protection (DEP) is also considered.

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

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

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

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

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

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

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

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

The Utility's Attempt to Address Customer Satisfaction

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

Our staff also reviewed our Consumer Activity Tracking System for the past three years and found seven complaints regarding quality of service and billing issues which have all been resolved. In the Utility's filing, about 400 customer complaints and concerns from customers were noted during the test year. Approximately half of the complaints were related to leaks which were on the customer side of the meter and therefore not the responsibility of the Utility. The remaining concerns were varied and did not indicate a systemic problem with customer service. All complaints appeared to have been timely resolved. Regarding the wastewater system, the Utility also resolved line blockages and sewer backups in a timely manner. A review of the consumer correspondence shows five customer complaints related to the rate increase and a concern about fire hydrants not working in the Wekiva area. Our staff contacted the Utility and was informed that the fire hydrants are tested annually and are in good condition. Based on all the above, we find that the Utility's attempt to address customer satisfaction is satisfactory.

Conclusion

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

RATE BASE

Audit Adjustments

In its response to our staff's audit report and other correspondence, Sanlando agreed to the audit adjustments as set forth in Table 1 below.

Table 1

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

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

Table 2

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

Table 3

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

Adjustments for Phoenix Project

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

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

2009 Divestitures of UI Subsidiaries

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

Staff Affiliate Audit Finding No. 4

In Order No. PSC-10-0407-PAA-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and required UI to deduct \$1,724,166 from the total cost of the Phoenix Project to account for the divestiture of several subsidiaries resulting in a remaining balance of \$19,893,321.⁵ In the instant case, our auditors determined that the Utility did not make the adjustment for the Phoenix Project that we had ordered. According to Affiliate Audit Finding No. 4, Sanlando showed the Phoenix Project balance at December 31, 2008, to be \$21,545,555. The difference between the Utility's balance and the Commission-ordered balance is \$1,652,234 (\$21,545,555 - \$19,893,321). Therefore, UI's balance for the Phoenix Project shall be reduced by \$1,652,234 to account for the divestiture of subsidiary utilities through 2009. The effect on the filing is a decrease to water and wastewater plant by \$72,296 and \$56,413, respectively. A corresponding adjustment shall be made to decrease accumulated depreciation by \$10,844 for water and \$8,462 for wastewater. Depreciation expense shall also be decreased by \$7,230 for water and \$5,641 for wastewater. The depreciation calculation is based on a depreciation life of ten years for the Phoenix Project as detailed in Affiliate Audit Finding No. 5.

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

⁴ See Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida, p. 10.

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

Sanlando maintains that the total Phoenix Project balance is currently in-service and benefiting current ratepayers and it is arbitrary and inappropriate to reduce the balance.

2010 Divestitures of UI Subsidiaries

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

Table 4

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

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

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

Amortization / Depreciation Period

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

In previous UI cases, we approved a 6-year amortization period for the Phoenix Project.⁶ In subsequent UI cases, we found that an 8-year amortization period was more appropriate for a software project of this magnitude.⁷ In 2010, we set the amortization period for the Phoenix Project to 10 years in 5 separate rate cases involving Sanlando sister companies.⁸ There were 3

⁶ See Docket Nos. 070695-WS, 070694-WS, and 070693-WS.

⁷ See Docket Nos. 080250-SU, 080249-WS, 080248-SU, and 080247-SU.

⁸ 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

factors that we considered in our reaching our decision to increase the amortization period. First, the Phoenix Project was specifically tailor-made to meet all of UI's needs. This project is not "off the shelf" software, but software designed to fulfill long-term accounting, billing, and customer service needs specific to UI and its affiliates and subsidiaries. Second, we concluded that Phoenix Project software will be used for at least 10 years. UI's former Legacy accounting system had been used for 21 years. Third, in a 2008 docket involving a UI subsidiary in Nevada,⁹ UI responded that any amortization period between 4 and 10 years would be in compliance with Generally Accepted Accounting Principles (GAAP). Similarly, UI stated to this Commission that its own research revealed that computer software could be amortized over a period of anywhere from 4 to 10 years.¹⁰

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

Computer Maintenance Expense

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

Regulatory Asset/Liability

In Docket No. 110153-SU, as part of a proposed settlement of PAA protests, Utilities, Inc. (Sanlando's parent company) with the consent and support of OPC, petitioned this Commission to open a separate generic docket to address the protested issue relating to the Utility's Phoenix Project. In that Agreement, the parties agreed, and we subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from our final decision in Docket No.

June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke; and PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-10-0585-PAA-WS, issued September 22, 2010, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida; and PSC-1-0514-PAA-WS, issued November 3, 2011, in Docket No. 100426-WS, In re: Application for increase in water and wastewater rates in Lake County by Lake Utility Services, Inc.

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

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

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

120161-WS, the Utility should be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset or liability, at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding. We also ordered that the regulatory asset or liability be amortized over four years. Therefore, consistent with our actions in Docket No. 110153-SU, Sanlando shall be authorized to create a regulatory asset or liability for costs associated with the Phoenix Project, and to accrue interest on the regulatory asset or liability at the 30-day commercial paper rate until the establishment of rates in Sanlando's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over 4 years.

Conclusion

Based on the Phoenix Project balance for Sanlando and the adjustment for the divestitures as ordered by us in Docket Nos. 090381-SU, 090462-WS, and 100426-WS, the total cost of the Phoenix Project for UI shall be reduced by \$2,330,471. The resulting UI Phoenix Project balance for ratemaking purposes is \$20,939,250.¹² The appropriate amount of Sanlando's allocated share of the Phoenix Project is \$1,576,726 ($\$20,939,250 \times 7.53$ percent). The adjustments to Sanlando's Phoenix Project balances are summarized in the following table.

Table 5

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

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

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

Other Adjustments to Rate Base

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

Adjustments to Pro Forma Plant

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

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

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

The Utility included the replacement of two existing traveling bridge sand filters built in 1995 and 1990, respectively, that outlived their service lives. The Utility indicated that the internal components within the existing concrete housings needed to be removed and new

¹³ See Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.

components installed. The cost of the replacement is \$496,752. This project was completed on September 7, 2012.

Table 6

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

Section 367.081(2)(a)2, F.S, provides that we shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by this Commission, to be used and useful in the public service. Section 367.081(2)(a)2.c., F.S, further provides that the Commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. For purposes of this requirement, the term “environmental compliance costs” includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

As discussed above, Sanlando must achieve nitrogen reductions of surface and ground water quality in the Wekiva Study area pursuant to Rule 62-600.550, F.A.C. Moreover, the Utility was required to relocate its lines due to the FDOT's road widening project. Thus, in accordance with 367.081(2)(a)2., F.S., we shall allow recovery of the utility projects associated with the FDOT road widening project which are listed as item numbers 1 and 2 in Table 6 above. In addition, pursuant to our authority contained within Section 367.081(2)(a)2.c., we hereby approve recovery of the projects associated with the reuse and force mains as these projects constitute environmental compliance costs within the meaning of the statute. These projects are listed as item numbers 3, 4, and 5, in Table 6 above.

In conclusion, we find that an adjustment to increase plant by \$9,180 for water and \$615,639 for wastewater. Corresponding adjustments shall be made to increase accumulated depreciation and depreciation expense by \$213 and \$14,342 for water and wastewater, respectively. Wastewater CIAC shall be increased by \$1,445,252. Also, corresponding adjustments shall be made to increase wastewater accumulated amortization of CIAC and CIAC amortization expense both by \$5,704. Finally, TOTI shall also be increased by \$8,288 for wastewater.

Used and Useful Percentages

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

Water Treatment Plant (WTP)

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

The Utility provided a U&U analysis for the water treatment plant in its filing. Sanlando determined that the U&U percentage for the interconnected system is 100 percent. The Utility relied on a peak day of 13,770,000 gpd, fire flow of 150,000 gpd, excessive unaccounted-for-water of 68,048 gpd, and a FRC of 13,320,960 gpd to arrive at 104 percent concluding that the WTP is 100 percent U&U. The filing indicated that the peak day occurred on September 19, 2010 with no unusual occurrences on that day. According to the application, 2,720,473 kgals of water were produced in the test year, 2,365,112 kgals were sold, and 58,477 kgals were used for other purposes. Therefore, the unaccounted-for-water is 296,885 kgals which represents 10.91 percent. Pursuant to Rule 25-30.4325, F.A.C., unaccounted-for-water in excess of 10 percent of the amount produced is considered excessive unaccounted-for-water (EUW). Therefore, 0.91 percent or 68,048 gpd is considered EUW. The Utility made a 0.91 percent adjustment to reflect

excessive amounts in the U&U calculation. However, the adjustment was not made to operation and maintenance (O&M) expenses to reflect EUW. We find that adjustments to chemicals expense and electricity expense are appropriate in the instant case. The Utility has indicated that the service area is built out, which is consistent with the last two cases. Therefore, we find that the water treatment plants be considered 100 percent U&U.

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

Ground Storage Tanks

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

Wastewater Treatment Plants

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

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

Water Distribution and Wastewater Collection Systems

The U&U calculations for water distribution and wastewater collection systems are determined by the number of customers connected to the systems divided by the capacity of the

systems with consideration given for growth. In this filing, the Utility indicated that the distribution and collection lines serving customers are totally contributed, which is consistent with the last rate case. Therefore, we find that the water distribution and wastewater collection systems shall be considered 100 percent U&U.

Reuse Facilities

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

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. As addressed above, working capital was increased by \$26,004 for water and \$27,611 for wastewater. Two further adjustments regarding deferred rate case expense and materials and supplies are warranted in this matter as discussed below.

Deferred Rate Case Expense

In its MFRs, Sanlando reflected deferred rate case expense of \$123,176 for water and \$96,057 for wastewater. In the Utility's last rate case, we approved total rate case expense of \$193,088. As discussed below, we find that the total rate case expense of \$226,820 is appropriate. It is our practice to include one-half of the total rate case expense in working capital under the balance sheet method.¹⁴ Consistent with our practice, we calculated deferred rate case expense to include in working capital to be \$117,931 for water and \$92,023 for wastewater. As such, we find that working capital shall be reduced by \$5,245 for water and \$4,034 for wastewater.

Materials & Supplies

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

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

Conclusion

We hereby approve working capital of \$276,113 for water and \$338,779 for wastewater. This reflects an increase of \$18,935 for water and an increase \$25,402 for wastewater to the Utility's requested working capital allowance of \$257,178, and \$313,377 for water and wastewater, respectively.

Appropriate Rate Base for 2010 Test Year

In its MFRs, the Utility recorded rate base of \$9,096,510 for water and \$14,448,793 for wastewater. We calculated Sanlando's water and wastewater rate bases using the Utility's MFRs with the adjustments discussed above. Accordingly, we find that the appropriate 13-month average rate base for the test year ended December 31, 2010, is \$8,921,488 for water and \$13,673,661 for wastewater. The appropriate water and wastewater rate bases are shown on Schedule Nos. 1A and 1B, respectively. The adjustments are shown on Schedule No. 1C.

COST OF CAPITAL

Return on Equity

The return on equity (ROE) included in the Utility's MFRs is 10.60 percent. Based on the current leverage formula in effect and an equity ratio of 46.4 percent, the appropriate ROE is 10.60 percent.¹⁵ We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Weighted Average Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.16 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2010, we agree with the Utility and approve a weighted average cost of capital of 8.16 percent. Schedule No. 2 details the overall cost of capital.

NET OPERATING INCOME

Salaries and Wages Expense

In its MFRs, the Utility reflected water and wastewater salaries and wages of \$695,929 and \$533,013, respectively. In its MFRs, Sanlando included proforma adjustments to water and wastewater salaries and wages expense to reflect a three percent salary increase in April 2011. Given the tumultuous state of the economy, and considering how recent the Utility's last rate case was, we believe that any pay increase at this time should not be borne by the ratepayers. As such, we find that the Utility's pro forma pay increase shall be disallowed. However, we have previously allowed recovery of O&M expenses that reflect increases associated with inflation,

¹⁵ See Order No. PSC-11-0287-PAA-WS, issued July 5, 2011, in Docket No. 110006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.

and recognized that reducing expenses back to the amount approved in the Utility's last rate case would effectively remove an increase that we have granted in prior index applications. Therefore, we hereby approve recovery of the portion of salary and wages expense associated with previously approved indices. This treatment is consistent with our recent decisions in the Aqua Utilities Florida, Inc. (AUF), Lake Utility Services, Inc. (LUSI), and Labrador Utilities, Inc. rate cases.¹⁶ An index that was already approved by us in 2011 of 1.18 percent shall remain. In Sanlando's last rate case, we approved total salaries and wages expense of \$467,336 and \$649,795 for water and wastewater, respectively. Accounting for the approved price indices results in a total salaries and wages expense of \$472,851 for water and \$657,462 for wastewater. Therefore, we find that salaries and wages expense shall be decreased by \$223,078 (\$472,851-\$695,929) for water and increased by \$124,449 (\$657,462-\$533,013) for wastewater, respectively. In addition, pensions and benefits expense shall be increased by \$32,466 for water and reduced by \$57,690 for wastewater.¹⁷ Further, a corresponding adjustment shall be made to decrease payroll taxes by \$17,065 for water and increase \$9,520 for wastewater.

Adjustments to O&M Expense

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

Rate Case Expense

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

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

¹⁷ We note that we utilized the Utility's test year ratio of pensions and benefits to salaries in order to determine the corresponding adjustments for pensions and benefits.

¹⁸ See Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities Inc. of Pennbrooke, at p. 18.

Table 7

	MFR B-10 <u>Estimated</u>	Actual as of <u>11/20/12</u>	Additional <u>Estimated</u>	Revised <u>Total</u>
Legal Fees	\$80,688	\$42,589	\$8,885	\$51,474
Accounting Consultant Fees	65,250	82,375	3,000	85,375
Engineering Consultant Fees	8,000	17,100	2,900	20,000
WSC in-house Fees	94,774	106,998	0	106,998
Filing Fee	9,000	0	9,000	9,000
WSC Travel	3,200	273	2,927	3,200
WSC Temp Employee Fees	2,000	656	1,344	2,000
WSC FedEx/Misc.	12,000	80	11,920	12,000
Notices	17,400	17,791	15,000	32,791
Mapping	<u>0</u>	<u>45,673</u>	<u>0</u>	<u>45,673</u>
Total Rate Case Expense	<u>\$292,311</u>	<u>\$264,948</u>	<u>\$103,562</u>	<u>\$368,511</u>

Pursuant to Section 367.081(7), F.S., we shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. In addition, we reviewed our orders in the Utility's 2006 and 2009 rate cases. Based on our review, we find that the following adjustments to Sanlando's rate case expense estimate are appropriate.

Legal Consultant Fees

The Utility included in its MFRs \$80,688 in legal fees to complete the rate case. The Utility provided invoices through November 20, 2012, showing legal expenses associated with the rate case totaling \$42,474. Initially we identified adjustments related to the Utility's legal consultant fees, in the amount of \$306. This adjustment is related to legal expenses incurred to correct deficiencies in the MFRs. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.¹⁹

In addition, at the Agenda Conference on January 24, 2013, OPC identified a filing fee in the amount of \$9,000 which was inadvertently included in the Utility's MFRs twice. We find that an additional adjustment in the amount of \$9,000 is therefore appropriate. Thus, we find that a total reduction of \$9,306 to legal fees is warranted.

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

Accounting Consultant Fees

In its revised rate case expense schedule, Sanlando requested total accounting consulting fees of \$85,375. The estimate to complete the rate case included 19 hours at a composite hourly rate of \$158. This estimate was revised to reflect the additional accounting support that was necessary to complete this PAA rate case. Based on the documentation provided by the Utility, we find that the appropriate amount of accounting consultant fees is \$85,375.

Engineering Consultant Fees

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

WSC In-House Employee Fees

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

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

WSC Travel Expenses

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

²⁰ See Order No. PSC-12-0206-PAA-WS, issued April 19, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc.

WSC Temp Employee Fees

In its revised rate case expense estimate, Sanlando requested WSC temporary employee costs of \$2,000. This has been disallowed in our previous decisions with Sanlando's sister companies.²¹ Accordingly, we find that \$2,000 shall be disallowed as unsupported rate case expense.

WSC FedEx Expenses

In its revised estimate of rate case expense, the Utility estimated \$12,000 for FedEx Corporation (FedEx) and other miscellaneous costs. These types of expenses have been disallowed in our previous decisions regarding Sanlando's sister companies.²² In accordance with our past practice, we find that rate case expense associated with FedEx expenses shall be disallowed.

Customer Notices and Postage

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

Sanlando is responsible for providing four notices to its customers: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. The initial notice and customer meeting notice were combined in this docket. As such, we estimated the postage cost for the notices to be approximately \$10,885 (10,163 customers x \$0.36 pre-sorted rate x 3 notices). In addition, we estimated envelope costs to be \$1,524 (10,163 customers x \$0.05 per envelope x 3 notices) and copying costs to be \$12,196 (10,163 customers x \$0.10 per copy x 6 pages).²⁴ Based on these components, the total cost for customer notices and postage is \$24,605 (\$10,885 + \$1,524 + \$12,196). Thus, we hereby reduce the revised estimate for customer notices and postage expense by \$8,186.

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

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

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

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

²⁴ We anticipate that both the interim notice and final notice would be one page each while the combined initial and customer meeting notice would be four pages.

Mapping

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

Conclusion

It is the Utility's burden to justify its requested costs.²⁵ Further, we have broad discretion with respect to the allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.²⁶ In summary, we find that Sanlando's requested rate case expense of \$292,311 be decreased by \$65,491 to reflect the Utility's revised request for rate case expense and to remove excessive, unsupported and unreasonable rate case expense. The appropriate total rate case expense is \$226,820. A breakdown of rate case expense is as follows:

Table 8

<u>Description</u>	<u>Utility</u>			
	<u>MFR</u> <u>Estimated</u>	<u>Revised Actual</u> <u>& Estimated</u>	<u>Comm.</u> <u>Adjustments</u>	<u>Approved</u> <u>Total</u>
Legal Fees	\$80,688	\$51,474	(\$9,306)	\$42,168
Accounting Consultant Fees	65,250	85,375	0	85,375
Engineering Consultant Fees	8,000	20,000	0	20,000
WSC In-house Fees	94,774	106,998	(106,998)	0
Filing Fee	9,000	9,000	0	9,000
Travel - WSC	3,200	3,200	(3,200)	0
Temp Employee Fess - WSC	2,000	2,000	(2,000)	0
Miscellaneous	12,000	12,000	(12,000)	0
Notices, Postage	17,400	32,791	(8,186)	24,605
Mapping	<u>0</u>	<u>45,673</u>	<u>0</u>	<u>45,673</u>
Total Rate Case Expense	<u>\$292,311</u>	<u>\$368,511</u>	<u>(\$141,690)</u>	<u>\$226,820</u>
Annual Amortization	<u>\$73,078</u>	<u>\$92,128</u>	<u>(\$35,423)</u>	<u>\$56,705</u>

In conclusion, we find that Sanlando has failed to demonstrate that the requested level of expenses to prepare and process the instant case are reasonable. In its MFRs, Sanlando requested total rate case expense of \$292,311, which amortized over four years is \$73,078, or \$41,048 for water and \$32,030 for wastewater. Based on the adjustments discussed above, total rate case expense shall be decreased by \$65,491 (\$292,311-\$226,820), and the annual amortization amounts be decreased by \$9,197 for water and \$7,176 for wastewater.

²⁵ See Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

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

REVENUE REQUIREMENT

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

Consistent with our adjustments concerning rate base, cost of capital, and operating income issues, we approve a water revenue requirement of \$3,508,512 and a wastewater revenue requirement of \$4,566,703. We find that a water revenue requirement of \$3,508,512 is \$8,482 less than our adjusted test year revenue of \$3,516,994. We find that the wastewater revenue requirement exceeds the adjusted test year revenue by \$1,110,170 or 32.12 percent. These pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.16 percent return on its investment in water and wastewater rate base.

RATE STRUCTURE AND RATES

Water Rates

The Utility's test year base facility charge rate for all 5/8" x 3/4" customers was \$4.43 per month. The corresponding residential gallonage charges per 1,000 gallons of consumption were: (a) \$0.76 for consumption of 0-6,000 gallons; (b) \$0.80 for 6,001-10,000 gallons; (c) \$1.01 for 10,001-15,000 gallons; and (d) \$1.41 for all usage in excess of 15,000 gallons. The gallonage charge prior to filing for the remaining rate classes was \$1.10 per 1,000 gallons used.

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

Our staff performed a detailed analysis of the Utility's billing data. During the 2010 test year, average residential consumption was approximately 17,500 gallons per month, with approximately 17 percent of residential customers consuming over 30,000 gallons per month. This level of usage is indicative of a very high level of discretionary, nonessential usage that is relatively sensitive to price increases. Therefore, based on the high level of average residential consumption coupled with the SJRWMD's desire to reduce water consumption in this area, we

find it appropriate to continue an inclining block rate structure for this utility's residential rate class.

Our staff performed additional analysis of the Utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of this 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 MOU with the state's WMDs. The current usage block rate factors for the two residential usage blocks above 10,000 gallons per month are 1.25 and 1.75, respectively. In order to send more aggressive conservation signals to customers whose monthly consumption exceeds 10,000 gallons, we find it appropriate to increase these rate factors to 1.5 and 2.0, respectively. This is a step toward a more aggressive water conservation rate structure geared to target those users with high levels of discretionary consumption. This also has the effect of minimizing the price increases for those residential customers whose monthly usage is 10,000 gallons or less.

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

Allocation of Reuse Costs

Traditionally, costs associated with the provision of water service are allocated to the water customers, and those associated with the provision of wastewater service are allocated to the wastewater customers. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate for this Commission to consider whether a portion of the wastewater or reuse costs shall be shared by the water customers.

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

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

This provision recognizes that all customers benefit from the water resource protection afforded by reuse.

Determining how much of the wastewater revenue requirement shall be allocated to the water customers is difficult given the discretionary nature of Section 367.0817, Florida Statutes. Although the statute acknowledges that reuse benefits water, wastewater and reuse customers, there is no guidance in the statute as to how to measure these benefits. In addition, the statute does not state when it is appropriate to undertake such an allocation or how much shall be allocated. These decisions are left solely to our discretion.²⁷ Different criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: (1) recognition of perceived benefit, (2) average usage of the water customers, (3) the level of water rates, (4) the magnitude of the wastewater revenue increases, and (5) the need to send a stronger price signal to achieve water conservation.²⁸

In SUC's 2006 and 2009 rate cases, we allocated reuse costs of \$500,000 and \$546,558, respectively, to its water system, in hopes of reducing the SUC's high residential consumption. However, a comparison of SUC's average residential monthly consumption in 2006 versus 2010 indicates little change – from 19,500 gallons in 2006 to 17,500 in 2010 – a reduction of 10 percent. There has been even less change at very high levels of consumption: 18 percent of residential customers used greater than 30,000 gallons per month in 2006, compared to 17 percent in 2010. Therefore, despite our prior attempts to effect meaningful consumption reductions, high levels of discretionary, non-essential residential consumption persist.

As discussed in a prior section of this Order, we approved a slight decrease in the Utility's revenues. However, if we were to reduce Sanlando's current low rates, it would send an adverse signal to the utility's customers. Therefore, due to the Utility's high average monthly usage per residential customer, low rates, and the need to send stronger price signals to achieve conservation, our staff provided us three alternatives for allocation of wastewater system reuse costs to the water system: \$750,000; \$625,000; and \$500,000. After much discussion, we find it appropriate to allocate reuse costs of \$625,000 to the water system. We find this approach best balances our goals of sending appropriate pricing signals, while still keeping rates low.

Furthermore, to increase the water-conserving nature of the rate structure, and consistent with our Sanlando decisions in prior cases, we find it appropriate to allocate the entire increase in water system revenue requirements to the gallonage charge, and that the BFC remain unchanged at \$4.43 for a 5/8" x 3/4" meter customer.²⁹ By placing the entire cost recovery of the water

²⁷ Order No. PSC-96-1147-FOF-WS, issued September 12, 1996 in Docket No. 951258-WS, In re: Application for a rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division), p. 47.

²⁸ Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation, p. Order No. PSC-02-1111-PAA-WS, issued August 13, 2002 in Docket No. 010823-WS, In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley, p. 33.

²⁹ Order No. PSC-07-0535-AS-WS, issued June 26, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 2; Order No. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 33; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in

system into the gallonage charge while holding the BFC constant, it is possible to design a more effective water conserving rate structure. Our rate design decisions for the water systems are summarized in the table below.

SANLANDO UTILITIES CORPORATION			
COMMISSION-APPROVED RATE STRUCTURES FOR TYPICAL			
RESIDENTIAL WATER SYSTEM CUSTOMERS ON 5/8" x 3/4" METERS			
POST-REPRESSION ANALYSIS			
<u>Current Rate Structure and Rates</u>		<u>Commission-Approved Rate Structure and Rates</u>	
BFC with uniform gallonage (gal) charge		\$625,000 shift from the wastewater system and 100 percent of Revenue Requirement Increase Recovered Through the Gal Chg BFC = 22.9 percent	
BFC	\$4.43	BFC	\$4.43
0-6,000 gals (no repression adj)	\$0.76	0-6,000 gals (no repression adj)	\$0.88
6,001-10,000 gals	\$0.80	6,001-10,000 gals	\$0.95
10,001-15,000 gals	\$1.01	10,001-15,000 gals	\$1.42
In excess of 15,000 gals	\$1.41	In excess of 15,000 gals	\$1.89
<u>Typical Monthly Bills</u>		<u>Typical Monthly Bills</u>	
<u>Cons (gals)</u>		<u>Cons (gals)</u>	
0	\$4.43	0	\$4.43
5,000	\$8.23	5,000	\$8.83
10,000	\$12.19	10,000	\$13.51
15,000	\$17.24	15,000	\$20.61
20,000	\$24.29	20,000	\$30.06
30,000	\$38.39	30,000	\$48.96

Wastewater Rates – The Utility’s current wastewater system rate structure consists of a BFC/gallonage charge rate structure. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was \$12.35 per month. The corresponding monthly gallonage charge for residential service was \$1.63, capped at 10 kgal of usage, while the general service gallonage charge rate was 1.2 times greater than the residential charge, at \$1.98 per kgal, with no usage cap. We find it appropriate to continue the current BFC/gallonage charge rate structure for the wastewater system, with the BFC set at 50%. The residential wastewater monthly gallonage cap for billed usage shall continue at 10,000 gallons, and the general service gallonage charge shall remain at 1.2 times the corresponding residential rate.

Based on the foregoing, regarding the Utility’s water system, the inclining block rate structure shall be continued for this utility’s residential rate class, with the rate factors for the two usage blocks greater than 10,000 per month of consumption increasing to 1.5 and 2.0, respectively. In addition, the traditional BFC/uniform gallonage charge rate structure shall remain as the appropriate water rate structure for nonresidential customer classes, with the uniform gallonage charge calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This shall be the same

Docket No. 090402-WS, issued July 1, 2010, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation, p. 26.

methodology used to determine both the general and multi-residential service gallonage charge in this case. Furthermore, \$625,000 of reuse costs shall be allocated to the water system. The entire increase in water system revenue requirements shall be allocated to the gallonage charge, and the BFC shall remain unchanged at \$4.43 for a 5/8" x 3/4" meter customer.³⁰

Regarding the Utility's wastewater system, the current BFC/gallonage charge rate structure shall continue for the wastewater system, with the BFC set at 50%. The residential wastewater monthly gallonage cap for billed usage shall continue at 10,000 gallons, and the general service gallonage charge shall remain at 1.2 times the corresponding residential rate.

Repression Adjustments

Our staff conducted a detailed analysis of the consumption patterns of the Utility's residential customers as well as the increase in residential bills resulting from the increase in revenue requirements. This analysis showed that a very small portion (seven percent) of the residential bills rendered during the test year were for consumption levels below 1 kgal per month. This indicates that the bulk of the customer base of the Utility are full time residents. This analysis also showed that average residential consumption per customer was approximately 17,500 gallons per month. This level of consumption indicates that there is a very high level of discretionary, or non-essential, consumption of approximately 11,500 gallons per customer per month. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, we 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. Based on this methodology, test year residential consumption for this utility shall be reduced by 110,130,000 gallons, purchased power expense shall be reduced by \$20,874, chemicals expenses shall be reduced by \$7,352, and RAFs shall be reduced by \$1,270. The final post-repression revenue requirement for the water system shall be \$4,054,013. No repression adjustment to the wastewater system shall be made because of the nondiscretionary nature of residential wastewater consumption; therefore, the appropriate revenue requirement for the wastewater system shall be \$3,792,226.

In order to monitor the effect of the 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 Commission staff, on a quarterly basis, for a period of two years

³⁰ Order No. PSC-07-0535-AS-WS, issued June 26, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 2; Order No. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 33; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, issued July 1, 2010, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation, p. 26.

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 shall file a revised monthly report for that month within 30 days of any revision.

Monthly Rates for Water and Wastewater Systems

The appropriate pre-repression revenue requirements, including a \$625,000 reallocation of reuse costs from the wastewater system to the water system and excluding miscellaneous service charges, are \$4,083,510 for the water system and \$3,792,226 for the wastewater system. As discussed previously, we have found that the appropriate rate structure for the water system's residential class is an inclining-block rate structure, with monthly usage blocks of 0-6,000 gallons for the first block (representing nondiscretionary consumption); 6,001-10,000 gallons for the second block; 10,001-15,000 gallons for the third block; and usage in excess of 15,000 gallons for the fourth block. The usage block rate factors for usage greater than 6,000 gallons per month shall be 1.0, 1.5 and 2.0, respectively. The BFC cost recovery percentage shall be set at 22.9 percent, resulting in Utility's BFC for a 5/8" x 3/4" meter customer to remain unchanged from the corresponding rate prior to filing. The traditional BFC/uniform gallonage charge rate structure shall be applied to all non-residential rate classes.

As discussed previously, we find it appropriate to continue the current BFC/gallonage charge rate structure for the wastewater system, with the BFC set at 50%. The residential wastewater monthly gallonage cap for billed usage shall continue at 10,000 gallons, and the general service gallonage charge shall remain at 1.2 times the corresponding residential rate.

Based on the foregoing, regarding the Utility's water system, the inclining block rate structure shall be continued for this utility's residential rate class, with the rate factors for the two usage blocks greater than 10,000 per month of consumption increasing to 1.5 and 2.0, respectively. In addition, the traditional BFC/uniform gallonage charge rate structure shall remain as the appropriate water rate structure for nonresidential customer classes, with the uniform gallonage charge calculated by dividing the total revenues to be recovered through the gallonage charge by the total of gallons attributable to all rate classes. This shall be the same methodology used to determine both the general and multi-residential service gallonage charge in this case. Furthermore, \$625,000 of reuse costs shall be allocated to the water system. The entire increase in water system revenue requirements shall be allocated to the gallonage charge, and the BFC shall remain unchanged at \$4.43 for a 5/8" x 3/4" meter customer.³¹

Regarding the Utility's wastewater system, the residential wastewater gallonage charge cap shall remain at 10 kgal, and the general service gallonage charge shall remain at 1.2 times the corresponding residential rate. A repression adjustment shall be made to the water system. Applying these rate designs and repression adjustments to the approved pre-repression revenue

³¹ Order No. PSC-07-0535-AS-WS, issued June 26, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 2; Order No. PSC-07-0205-PAA-WS, issued March 6, 2007, in Docket No. 060258-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp., p. 33; Order No. PSC-10-0423-PAA-WS, issued July 1, 2010, in Docket No. 090402-WS, issued July 1, 2010, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation, p. 26.

requirements results in the final rates contained in Schedules No. 4-A and No. 4-B, attached hereto and incorporated herein by reference. These rates are designed to recover a post-repression revenue requirement for the water system of \$4,054,013 and a revenue requirement for the wastewater system of \$3,792,226.

The Utility shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect our approved rates. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decisions contained herein. 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), Florida Administrative Code. The approved rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the Utility's original rates, requested rates, and our approved water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively.

OTHER ISSUES

Refund Amount and Methodology

By Order No. PSC-12-0029-PCO-WS we authorized Sanlando to collect interim water and wastewater rates, subject to refund, pursuant to Section 367.082, F.S.³² The approved interim revenue requirement for water of \$3,882,411 represented an increase of \$488,014 or 14.38 percent. The approved interim revenue requirement for wastewater of \$3,907,536, represented an increase of \$382,524 or 10.85 percent.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2010. Sanlando's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated an adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirements of \$3,882,411 for water and \$3,907,536 for wastewater, granted in Order PSC-10-0018-PCO-WS, are greater than the revenue requirement for water by 8.89 percent and less than

³² See Order No. PSC-12-0029-PCO-WS, issued January 19, 2012.

the revenue requirement for wastewater by 17.62 percent. This would result in a 8.89 percent water refund and no refund for wastewater.

However, as stated above, we find that wastewater revenues of \$625,000 related to the Utility's reuse system be shifted and reallocated to the water system. Because of the reallocation of these revenues, we believe that using Sanlando's total company revenue requirement be used for determining whether an interim refund is warranted. This methodology is consistent with our decision in the Utility's last rate case.³³ No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. Further, the surety bond shall be released.

Four-Year Amortization Period Rate Reduction Amount

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 \$38,793 for water and \$30,271 for wastewater. The decreased revenue will result in the rate reduction contained on Schedule Nos. 4-A and 4-B.

The Utility shall be required to file revised tariff sheets and a proposed customer notice to reflect the approved rates. 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. Sanlando 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 expense.

Proof of Compliance

To ensure that the Utility adjusts its books in accordance with our decision, Sanlando shall provide proof, within 90 days of the final order in this docket, that the adjustments to all the applicable NARUC USOA accounts have been made.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increased water and wastewater rates of Sanlando Utilities Corporation is approved as set forth in the body of this Order. It is further

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

³³ See Order No. PSC-10-0423-PAA-WS, pp. 30-31.

ORDERED that the schedules and attachments to this Order are incorporated by reference herein. It is further

ORDERED that Sanlando Utilities Corporation is hereby authorized to charge the new rates and charges as set forth herein and as approved in the body of this Order. It is further

ORDERED that Sanlando Utilities Corporation shall file revised water and wastewater tariff sheets and a proposed customer notice to reflect the approved water and wastewater rates shown on Schedules 4A and 4B. It is further

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. 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 rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Sanlando Utilities Corporation 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 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 quarterly basis, for a period of two years beginning with the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule Nos. 4A and 4B to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. 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, pursuant to Section 367.0816, F.S. The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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 the provisions of this Order, except for the four-year rate reduction and the requirement of proof of adjustments, 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,F.A.C., is received by the Office of 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." It is further

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

ORDERED, in the event no protest is filed, this docket shall remain open for our staff's verification that the revised tariff sheets and customer notice have been filed by the Utility and approved by our staff. Once these actions are complete, this docket shall be closed administratively. It is further

By ORDER of the Florida Public Service Commission this 14th day of February, 2013.



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

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

CMK

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, our action herein, except for the four-year rate reduction and proof of adjustment of books and records, 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 March 7, 2013. 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.

Sanlando Utilities Corporation Schedule of Water Rate Base Test Year Ended 12/31/10				Schedule No. 1A Docket No. 110257-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year
1 Plant in Service	\$24,623,945	(\$2,082,422)	\$22,541,523	(\$107,142)	\$22,434,381
2 Land and Land Rights	128,519	(31,363)	97,156	0	97,156
3 Non-U&U Components	0	0	0	0	0
4 Accumulated Depreciation	(12,371,122)	1,025,527	(11,345,595)	(85,184)	(11,430,779)
5 CIAC	(11,942,826)	522,723	(11,420,103)	0	(11,420,103)
6 Amortization of CIAC	9,038,180	(71,829)	8,966,351	(1,630)	8,964,721
7 Construction Work in Progress	10,151	(10,151)	0	0	0
8 Acquisition Adjustments	0	0	0	0	0
9 Working Capital Allowance	<u>0</u>	<u>257,178</u>	<u>257,178</u>	<u>18,935</u>	<u>276,113</u>
10 Rate Base	<u>\$9,486,847</u>	<u>(\$390,337)</u>	<u>\$9,096,510</u>	<u>(\$175,022)</u>	<u>\$8,921,488</u>

Sanlando Utilities Corporation Schedule of Wastewater Rate Base Test Year Ended 12/31/10			Schedule No. 1B Docket No. 110257-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year
1 Plant in Service	\$25,530,759	\$4,691,232	\$30,221,991	\$367,351	\$30,589,342
2 Land and Land Rights	203,894	166	204,060	0	204,060
3 Non-U&U Components	0	0	0	0	0
4 Accumulated Depreciation	(12,371,122)	1,025,527	(13,837,951)	196,822	(13,641,129)
5 CIAC	(11,942,826)	643,365	(12,558,761)	(1,445,252)	(14,004,013)
6 Amortization of CIAC	9,038,180	98,999	10,106,077	80,547	10,186,624
7 Working Capital Allowance	<u>0</u>	<u>313,377</u>	<u>313,377</u>	<u>25,402</u>	<u>338,779</u>
8 Rate Base	<u>\$10,151</u>	<u>\$5,261,366</u>	<u>\$14,448,793</u>	<u>(\$775,132)</u>	<u>\$13,673,661</u>

Sanlando Utilities Corporation
Adjustments to Rate Base
Test Year Ended 12/31/10

Schedule No. 1C
Docket No. 110257-WS

Explanation	Water	Wastewater
<u>Plant In Service</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	(\$6,639)	(\$144,250)
2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)	(105,531)	(82,347)
3 Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4)	(4,152)	(21,691)
4 Reflect the appropriate pro forma plant. (Issue 5)	<u>9,180</u>	<u>615,639</u>
Total	<u>(\$107,142)</u>	<u>\$367,351</u>
<u>Accumulated Depreciation</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	\$21,096	\$131,297
2 Reflect appropriate adjustments for Phoenix Project. (Issue 3)	63,729	49,729
3 Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4)	(169,796)	30,138
4 Reflect the appropriate pro forma accumulated depreciation. (Issue 5)	<u>(213)</u>	<u>(14,342)</u>
Total	<u>(\$85,184)</u>	<u>\$196,822</u>
<u>CIAC</u>		
Reflect contribution from SJRWMD. (Issue 5)	<u>\$0</u>	<u>(\$1,445,252)</u>
<u>Accumulated Amortization of CIAC</u>		
1 Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments. (Issue 4)	(\$1,630)	\$74,843
2 Reflect contribution from SJRWMD. (Issue 5)	<u>0</u>	<u>5,704</u>
Total	<u>(\$1,630)</u>	<u>\$80,547</u>
<u>Working Capital</u>		
1 Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	\$26,004	\$27,611
2 Reflect appropriate working capital per Rule 25-30.433, F.A.C. (Issue 7)	<u>(7,069)</u>	<u>(2,209)</u>
Total	<u>\$18,935</u>	<u>\$25,402</u>

		Sanlando Utilities Corporation				Schedule No. 3A		
		Statement of Water Operations				Docket No. 110257-WS		
		Test Year Ended 12/31/10						
	Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Comm. Adjust- ments	Comm. Adjusted Test Year	Revenue Increase Requirement	
1	Operating Revenues:	<u>\$3,281,289</u>	<u>\$711,630</u>	<u>\$3,992,919</u>	<u>(\$475,925)</u>	<u>\$3,516,994</u>	<u>(\$8,482)</u> -0.24%	<u>\$3,508,512</u>
	Operating Expenses							
2	Operation & Maintenance	\$2,131,700	\$106,134	\$2,237,834	(350,672)	1,887,162		1,887,162
3	Depreciation	112,219	150,333	262,552	(40,003)	222,549		222,549
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	473,115	4,767	477,882	(64,186)	413,696	(382)	413,314
6	Income Taxes	<u>79,778</u>	<u>192,599</u>	<u>272,377</u>	<u>(11,562)</u>	<u>260,815</u>	<u>(3,048)</u>	<u>257,767</u>
7	Total Operating Expense	<u>2,796,812</u>	<u>453,833</u>	<u>3,250,645</u>	<u>(466,423)</u>	<u>2,784,222</u>	<u>(3,430)</u>	<u>2,780,792</u>
8	Operating Income	<u>\$484,477</u>	<u>\$257,797</u>	<u>\$742,274</u>	<u>(\$9,502)</u>	<u>\$732,772</u>	<u>(\$5,052)</u>	<u>\$727,720</u>
9	Rate Base	<u>\$9,486,847</u>		<u>\$9,096,510</u>		<u>\$8,921,488</u>		<u>\$8,921,488</u>
10	Rate of Return	<u>5.11%</u>		<u>8.16%</u>		<u>8.21%</u>		<u>8.16%</u>

Sanlando Utilities Corporation		Schedule No. 3B					
Statement of Wastewater Operations		Docket No. 110257-WS					
Test Year Ended 12/31/10							
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Comm. Adjustments	Comm. Adjusted Test Year	Revenue	Revenue
						Increase	Requirement
1 Operating Revenues:	\$3,602,240	\$1,053,999	\$4,656,239	(\$1,199,706)	\$3,456,533	\$1,110,170	\$4,566,703
						32.12%	
Operating Expenses	0	0	0				
2 Operation & Maintenance	\$2,189,391	\$127,362	\$2,316,753	74,336	2,391,089		2,391,089
3 Depreciation	-75,463	688,392	612,929	(26,815)	586,114		586,114
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	383,202	129,488	512,690	(60,925)	451,765	49,958	501,722
6 Income Taxes	64,616	-29,770	34,846	(461,379)	(426,533)	398,958	(27,575)
7 Total Operating Expense	2,561,746	915,472	3,477,218	(474,783)	3,002,435	448,915	3,451,350
8 Operating Income	\$1,040,494	\$138,527	\$1,179,021	(\$724,923)	\$454,098	\$661,254	\$1,115,352
9 Rate Base	\$9,187,427		\$14,448,793		\$13,673,661		\$13,673,661
10 Rate of Return	11.33%		8.16%		3.32%		8.16%

Sanlando Utilities Corporation
Adjustment to Operating Income
Test Year Ended 12/31/10

Schedule No. 3C
Docket No. 110257-WS

Explanation	Water	Wastewater
<u>Operating Revenues</u>		
Remove requested final revenue increase.	<u>(\$475,925)</u>	<u>(\$1,199,706)</u>
<u>Operation and Maintenance Expense</u>		
1 Reflect audit adjustments agreed to by Utility and staff.	(\$33,011)	(\$59,578)
2 Reflect appropriate adjustments for Phoenix Project.	(20,280)	(15,825)
3 Excessive Unaccounted for Water Adjustment.	(5,568)	0
4 Reflect the appropriate amount of salaries and benefits.	(280,768)	156,915
5 Remove duplicative billing costs.	(1,848)	0
6 Reflect the appropriate rate case expense.	<u>(9,197)</u>	<u>(7,176)</u>
Total	<u>(\$350,672)</u>	<u>\$74,336</u>
<u>Depreciation Expense - Net</u>		
1 Reflect audit adjustments agreed to by Utility and staff.	(\$3,739)	(\$6,324)
2 Audit Finding No. 5 - Reflect the depreciation life Project Phoenix.	(36,514)	(28,492)
3 Audit Finding No. 2 - Reflect the appropriate Commission ordered adjustments.	37	(638)
4 Reflect the appropriate pro forma depreciation expense.	213	14,342
5 Reflect contribution from SJRWMD.	<u>0</u>	<u>(5,704)</u>
Total	<u>(\$40,003)</u>	<u>(\$26,815)</u>
<u>Taxes Other Than Income</u>		
1 RAFs on revenue adjustments above.	(\$21,417)	(\$53,987)
2 Reflect audit adjustments agreed to by Utility and staff.	(25,704)	(24,747)
3 Reflect the appropriate pro forma property taxes.	0	8,288
4 Reflect the appropriate amount of payroll taxes.	<u>(17,065)</u>	<u>9,520</u>
Total	<u>(\$64,186)</u>	<u>(\$60,925)</u>

Sanlando Utilities Corporation		Schedule No. 4-A			
Water Monthly Service Rates		Docket No. 110257-WS			
Test Year Ended 12/31/10					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	4-Year Rate Reduction
<u>Residential, General Service, Bulk Service and Multi-Residential</u>					
Base Facility Charge by Meter Size:					
5/8"	\$4.41	\$5.08	\$4.94	\$4.43	\$0.05
3/4"	\$6.63	\$7.62	\$7.41	\$6.65	\$0.07
1"	\$11.04	\$12.70	\$12.35	\$11.08	\$0.12
1-1/2"	\$22.09	\$25.41	\$24.70	\$22.15	\$0.24
2"	\$35.35	\$40.65	\$39.52	\$35.44	\$0.39
3"	\$70.69	\$81.28	\$74.10	\$70.88	\$0.78
4"	\$110.46	\$127.01	\$123.50	\$110.75	\$1.22
6"	\$220.92	\$254.01	\$247.00	\$221.50	\$2.45
8"	\$353.47	\$406.43	\$395.20	\$398.70	\$4.41
 <u>Residential Gallonage Charge, per 1,000 Gallons</u>					
0-6,000 Gallons	\$0.75	\$0.87	\$0.84	\$0.88	\$0.01
6,001-10,000 Gallons	\$0.79	\$0.92	\$0.88	\$0.95	\$0.01
10,001-15,000 Gallons	\$1.01	\$1.16	\$1.13	\$1.42	\$0.02
Over 15,000 Gallons	\$1.41	\$1.62	\$1.57	\$1.89	\$0.02
 <u>General Service, Bulk Service and Multi-Residential Gallonage Charge, per 1,000 Gallons</u>					
Gallonage Charge, per 1,000 Gallons	\$1.10	\$1.26	\$1.23	\$1.39	\$0.02
 <u>Private Fire Protection</u>					
Base Facility Charge by Meter Size:					
1.5"	\$1.84	\$2.12	\$2.06	\$1.85	\$0.02
2"	\$2.95	\$3.39	\$3.30	\$2.95	\$0.03
4"	\$9.20	\$10.58	\$10.30	\$9.23	\$0.10
6"	\$18.42	\$21.18	\$20.63	\$18.46	\$0.20
8"	\$29.46	\$33.87	\$33.00	\$33.23	\$0.37
 <u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$6.66	\$7.69	\$7.46	\$7.07	
5,000 Gallons	\$8.16	\$9.43	\$9.14	\$8.83	
10,000 Gallons	\$12.07	\$13.97	\$13.50	\$13.51	

Sanlando Utilities Corporation			SCHEDULE NO. 4-B		
Wastewater Monthly Service Rates			Docket No. 110257-WS		
Test Year Ended 12/31/10					
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Comm. Approved Final	Four-Year Rate Reduction
<u>Residential (RS)</u>					
Base Facility Charge All Meter Sizes:	\$12.37	\$13.70	\$16.30	\$12.28	\$0.08
Gallage Charge - Per 1,000 gallons (10,000 gallon cap)	\$1.63	\$1.81	\$2.14	\$1.96	\$0.01
<u>General Service (GS), Bulk Service (BS) and Multi-Residential (MS)</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$12.37	\$12.29	\$16.30	\$12.28	\$0.08
3/4"	\$18.56	\$18.43	\$24.45	\$18.43	\$0.12
1"	\$30.92	\$30.72	\$40.75	\$30.71	\$0.20
1-1/2"	\$61.81	\$61.44	\$81.50	\$61.42	\$0.41
2"	\$98.89	\$98.31	\$130.40	\$98.28	\$0.65
3"	\$197.77	\$196.62	\$244.50	\$196.56	\$1.30
4"	\$309.01	\$307.22	\$407.50	\$307.12	\$2.04
6"	\$618.08	\$614.45	\$815.00	\$614.24	\$4.07
8"	\$988.90	\$1,106.01	\$1,304.00	\$1,105.64	\$7.33
Gallage Charge, per 1,000 Gallons	\$1.98	\$2.20	\$2.61	\$2.35	\$0.02
RS, GS & MR Wholesale Rate	\$26.17	\$28.98	\$34.50	\$25.98	\$0.17
<u>Reuse Service</u>					
RS Base Facility Charge	\$3.81	\$4.20	\$5.02	\$4.43	\$0.03
Gallage Charge - Per 1,000 Gallons	\$0.41	\$0.45	\$0.54	\$0.44	\$0.00
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$17.26	\$19.13	\$22.72	\$18.16	
5,000 Gallons	\$20.52	\$22.75	\$27.00	\$22.08	
10,000 Gallons	\$28.67	\$31.80	\$37.70	\$31.88	
(Wastewater Gallage Cap - 10,000 Gallons)					