

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in
water/wastewater rates in Polk County by
Cypress Lakes Utilities, Inc.

DOCKET NO. 130212-WS
ORDER NO. PSC-14-0283-PAA-WS
ISSUED: May 30, 2014

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING IN PART CYPRESS LAKES UTILITIES, INC.'S
APPLICATION FOR WATER RATE INCREASE
AND DECREASING WASTEWATER RATES IN POLK COUNTY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the amortization for rate case expense over four years and requiring proof of adjustments to the Utility's books, 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

Cypress Lakes Utilities, Inc. (CLU or Utility), a wholly-owned subsidiary of Utilities, Inc. (UI), is a Class B utility in Polk County. Rates were last established for CLU in its limited proceeding in Docket No. 090349-WS.¹ CLU's last full rate case proceeding was in Docket No. 060257-WS.²

On September 30, 2013, CLU filed its application for a rate increase at issue in the instant docket. The Utility's application met the minimum filing requirements (MFRs) on September 30, 2013. The test year established for interim and final rates is the simple average period ended December 31, 2012. The Utility served 1,447 residential water and wastewater customers and

¹ See Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, in Docket No. 090349-WS, In re: Application for limited proceeding rate increase in Polk County by Cypress Lakes Utilities, Inc.

² See Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, in Docket No. 060257-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

several general service water and wastewater customers during the test year. CLU also served approximately 40 general service water only customers.

On December 3, 2013, this Commission approved an interim rate increase designed to generate an interim revenue increase of \$85,052 (26.80 percent) for the water system only.³ The interim rates are subject to refund with interest, pending the conclusion of the rate case. The Utility requested final revenue increases of \$100,603 (31.71 percent) for water and \$26,350 (3.95 percent) for wastewater.

A customer meeting was held on December 19, 2013. In letters filed on December 12, 2013 and January 30, 2014, the Office of Public Counsel (OPC) outlined issues that it believed Commission staff should consider. Letters from customers opposing the rate increase were also filed in the docket.

The original five-month statutory deadline for this Commission to address the Utility's requested final rates was waived by the Utility through May 9, 2014.

This Order addresses the Utility's requested final rates and the appropriate disposition of interim rates. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes (F.S.).

Quality of Service

Pursuant to Rule 25-30.433(1), F.A.C., we determine the overall quality of service a utility provides by evaluating the quality of its product, the operational condition of its plant and facilities, and its attempt to address customer satisfaction.

Our review includes CLU's current compliance with the Department of Environmental Protection (DEP) for wastewater and Polk County Health Department (PCHD) for water. We found no outstanding enforcement issues regarding the operational condition of CLU's plant and facilities. However, CLU's water operation has long been a main area of customer dissatisfaction, PCHD actions, and our previous review of the Utility's quality of service. Therefore, the following discussion is focused on the water product and operation.

Previous Decisions

In Docket No. 060257-WS, the customers expressed dissatisfaction with water quality, particularly a lack of consistent chlorine residual that resulted in finished water having a strong sulfur odor. By Order No. PSC-07-0199-PAA-WS, issued March 5, 2007, we determined that the quality of service provided by CLU was marginally satisfactory. The decision was in part due to the lack of sufficient demonstration by the Utility to address the water quality problems. In an effort to improve the customer satisfaction, we required CLU to perform a complete evaluation of options to address the problems.

³ See Order No. PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

In Docket No. 090349-WS, we reviewed the Utility's efforts to address the problems, deficiencies found by PCHD, and dissatisfaction expressed by customers. In Order No. PSC-10-0682-PAA-WS, issued November 15, 2010, we noted that CLU had made modifications, such as the interconnection of a common header pipe system, based on its consultant's evaluation of the prime cause of the problems. The modifications were successful in improving the chlorine residual issue throughout the area until 2010, when the issue recurred. CLU admitted that it failed to maintain the free chlorine residual between 0.2 parts per million (ppm) and 4 ppm and agreed to pay \$1,799 to settle with PCHD in a Consent Order dated June 1, 2010.

We recognized these deficiencies and the dissatisfaction expressed by customers. However, the Utility was actively working to maintain compliance with the PCHD to address customer concerns regarding the quality of the water product. CLU initiated a comprehensive flushing of dead end lines in 2010. The Utility also planned to implement the unidirectional flushing program and the installation of meters at flushing points. All things considered, we reached the conclusion in the last limited rate case that the quality of service provided by CLU was satisfactory.

Recent Developments

CLU converted to chloramine disinfection in July 2011. The conversion was necessary because the previous disinfectant, free chlorine, has a tendency to react with naturally-occurring materials in CLU's water supply to form undesirable byproducts exceeding the level allowed by DEP regulations. Chloramine, also known as combined chlorine, is a weaker disinfectant resulting from the combination of chlorine and ammonia. Chloramine requires a more extensive flushing program.

To better quantify and control the flushing, CLU installed automatic flushing valves (AFVs) at fourteen locations to supplement its manual flushing points in existence before 2010. In addition, CLU installed meters at 11 of these flushing points in 2012 and 2013. The remaining three AFV flushing points are to be metered in 2014.

According to data provided by CLU, 23.9 million gallons of water were estimated for the flushing use in the test year of 2012. That is 32 percent of the 74.6 million gallons of treated water metered at the water treatment plant. In 2013, flushing use is estimated to be 51 percent of the 94.3 million gallons of treated water.

The high amount of flushing in 2013 may be attributed to CLU's response to a deficiency found by PCHD in a sanitary survey inspection conducted on February 1, 2013. The combined chlorine residual was found to be less than the required 0.6 ppm in the distribution system. In its response to PCHD, the Utility stated that the combined chlorine residual of 0.6 ppm was established throughout the distribution system within 24 hours of notification by PCHD. According to CLU, it addressed the issue by flushing daily and checking residuals daily in all areas of the community to insure that the minimum combined chlorine residual is met.

Quality of Service Concerns

A customer meeting was held on December 19, 2013, at the Cypress Lakes Clubhouse in Lakeland, Florida. Approximately 60 customers attended the meeting and 7 customers signed up to comment. Customers who did not sign up were also given an opportunity to speak. The majority of those who commented expressed concerns that the proposed rate increase will likely produce little or no tangible improvement in water quality based on their own experiences. Several attendees also expressed dissatisfaction with the water quality provided by the Utility. Similar correspondence from customers opposing the rate increase was also filed in the docket.

As part of the follow-up of actions taken to address the water quality concerns raised at the customer meeting, Commission staff requested that CLU conduct tests of the water supply of seven customers who raised water quality concerns at the meeting. The requested tests were for 16 inorganic and 14 secondary contaminants regulated in Florida. Based on test results provided by CLU, the levels of these contaminants are below the maximum levels allowed and appear to meet the quality standards.

Some customers were also concerned with the rising level of treated water that is used by CLU for flushing. While flushing may be necessary to address PCHD's requirement regarding the minimum combined chlorine residual, excessive flushing may be inconsistent with the consumptive use policies under the jurisdiction of the Southwest Florida Water Management District (SWFWMD). Dr. Robert M. Halleen, a customer representing the Cypress Lakes Homeowners' Association, raised questions in his letters about CLU's water data and pointed out that the amount of wastewater treated exceeds the water sold. OPC also raised a similar issue of excessive treatment costs that should be reduced. These cost concerns related to infiltration and inflow (I&I) in the wastewater system and excessive unaccounted for water (EUW) in the water system are addressed later in this Order.

Summary

The Utility appears to have taken reasonable actions to comply with regulations under the jurisdictions of PCHD and DEP. There are no outstanding enforcement issues regarding the operational condition of the Utility's water and wastewater facilities. Based on test results, the water provided by CLU appears to have met the quality standards. Additionally, CLU appears to be responsive to its customers. Therefore, we find that the quality of service provided by the Utility is satisfactory.

However, there is a significant level of concern by the customers, OPC, and this Commission regarding the amount of water used in connection with CLU's flushing program. We therefore direct that, within 6 months of the issuance of this Order, the Utility shall meet with its customers, OPC, and Commission staff to explore what alternative disinfection processes may be available to the Utility, including the costs associated with those alternatives.

Audit Adjustments to Rate Base

In its response to the staff audit report and other correspondence, CLU agreed to the audit adjustments as set forth in the tables below. Based on the audit adjustments agreed to by the Utility, the following adjustments shall be made to rate base as set forth in the tables below.

Table 1

Agreed to Audit Adjustments (Water)				
<u>Water-CLU Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>
Finding No. 2 - Reflect retirements not recorded.	(\$22,732)	\$22,820	\$0	\$0
Finding No. 4- Correct expenses misclassified as plant.	(1,510)	155	0	0
Finding No. 7 - Correct roll forward accumulated depreciation adjustment.	0	(1,018)	0	0
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of- Construction.	199,550	(23,583)	(200,190)	23,685
Finding No. 10 - Reflect appropriate accumulated amortization of Contributions-in-Aid-of-Construction.	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9,164)</u>
Subtotal Water – CLU Adjustments	<u>\$175,308</u>	<u>(\$1,626)</u>	<u>(\$200,190)</u>	<u>\$14,521</u>
<u>Water-Affiliate Audit Findings</u>				
Finding No. 1 - Correct reallocated transportation accounts.	(\$9,820)	\$1,017	\$0	\$0
Finding No. 4 - Reflect prior Commission-ordered adjustments.	<u>(7,377)</u>	<u>14,957</u>	<u>0</u>	<u>0</u>
Subtotal Water - Affiliate Adjustments	<u>(\$17,197)</u>	<u>\$15,974</u>	<u>\$0</u>	<u>\$0</u>
Total Water Audit Adjustments	<u>\$158,109</u>	<u>\$14,346</u>	<u>(\$200,190)</u>	<u>\$14,521</u>

Table 2

Agreed to Audit Adjustments (Wastewater)				
<u>Wastewater-CLU Audit Findings</u>	<u>Plant</u>	<u>Accum. Depr.</u>	<u>CIAC</u>	<u>Accum. Amort. of CIAC</u>
Finding No. 2 - Reflect retirements not recorded.	(\$16,896)	\$19,801	\$0	\$0
Finding No. 4- Correct expenses misclassified as plant.	(1,823)	246	0	0
Finding No. 5 - Correct costs associated with sludge equipment.	(2,335)	254	0	0
Finding No. 6 - Correct misclassification of wastewater treatment additions and retirements.	(16,639)	(72,950)	0	0
Finding No. 7 - Correct roll forward accumulated depreciation adjustment.	0	(2,011)	0	0
Finding No. 8- Correct accumulated depreciation understatement.	0	(86,626)	0	0
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of-Construction.	<u>463,551</u>	<u>(70,429)</u>	<u>(466,036)</u>	<u>70,703</u>
Subtotal Wastewater - CLU Adjustments	<u>\$425,858</u>	<u>(\$211,715)</u>	<u>(\$466,036)</u>	<u>\$70,703</u>
<u>Wastewater-Affiliate Audit Findings</u>				
Finding No. 1 - Correct reallocated transportation accounts.	(\$9,025)	\$935	\$0	\$0
Finding No. 4 - Reflect prior Commission-ordered adjustments.	<u>(6,780)</u>	<u>13,745</u>	<u>0</u>	<u>0</u>
Subtotal Wastewater - Affiliate Adjustments	<u>(\$15,805)</u>	<u>\$14,680</u>	<u>\$0</u>	<u>\$0</u>
Total Wastewater Audit Adjustments	<u>\$410,053</u>	<u>(\$197,036)</u>	<u>(\$466,036)</u>	<u>\$70,703</u>

Phoenix Project

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of UI and its subsidiaries. UI's Phoenix Project became operational in December 2008. Since 2009, we have approved recovery of the

cost of the Phoenix Project in several UI rate cases.⁴ In those cases, UI allocated the Phoenix Project costs based on the ratio of each subsidiary's equivalent residential connections (ERCs) to UI's total ERCs. In the instant case, UI allocated 0.91 percent of its costs to CLU based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project costs for the test year are \$22,561,496,⁵ of which the Utility calculated its allocated share to be \$206,196.

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 subsidiaries in other states. By Order No. PSC-10-0585-PAA-WS, issued September 22, 2010, in Docket No. 090462-WS, this Commission found that allocating costs according to ERCs is an appropriate methodology to spread the cost of the Phoenix Project, but we found that the Phoenix Project costs previously allocated to the divested subsidiaries should not be reallocated to the surviving utilities.⁶ 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 required UI to deduct the divested subsidiaries' allocation amounts from the total cost of the Phoenix Project before allocating any such costs to the remaining UI subsidiaries.

Affiliate Audit Finding Nos. 2 and 3

By Order No. PSC-10-0407-PAA-SU, issued June 21, 2010 in Docket No. 090381-SU, we established the total cost of the Phoenix Project as of December 31, 2008, at \$21,617,487 and then required UI to deduct \$1,724,166 from the total cost of the Phoenix Project for divestitures, resulting in a balance of \$19,893,321, before allocating costs to the remaining UI subsidiaries.⁷ According to Commission staff's affiliate audit report, the Utility did not make adjustments in the MFRs to reflect the amounts ordered for the Phoenix Project. Affiliate Audit Finding No. 2 recommends that plant and accumulated depreciation be reduced to reflect the allocated share of the Commission-ordered Phoenix Project cost of \$19,893,321. The Utility shows the Phoenix Project balance at December 31, 2008, to be \$21,525,403. The difference between the Utility's balance and the ordered amount is \$1,632,082.

In Affiliate Audit Finding No. 3, Commission audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years, as directed by

⁴ See Docket Nos. 120209-WS, 120076-SU, 120037-WS, 110257-WS, 110264-WS, 110153-SU, 100426-WS, 090531-WS, 090462-WS, 090402-WS, 090392-WS, 080250-SU, 080249-WS, 080248-SU, 080247-SU, 070695-WS, 070694-WS, and 070693-WS.

⁵ See Audit Control No. 13-296-4-2, Work Paper No. 22-5.6.1, in Docket No. 130212-WS.

⁶ 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.

⁷ See Order No. PSC-10-0407-PAA-SU, issued on June 21, 2010, in Docket No. 090381-WS, In re: Application for increase in wastewater rates in Seminole County by Utilities Inc. of Longwood, p. 6.

Order No. PSC-10-0407-PAA-SU. The accumulated depreciation and depreciation expense on the Phoenix Project have been adjusted from eight to ten years to comply with the Order.

In its response to the affiliate audit, the Utility did not object to the Affiliate Audit Findings. However, the Utility believes that the treatment of Phoenix Project costs in Affiliated Audit Finding No. 2 should be held in abeyance pending the outcome of the UI Generic Docket No. 120161-WS.⁸ No additional information was provided by the Utility. We find that the appropriate depreciable life for the Phoenix Project is ten years. Therefore, water and wastewater plant has been decreased by \$14,851. Corresponding adjustments have also been made to decrease accumulated depreciation by \$25,526, and to decrease depreciation expense by \$6,381. Based on Affiliate Audit Finding Nos. 2 and 3, our prior orders, and the additional subsidiary divestitures discussed below, we find it necessary to make additional adjustments to plant, accumulated depreciation, and depreciation expense.

Additional Divestitures of UI Subsidiaries

In 2010, UI divested four additional systems and subsidiaries in North Carolina, South Carolina, and Florida. The four divested systems collectively represent 9,518 ERCs. By Order No. PSC-12-0206-PAA-WS, we further reduced the total cost of the Phoenix Project for systems divested in 2010.⁹ In 2011 and 2012, a total of nine additional systems were divested by UI, representing an additional 7,909 ERCs. Consistent with our prior decisions, the adjustment to deduct the proportional amount of the divested companies from the total cost of the Phoenix Project shall also be made for subsequent divestitures. By Order No. PSC-14-0025-PAA-WS, we further reduced the total cost of the Phoenix Project for systems divested in 2011 and 2012.¹⁰ No additional divestitures were reported through 2013. For purposes of this adjustment, the net number of ERCs related to the divested systems is 17,427 (9,518 + 7,909), or 6.57 percent of the total number of ERCs through the 2012 test year for UI. The divested systems and the corresponding ERCs are shown in the table below.

⁸ On May 23, 2012, Utilities, Inc. of Eagle Ridge, on behalf of its Florida subsidiaries and pursuant to a stipulation and settlement agreement entered into with the Office of Public Counsel, filed a petition for the establishment of a generic docket to address this Commission's treatment of the Phoenix Project costs. This generic docket has been assigned Docket No. 120161-WS.

⁹ See Order No. PSC-12-0206-PAA-WS, issued April 17, 2012, in Docket No. 110264-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., p. 12; and Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

¹⁰ See Order No. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-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. 12.

Table 3

ERC/Percentage of Divested Subsidiaries		
<u>System</u>	<u>ERCs</u>	<u>ERC%</u>
Bio Tech Admin.	0	0.00%
Carolina Water Serv., Inc. of N.C.	327	0.12%
South Carolina Utilities, Inc. (United Utility Company)	246	0.09%
Alafaya Utilities, Inc. (as of 12/31/07)	8,945	3.37%
Carolina Water Serv., Inc. of N.C.	512	0.19%
Cabarrus Woods	5,175	1.95%
Forest Ridge	518	0.20%
Lamplighter Village	349	0.13%
Britley	123	0.05%
Windsor Chase	135	0.05%
Bayside Utility Services	437	0.16%
Sandy Creek Services	370	0.14%
Woodbury Subdivision	<u>290</u>	<u>0.11%</u>
Total	<u>17,427</u>	<u>6.57%</u>

Consistent with our prior decisions, the total cost of the Phoenix Project for UI shall be reduced by an additional 6.57 percent, or \$1,481,788 ($\$22,561,496 \times 0.0657$), to account for the divestiture of subsidiaries through 2012. The effect on the filing decreases water and wastewater plant by \$7,060 and \$6,483, respectively. Corresponding adjustments shall also be made to decrease water and wastewater accumulated depreciation by \$353 and \$324, respectively. Water and wastewater depreciation expense shall also be decreased by \$706 and \$648, respectively.

Tables 4 through 6 show the plant, accumulated depreciation, and depreciation expense adjustments described above by water and wastewater service, as well as the total adjustment for each service which is reflected on the appropriate Schedule Nos. 1-C and 3-C.

Table 4

Plant Adjustments			
<u>System</u>	<u>Divestiture Plant Adj.</u>	<u>Prior Order Plant Adj.</u>	<u>Total Adjustment</u>
Water	(\$7,060)	(\$7,741)	(\$14,801)
Wastewater	<u>(6,483)</u>	<u>(7,110)</u>	<u>(13,593)</u>
Total	<u>(\$13,543)</u>	<u>(\$14,851)</u>	<u>(\$28,393)</u>

Table 5

Accumulated Depreciation Adjustments			
<u>System</u>	<u>Divestiture Acc. Dep. Adj.</u>	<u>Prior Order Acc. Dep. Adj.</u>	<u>Total Adjustment</u>
Water	\$353	\$13,305	\$13,658
Wastewater	324	12,221	12,545
Total	<u>\$677</u>	<u>\$25,526</u>	<u>\$26,203</u>

Table 6

Depreciation Expense Adjustments			
<u>System</u>	<u>Divestiture Dep. Exp. Adj.</u>	<u>Prior Order Dep. Exp. Adj.</u>	<u>Total Adjustment</u>
Water	(\$706)	(\$3,326)	(\$4,032)
Wastewater	(648)	(3,055)	(3,703)
Total	<u>(\$1,354)</u>	<u>(\$6,381)</u>	<u>(\$7,735)</u>

Computer Maintenance Expense

In several recent rate cases involving CLU’s sister companies, we recognized the volatility of computer maintenance expense. Due to this volatility, we determined that a five-year average is an appropriate basis for ratemaking purposes, and 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 five-year average and CLU’s ERC allocation percentage, we find that a reduction of \$2,216 for water and \$2,035 for wastewater is appropriate. Moreover, to remove the Phoenix Project computer maintenance charge for the divested systems’ share, computer maintenance expense shall be further reduced by \$90 for water and \$82 for wastewater. The following table shows the adjustments described above by water and wastewater service. The total adjustments are reflected on Schedule No. 3-C.

¹¹ See Order No. PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120667-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; Order No. PSC-12-0206-PAA-WS, issued April 17, 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-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Table 7

Computer Maintenance Expense Adjustments			
<u>System</u>	<u>5-yr. Avg. Exp. Adj.</u>	<u>Divest. Adj.</u>	<u>Total Adjustment</u>
Water	(\$2,216)	(\$90)	(\$2,306)
Wastewater	(2,035)	(82)	(2,118)
Total	(\$4,251)	(\$172)	(\$4,424)

Creation of a Regulatory Asset or Liability

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, Utilities, Inc. (CLU’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. The Parties agreed, and we subsequently ordered,¹² that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc. of Eagle Ridge resulting from a final Commission decision in Docket No. 120161-WS, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset¹³ or liability,¹⁴ 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. We ordered this same treatment for other CLU sister companies, including Sanlando Utilities Corporation, Utilities, Inc. of Pennbrooke, and Utilities, Inc. of Florida.¹⁵ Therefore, consistent with our actions in Docket No. 110153-SU and subsequent dockets, we authorize CLU 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 CLU’s next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over four years.

¹² See Order No. PSC-12-0346-FOF-SU, issued July 5, 2012, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge, pp. 2, 9.

¹³ A regulatory asset typically involves a cost incurred by a regulated utility that would normally be expensed currently but for an action by the regulator or legislature to defer the cost as an asset to the balance sheet. This allows a utility to amortize the regulatory asset over a period greater than one year. For example, unamortized rate case expense in the water and wastewater industry is a regulatory asset. Normally, the costs of a rate case would be expensed when incurred. However, Section 367.0816, F.S., requires that water and wastewater utilities amortize rate case expense over a four-year period, thus creating a regulatory asset. Our approval to defer entitled revenues and amortize the recovery of those revenues over a period greater than one year can also create a regulatory asset.

¹⁴ An example of a regulatory liability would be the deferral of past overearnings to future periods.

¹⁵ See Order Nos. PSC-14-0025-PAA-WS, issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida; PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; and PSC-12-0667-PAA-WS, issued December 26, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

Summary

We find it appropriate to reduce plant by \$14,801 for water and \$13,593 for wastewater. Corresponding adjustments shall be made to reduce accumulated depreciation by \$13,658 for water and \$12,545 for wastewater and reduce depreciation expense by \$4,032 for water and \$3,703 for wastewater. Computer maintenance expense shall be reduced by \$2,306 for water and \$2,118 for wastewater. In addition, consistent with our previous decisions, CLU 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 CLU's next rate proceeding. Furthermore, the regulatory asset or liability shall be amortized over four years.

Additional Test Year Plant Adjustments for Water

The following additional adjustments shall be made to plant for water:

Supply Main Upgrade

In a letter dated December 13, 2013, OPC voiced its concern over a supply main upgrade that CLU received Commission approval for in its 2010 limited proceeding. This improvement should have been recorded as an addition to water plant in NARUC Account No. 309.2. In response to Commission staff's second data request, the Utility stated that the amount was neither expensed nor capitalized to plant. The Utility's response also included appropriate support documentation for the plant improvement. In response to a subsequent data request, the Utility confirmed that the improvement was recorded to a sister company and not to CLU. Therefore, we increase plant by \$23,660 for water. Accordingly, we increase accumulated depreciation by \$3,042, depreciation expense by \$676, and property taxes by \$320. Due to tax timing differences between IRS and state regulatory depreciation, the additional plant investment gave rise to additional accumulated deferred income taxes (ADITs). We find that \$4,637 in ADITs shall be recognized in the capital structure.

Golf Carts

In response to Commission staff's first data request, the Utility cited the addition of two golf carts as the reason for a spike in Miscellaneous Expenses for September 2012. The Utility only provided support documentation for one golf cart recorded in Materials and Supplies (M&S) expense, which is different from Miscellaneous Expense. In response to a subsequent data request, the Utility confirmed that the golf cart had been recorded to M&S expense, not Miscellaneous Expense, and should be recorded as plant for water. However, it failed to provide additional support documentation for the second golf cart as requested. Moreover, the Utility stated that the golf cart is also used for meter reading at three other systems.

While the Utility referenced two golf carts in its responses to data requests, documentation was only received for one golf cart and there is no record of a second golf cart in CLU's filing. Accordingly, we find it appropriate to remove the documented golf cart expense from water M&S expense and to capitalize this expense to plant. Additionally, the capitalization

shall be adjusted based upon the appropriate allocation to the systems that utilize the golf cart. M&S expense shall be decreased by \$1,718 and plant shall be increased by \$596 for water. Consequently, corresponding adjustments shall be made to increase accumulated depreciation and depreciation expense by \$99.

Summary

Based on the above, plant shall be increased by \$24,256 (\$23,660 + \$596) for water, and M&S expense shall be decreased by \$1,718. Accordingly, corresponding adjustments shall be made to increase accumulated depreciation by \$3,141 (\$3,042 + \$99), depreciation expense by \$775 (\$676 + \$99), and property taxes by \$320. ADITs shall increase by \$4,637.

Adjustments to Pro Forma Plant Additions

In its filing, CLU included \$110,000 for wastewater pro forma plant improvements for the rehabilitation of several tanks, including the removal of several areas of corroded steel from one basin. While we believe the Utility has provided reasonable documentation and justification for this project, adjustments shall be made to reflect the difference between actual costs and estimated pro forma plant costs.

Tank Rehabilitation

Based on the information provided, we find that the pro forma addition is reasonable and prudent because it will help extend the life of the Utility's wastewater facility, protect nearby storm water ponds, and address several other maintenance issues.

The steel tank refurbishment project is designed to correct the severe corrosion and structural weld cracking in tanks used in the wastewater treatment plant. The Utility's estimated cost for the alternative, which is to replace these tanks, exceeds \$250,000. Based on an evaluation of three bids, Lehigh Environmental was selected for its lowest bid amount of \$76,221. In addition to the Lehigh Environmental bid, the project included an additional \$15,779 to remove solids from the bottom of each tank. After the contractor was mobilized to empty the tanks, additional deteriorations were found that required more extensive refurbishment than originally planned. The change order associated with adding box steel work on the clarifier equipment added approximately \$15,000 to the estimate. Finally, the project estimate provided by the Utility included \$3,000 for contingency funding, bringing the total project cost to \$110,000.

Between December 2013 and March 2014, the Utility provided updated information consisting of actual invoices for services rendered totaling \$93,338. Additionally, on March 25, 2014, the Utility provided an updated anticipated completion date of the pro forma project. The final 10 percent of the project requires that the individual tanks be taken off line. The Utility anticipates this will be accomplished in April, following the peak demand season. In the interest of rate stability for the ratepayers, we find it appropriate to include costs to complete a project that is nearly complete in pro forma. Accordingly, the final \$15,000 to complete the project shall be included in the total approved pro forma costs, bringing the total to \$108,338.

In total, pro forma plant shall be reduced by \$1,662 to reflect adjustments made to account for the difference between actual costs and estimated pro forma plant costs. Table 8 reflects our approved pro forma plant.

Table 8

Pro Forma Plant Adjustment				
<u>Project</u>	<u>Estimate</u>	<u>Actual Invoices</u>	<u>Commission Adjustments</u>	<u>Commission Approved</u>
Steel Tank Rehabilitation	\$76,221	\$63,748	(\$12,473)	\$63,748
Cleaning/Vactoring EQ Basin	15,779	5,305	(10,474)	5,305
Additional Steel Work on Headworks Tank	10,000	17,945	7,945	\$17,945
Additional Steel Work on Clarifier #3	5,000	1,705	(3,295)	1,705
Contingency/Sewage Pump	3,000	4,634	1,634	\$4,634
Final Payment for Project Completion	0	0	15,000	\$15,000
Total	<u>\$110,000</u>	<u>\$93,338</u>	<u>(\$1,662)</u>	<u>\$108,338</u>

As a result of the adjustments to pro forma plant, corresponding adjustments shall be made to increase accumulated depreciation by \$1,667 and decrease depreciation expense by \$52. In addition, pro forma property taxes shall be decreased \$189 for wastewater. Due to tax timing differences between IRS and state regulatory depreciation, the additional plant investment gave rise to additional ADITs. Therefore, \$20,740 in ADITs shall be recognized in the capital structure.

Filing Errors

Adjustments to plant resulted in corresponding flow-through adjustments to accumulated depreciation, depreciation expense, and property taxes. However, two errors in the Utility's initial filing were also corrected in these corresponding adjustments. Although a decrease in plant would typically lead to a reduction in accumulated depreciation, the Utility understated the pro forma accumulated depreciation in its initial filing. Thus, the adjusted amount of pro forma plant resulted in a net increase to accumulated depreciation.

In addition, on MFR Schedule B-15, the Utility included an adjustment for property taxes associated with the pro forma change to net water plant. However, the pro forma plant additions discussed above are solely for the wastewater system. In response to Commission staff's fifth data request, the Utility referred to the calculation of net plant on MFR Schedule A-1 as its basis for the adjustment. The only adjustments that affect net plant for water reflect a transportation reallocation and roll forward accumulated depreciation adjustments. Neither of these items impact property taxes. Thus, property taxes shall be decreased by \$704 for water to remove this pro forma adjustment.

Summary

Based on the information above, we find that the appropriate amount of pro forma plant additions is \$108,338 for wastewater. This results in a decrease of \$1,662 (\$110,000 - \$108,338) from the amount requested in the Utility's MFRs. Using the depreciable lives pursuant to Rule 25-30.140, F.A.C., corresponding adjustments shall be made to increase accumulated depreciation by \$1,667 and to decrease depreciation expense by \$52. In addition, pro forma property taxes shall be decreased by \$704 for water and \$189 for wastewater. Finally, ADITs shall be increased by \$20,740.

Used and Useful Percentages

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

In the last limited proceeding in Docket No. 090349-WS, the Utility's water and wastewater systems were determined to be 100 percent Used and Useful (U&U). In that proceeding, we also considered the reduction in wastewater flow due to conservation. There has been no change in capacity. Based on this and the consideration of growth in demand, the treatment plants for the water and wastewater systems shall continue to be 100 percent U&U by Commission practice.

For the same reason, the water distribution system and wastewater collection system shall continue to be 100 percent U&U.

Infiltration and Inflow

Rule 25-30.432, F.A.C., provides that in determining the amount of U&U plant, the Commission will consider Infiltration and Inflow (I&I). Typically, infiltration results from groundwater entering a wastewater collection system through broken or defective pipes and joints; whereas inflow results from water entering a wastewater collection system through manholes or lift stations. The allowance for infiltration is 500 gpd per inch diameter pipe per mile, and an additional 10 percent of water sold is allowed for inflow. Schedule F-6 of the MFRS indicated there were 498,586 gallons or 0.98 percent excessive I&I for the test year.

Based on MFR Schedule B-6, the test year cost of pumping and treating the wastewater is \$62,608, consisting of \$54,467 for purchased power and \$8,141 for chemicals. Because excessive I&I directly increase pumping and treatment costs, corresponding adjustments shall be made to decrease purchased power and chemicals for wastewater by \$545 (\$54,467 x 1 percent), and \$81 (\$8,141 x 1 percent), respectively. The total I&I adjustment shall be \$626.

Excessive Unaccounted For Water

Rule 25-30.4325, F.A.C., describes Excessive Unaccounted for Water (EUW) as unaccounted for water in excess of 10 percent of the amount produced. When promulgating the rule, we recognized that some uses of water are readily measurable and others are not. We allow 10 percent of unaccounted water for the uses of water that are not metered.¹⁶ The rule provides that to determine whether adjustments to operating expenses, such as purchased electrical power and chemical costs are necessary, we will consider all relevant factors as to the reason for EUW, solutions implemented to correct the problem, or whether a proposed solution is economically feasible. The unaccounted for water is calculated by subtracting both the gallons used for flushing during the test year and the gallons sold to customers during that period from the total gallons pumped for the test year.

As discussed previously, CLU converted to chloramine disinfection in July 2011. Unfortunately, the use of chloramine requires increased flushing of the water distribution system to reduce high bacterial concentrations and any chemical contamination. Flushing is also used in response to customer complaints about taste, odor, and discoloration of the treated water. However, it appears that the switch to the new system did not eliminate customer complaints and CLU increased the periods of flushing.

Typically, water utilities have three options when it comes to flushing: spot flushing, to handle localized complaints about water quality; stagnant flushing, instituted in areas of low water usage, and system wide flushing, the most comprehensive measure that can be used to maintain water quality system wide. Due to the high number of seasonal residents in Cypress Lakes, CLU instituted system wide flushing by using a unidirectional flushing methodology. During the 2012 test year, 74.6 million gallons of treated water were metered at the water treatment facilities. Of those, 46.2 million gallons, or 62 percent, were metered and billed to customers. The remaining 38 percent of the treated water was not producing revenues. According to data provided by CLU, 23.9 million gallons of water were estimated for the use of flushing in the 2012 test year in order to maintain water quality. Therefore, 4.5 million gallons, or 6 percent, is unaccounted for water. Rule 25-30.4325(1)(e), F.A.C., provides that unaccounted for water can be no more than 10 percent of the amount produced. Therefore, there shall be no adjustment for EUW.

At the customer meeting, there were some concerns about the cost associated with the CLU flushing program. We estimate that the cost for purchased power and chemicals associated with the 23.9 million gallons of flushing is approximately \$6,410/year. There were also concerns that CLU was violating its Consumptive Use Permit. Per review of the permit and a conference with DEP, it is confirmed that CLU was well below the permitted annual average usage of 331,200 gpd.

¹⁶ See Order No. PSC-93-0455-NOR-WS, issued March 24, 1993, in Docket No. 911082-WS, In re: Proposed revisions to Rules 25-22.0406, 25-30.020, 25-30.025, 25-30.030, 25-30.032 through 25-30.037, 25-30.060, 25-30.110, 25-30.111, 25-30.135, 25-30.255, 25-30.320, 25-30.335, 25-30.360, 25-30.430, 25-30.436, 25-30.437, 25-30.443, 25-30.455, 25-30.515, 25-30.565; adoption of Rules 25-22.0407, 25-22.0408, 25-22.0371, 25-30.038, 25-30.039, 25-30.090, 25-30.117, 25-30.432 through 25-30.435, 25-30.4385, 25-30.4415, 25-30.456, 25-30.460, 25-30.465, 25-30.470, 25-30.475; and repeal of Rule 25-30.441, F.A.C., pertaining to water and wastewater regulation, pp. 101, 102.

Summary

The Utility's water and wastewater systems shall continue to be 100 percent U&U. The test year wastewater treatment cost of purchased power and chemicals shall be reduced by 1 percent, or \$626, due to excessive infiltration and inflow. No adjustments shall be made for EUW.

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of Operations & Maintenance (O&M) expense, to calculate the working capital allowance. The Utility has properly filed its allowance for working capital using the one-eighth of O&M expense method. We have approved adjustments to CLU's O&M expense, which are reflected on Schedule No. 3-C. As a result, we find working capital allowances of \$25,695 for water and \$34,432 for wastewater to be appropriate. This reflects a decrease of \$3,357 to the Utility's requested working capital allowance for water and a decrease of \$2,965 for wastewater.

Rate Base

Based on our approved adjustments, the appropriate rate base is \$721,125 for water and \$1,762,155 for wastewater. In its MFRs, the Utility requested a rate base of \$717,721 for water and \$1,951,812 for wastewater. Our approved adjustments result in an increase of \$3,404 for water and a decrease of \$189,657 for wastewater. The schedules for rate base are attached as Schedule Nos. 1-A and 1-B, and the adjustments are shown on Schedule No. 1-C.

Return on Equity

The Utility requested a Return on Equity (ROE) of 10.22 percent. Although CLU correctly utilized the current leverage formula, the equity balances used in the filing did not match UI's audited financial statements. Audit Finding No. 5 decreased equity by \$5,194,723 to reflect the revised simple average equity balance of \$170,132,500. The Utility agreed to this audit adjustment and provided a revised MFR Schedule D-2. This adjustment results in a lower equity ratio for the test year and thus a higher ROE.

Based on the Commission leverage formula currently in effect and an equity ratio of 48.56 percent, the appropriate ROE is 10.45 percent.¹⁷ An allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Cost of Capital

In its filing, the Utility requested an overall cost of capital of 8.27 percent. Based upon the proper components, amounts, and cost rates associated with the capital structure, and ADITs

¹⁷ See Order No. PSC-13-0241-PAA-WS, issued June 3, 2013, in Docket No. 130006-WS, In re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), F.S.

totaling \$25,377 as discussed previously, we find a weighted average cost of capital of 8.25 percent. Schedule No. 2 details the approved overall cost of capital.

Test Year Revenues

Cypress Lakes recorded total test year revenues of \$317,304 for water and \$667,852 for wastewater. The water revenues included \$313,558 of service revenues and \$3,746 of miscellaneous revenues. The wastewater revenues included \$666,046 of service revenues and \$1,806 of miscellaneous revenues.

Based on the Utility's billing determinants and the service rates that were in effect during the test year, service revenues shall be decreased by \$3,031 and \$510 for water and wastewater, respectively, to reflect total test year service revenues of \$310,527 for water and \$665,536 for wastewater. An adjustment to water miscellaneous revenues was also made. The Utility improperly recorded \$1,000 for meter installations as water miscellaneous revenues. We approve a decrease in miscellaneous revenues and an increase to CIAC for water by \$1,000 to properly record the meter installation charges. The \$1,000 adjustment to CIAC is included in the total CIAC adjustment of \$200,190 addressed previously in Audit Adjustments to Rate Base. Based on the above adjustments, the appropriate test year revenues for Cypress Lakes' water and wastewater systems are \$313,273 and \$667,342, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Audit Adjustments to Net Operating Income

In its response to Commission staff's audit report and other correspondence, CLU agreed to the audit adjustments as set forth in the table below.

Table 9

Audit Adjustments to Net Operating Income					
<u>CLU Audit Findings</u>	Water- Operating Revenues	Water - O&M Exp.	Wastewater - O&M Exp.	Water - Depr. Exp.	Wastewater - Depr. Exp.
Finding No. 2 - Reflect retirements not recorded.	\$0	\$0	\$0	(\$157)	(\$699)
Finding No. 4- Correct expenses misclassified as plant.	0	0	0	(68)	(97)
Finding No. 5 - Correct costs associated with sludge equipment.	0	0	0	0	(130)
Finding No. 6 - Correct misclassification of wastewater treatment additions and retirements.	0	0	0	0	24,204
Finding No. 8- Correct accumulated depreciation understatement.	0	0	0	0	3,438
Finding No. 9 - Reflect appropriate Contributions-in-Aid-of- Construction.	1,000	0	0	(107)	(71)
Finding No. 10 - Reflect appropriate accumulated amortization of Contributions-in-Aid-of-Construction.	0	0	0	(1,271)	0
Finding No. 11 - Correct non-recurring miscellaneous expense.	0	(9,951)	(9,137)	0	0
Subtotal - CLU Adjustments	<u>\$1,000</u>	<u>(\$9,951)</u>	<u>(\$9,137)</u>	<u>(\$1,603)</u>	<u>\$26,645</u>
<u>Affiliate Audit Findings</u>					
Finding No. 1 - Correct reallocated transportation accounts.	\$0	(\$2,043)	(\$1,877)	(\$1,716)	(\$1,577)
Finding No. 4 - Reflect prior Commission-ordered adjustments.	0	0	0	(671)	(617)
Subtotal - Affiliate Adjustments	<u>\$0</u>	<u>(\$2,043)</u>	<u>(\$1,877)</u>	<u>(\$2,387)</u>	<u>(\$2,194)</u>
Total Audit Adjustments	<u>\$1,000</u>	<u>(\$11,994)</u>	<u>(\$11,014)</u>	<u>(\$3,990)</u>	<u>\$24,451</u>

Adjustments to Salaries and Wages, Pensions and Benefits, and Payroll Taxes

In its MFRs, the Utility reflected water and wastewater salaries and wages of \$109,835 and \$91,676, respectively. In response to a data request, CLU identified three new positions that were not included in its 2006 rate case. A Cross Connection Technician was hired in 2007 for the purpose of monitoring several UI systems in compliance with DEP regulations regarding a cross connection control program. The allocation of the technician's time and salary expense, as well as the DEP regulations necessitating this position have been verified.

The Utility also hired one full-time and one part-time meter reader in 2010 to replace contract meter readers. When the field technicians are not reading meters, they are performing maintenance on the water and wastewater facilities. While verifying the allocation of time and salary expense for the two meter readers, it was discovered that the Utility’s test year O&M expenses reflected the time and expense of two full-time equivalents. We approve a decrease in Salaries and Wages expense for water and wastewater by \$1,967 and \$1,806, respectively, to reflect the expense associated with 1.5 full-time equivalents for field technicians. Corresponding adjustments shall be made to reduce payroll taxes by \$282 for water and \$259 for wastewater. A corresponding adjustment to pension and benefits was not made, as these particular employees do not receive these benefits as part of their compensation.

Rate Case Expense

In its filing, CLU requested \$111,765 for current rate case expense with a four-year amortization amount of \$27,941. On January 29, 2014, and March 28, 2014, Commission staff requested updates of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The Utility submitted a revised estimated rate case expense, as of February 14, 2014, through completion of the PAA process, of \$138,801. On March 25, 2014, the Utility submitted additional documentation for water testing in the amount of \$2,200. On April 14, 2014, the Utility submitted updated additional documentation of rate case expense totaling \$146,115. The following table illustrates the Utility’s requested rate case expense:

Table 10

Rate Case Expense: Utility Total				
Firm/Vendor/Description	MFR Estimated	Actual	Additional Estimated	Utility Revised Total
Friedman, Friedman, and Long, LLP	\$45,500	\$32,123	\$7,595	\$39,718
M&R Consultants	20,250	21,450	750	22,200
Public Service Commission-Filing Fee	4,000	4,000	0	4,000
Water Service Corp. (WSC)	25,515	52,662	5,040	57,702
Customer Notices, Postage	1,300	1,539	3,511	5,050
Travel, Hotel, Rental Car, Airfare	3,200	0	3,200	3,200
Fed Ex and other miscellaneous	12,000	45	45	12,045
Advanced Environmental Laboratories	<u>0</u>	<u>2,200</u>	<u>0</u>	<u>2,200</u>
Total	<u>\$111,765</u>	<u>\$114,019</u>	<u>\$20,141</u>	<u>\$146,115</u>

Pursuant to Section 367.081(7), F.S., this Commission shall determine the reasonableness of rate case expense and shall disallow all rate case expense determined to be unreasonable. Based on the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case, we find the following adjustments to CLU’s rate case expense estimate to be appropriate.

Legal Fees

The first adjustment to rate case expense relates to CLU's legal fees. The Utility included in its MFRs \$45,500 in legal fees to complete the rate case. The Utility provided support documentation detailing this expense through April 14, 2014. The actual fees and costs totaled \$32,123 with an estimated \$7,595 to complete the rate case, totaling \$39,718. The Utility's actual expenses included filing costs of \$4,000 which were also included under "Public Service Commission – Filing Fee." As such, rate case expense shall be decreased by \$4,000 to avoid double recovery of this fee.

Filing Fee

The Utility included \$4,000 in its MFR Schedule B-10 for the filing fee. According to the documentation provided by Friedman, Friedman, and Long, LLP (FFL), the \$4,000 filing fee was paid as part of the legal fees and was also included in FFL's invoices. We previously approved the reduction of FFL's legal fees by \$4,000 to avoid double recovery of this fee. Accordingly, no additional adjustment is necessary.

M&R Consultants

The Utility included \$20,250 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to staff's data requests. The Utility provided support documentation detailing this expense through April 14, 2014. The actual fees and costs totaled \$21,450 with an estimated \$750 to complete the rate case, totaling \$22,200. We find the full amount of \$22,200 to be reasonable and justified. Accordingly, no adjustment is necessary.

WSC In-House Employee Fees

The second adjustment to rate case expense is related to the work performed by WSC employees. We have previously disallowed WSC In-House Employee fees in several dockets involving the Utility's sister companies.¹⁸ However, by Order No. PSC-14-0025-PAA-WS, we allowed the inclusion of this expense for its sister company, Utilities, Inc. of Florida, based on the reduction of salaries prior to any allocation. The Utility used this same methodology for requested rate case expense in the instant case.

CLU originally estimated \$25,515 in expense for in-house employees. The Utility provided the actual entries of employee time capitalized to the rate case complete with amounts and hours. However, the actual descriptions of the activities were vague. Without a specific

¹⁸ See Order Nos. PSC-13-0085-PAA-WS, issued February 14, 2013, in Docket No. 110257-WS, In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation; PSC-12-0667-PAA-WS, issued December 21, 2012, in Docket No. 120037-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke; 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 PSC-11-0587-PAA-SU, issued December 21, 2011, in Docket No. 110153-SU, In re: Application for increase in wastewater rates in Lee County by Utilities, Inc. of Eagle Ridge.

breakdown of employee tasks, various events of the case were compared with the timesheets provided. CLU recorded 81.5 hours, totaling \$3,577, in the first half of October, which immediately followed MFRs being filed and reflected a period with no outstanding audit or data requests. The Utility also recorded an expense of \$168 for an employee with no work description other than the employee's name. Based on the lack of specific work descriptions, we find it appropriate to decrease rate case expense by \$3,745 to remove unsupported expenses.

In addition, the breakdown of hours and expense amounts was used to calculate the hourly compensation for each employee working on the rate case. The hourly rate was then compared to the total hourly compensation (including salary, pensions and benefits, and payroll taxes) the employee received as a WSC employee. Based on this review of confidential data, it was determined that 2 of the 12 WSC employees had higher hourly rates for rate case work than their respective WSC compensation. It would be imprudent for the hourly compensation received while working on a rate case to exceed the same employee's total hourly compensation. We find it appropriate to adjust the total hours to remove the unsupported hours discussed above and limit each employee to the total hourly compensation received as a WSC employee. That adjustment further decreases rate case expense by \$2,754.

The Utility provided updates of actual and estimated rate case expense through April 14, 2014. The Utility reflected \$52,662 of actual expense for WSC In-House employees, an increase of \$6,438 from the previous estimate, and estimated expense to completion of \$5,040, totaling \$57,702. Using the aforementioned methodology, the hourly rate based on the most recent estimate to complete also exceeded the average hourly compensation for these WSC employees. The average of the correct hourly rates was used to recalculate the estimated amount as \$4,692, which resulted in a \$348 decrease from the original estimate. In total, the adjustments to expenses for WSC In-House employees results in a decrease of \$6,847 (\$3,745 + \$2,754 + \$348) to rate case expense.

Customer Notices and Postage

The third adjustment relates to customer notices and postage. In its revised rate case expense schedule, CLU reflected actual invoices of \$1,539 incurred for customer noticing and postage and \$3,511 as an estimate to complete. The Utility is responsible for sending out four notices: the initial notice, the interim notice, customer meeting notice, and notice of the final rate increase. The interim notice and initial notice were not combined in this docket. The invoices provided by the Utility reflect the actual cost associated with sending two of these notices, the interim notice and customer meeting notice. The actual cost of the initial notice was not provided.

We have historically approved adjustments to this expense, despite the lack of support documentation, based on a standard methodology to estimate the total expense using the number of customers and the estimated per unit cost of envelopes, copies, and postage.¹⁹ The estimated

¹⁹ See Order No. PSC-14-0025-PAA-WS issued January 10, 2014, in Docket No. 120209-WS, In re: Application for increase in water and wastewater rates in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

cost of postage for the initial notice and the final notice is approximately \$860 (1,264 customers x \$0.34 pre-sorted rate x 2 notices), the cost of copies is approximately \$885 (1,264 customers x \$0.10 per copy x 7 total pages), and the cost of envelopes is approximately \$126 (1,264 customers x \$0.05 x 2 notices). Based on these components, we find the total cost for these notices and postage is \$1,871 (\$860 + \$885 + \$126).

As such, rate case expense shall be decreased by \$1,640 to allow for adequate expenses related to mailing notices.

WSC Travel Expense

In its MFRs, CLU estimated \$3,200 for travel expenses. The Utility provided no support documentation for this expense, nor a detailed estimate of the expense to completion. Furthermore, based on several previous UI rate cases, UI does not send a representative from its Illinois office to attend the Commission Conference for PAA rate cases. Therefore, \$3,200 of rate case expense associated with WSC travel expense shall be removed.

WSC FedEx Expense

The final adjustment to the requested rate case expense relates to WSC expenses for FedEx and other miscellaneous costs. The Utility estimated \$12,045 of FedEx and other miscellaneous costs in its initial filing. The Utility failed to provide support documentation other than a journal entry of \$45 for FedEx expense, despite multiple requests for more documentation. Based on the lack of support documentation, rate case expense shall be decreased by \$12,000 to reflect the removal of this expense.

Water Testing Fees

As discussed previously in Quality of Service, in an effort to address water quality concerns raised at the customer meeting, Commission staff requested that CLU conduct tests of 16 inorganic and 14 secondary contaminants regulated in Florida. Samples were collected by Advanced Environmental Laboratories, Inc. from CLU's water supply at the point of entry and at seven customer residences on January 15, 2014. CLU provided test results on March 9, 2014. Since this testing was done at the request of Commission staff, we find that the \$2,200 (\$275 x 8) testing expense is reasonable and it shall be included in CLU's rate case expense.

Summary

Based upon the adjustments above, CLU's revised rate case expense of \$146,115 shall first be decreased by \$27,687 for a total of \$118,428. A breakdown of this rate case expense adjustment is as follows:

Table 11

Rate Case Expense: Commission Approved Adjustments				
Firm/Vendor/Description	MFR Estimated	Utility Revised Actual and Estimated	Commission Approved Adjustments	Total
Friedman, Friedman, and Long, LLP	\$45,500	\$39,718	(\$4,000)	\$35,718
M&R Consultants	20,250	22,200	0	22,200
Public Service Commission-Filing Fee	4,000	4,000	0	4,000
Water Service Corp. (WSC)	25,515	57,702	(6,847)	50,855
Customer Notices, Postage	1,300	5,050	(1,640)	3,410
Travel, Hotel, Rental Car, Airfare	3,200	3,200	(3,200)	0
Fed Ex and other miscellaneous	12,000	12,045	(12,000)	45
Advanced Environmental Laboratories	<u>0</u>	<u>2,200</u>	<u>0</u>	<u>2,200</u>
Total	<u>\$111,765</u>	<u>\$146,115</u>	<u>(\$27,687)</u>	<u>\$118,428</u>

Section 367.081(7), F.S., provides that this Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer. The Utility requested final revenue increases of \$100,603 for water and \$26,350 for wastewater. As discussed subsequently in this Order, we are approving a water revenue increase of \$57,554 for water and a wastewater revenue decrease of \$9,778. Even if we had granted the Utility's full request, it is very troubling to us that that the rate case expense in this case represents such a significant percentage of both the requested and the granted levels of rate relief. Under these circumstances, we find that the total amount of rate case expense is unreasonable, and find it appropriate to further reduce the adjusted rate case expense of \$118,428 by an additional 25 percent, for a total approved rate case expense of \$88,821.

In its MFRs, the Utility requested total rate case expense of \$111,765. When amortized over four years, this represents an annual expense of \$27,941. The approved total rate case expense of \$88,821 shall be amortized over four years, pursuant to Section 367.081(6), F.S. As a result, annual rate case expense shall be decreased by \$2,989 for water and by \$2,747 for wastewater from the respective levels of expense included in the MFRs.

Adjustments to O&M Expense

In its filing, CLU recorded contractual services-engineering expense of \$1,690 for water and \$1,553 for wastewater, miscellaneous expense of \$30,094 for water and \$45,290 for wastewater, and contractual services-other of \$2,598 for water and \$2,388 for wastewater. We find that adjustments to these accounts are necessary as discussed below.

Contractual Services-Engineering Expense

MFR Schedules B-7 and B-8 indicate that expenses for engineering contractual services increased 100 percent since the Utility's last rate case in 2006 for its water and wastewater systems. The Utility stated that the increase was due to the updating of water and wastewater maps to reflect the addition of Phase 12.²⁰ Pursuant to Rule 25-30.433(8), F.A.C., non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified. The Utility did not provide specifics to justify an alternative amortization period, despite requests for more information regarding the frequency of map updates. Therefore, Contractual Services-Engineering expense shall be reduced by \$1,090 (4/5 of the total, \$1,363) for water and \$1,002 (4/5 of the total, \$1,252) for wastewater to properly reflect the annual amount over the five-year amortization period based upon actual invoices provided of \$2,615.

Miscellaneous and Contractual Services-Other Expense

MFR Schedules B-5 and B-6 indicate above average increases to monthly expenses for the months of October and November in the test year, which ended December 31, 2012. The Utility stated that the increase in these months was due to the use of a contract operator following the termination of a salaried operator. However, the support documentation it provided was for a different contractual expense. This contract operator expense was actually recorded as a miscellaneous expense. After further examination of Utility personnel, it was determined that the test year O&M expenses included costs associated with water and wastewater operators beyond the normal staffing needs due to the various shifts of employment.

Using excerpts of the general ledger submitted for other data inquiries, the total expense for contract operators in the test year was calculated as \$13,121 for water and \$12,048 for wastewater. Full year salaries for operators employed as CLU personnel were verified, and the normal number of hours and expense the Utility needed for a contract operator on Sundays year round was calculated based on the Utility's response to a data request. The allowance for expenses associated with a contractor operator amounts to \$8,783 for water and \$8,065 for wastewater. Adjusting expenses for that allowance results in an overall decrease of \$4,338 (\$13,121 - \$8,783) for water and \$3,983 (\$12,048 - \$8,065) for wastewater.

Due to a significant increase in Account Nos. 675 and 775 – Miscellaneous Expense, we also questioned the criteria used in classifying expenses to this account. Per the Utility, the decision to classify the expense as Miscellaneous is typically made by the originator of the purchase order. However, expenses as specific as contractual labor have National Association of Regulatory Utility Commissioners (NARUC) accounts that are clearly defined. As such, Miscellaneous Expense shall be decreased by \$13,121 for water and \$12,048 for wastewater to reflect the removal of expenses associated with the contract operator. Accordingly, Contractual Services-Other shall increase by \$8,783 for water and by \$8,065 for wastewater.

Additional UI accounts that were recorded as Miscellaneous expense were examined based on concerns voiced by OPC in a letter dated January 28, 2014. OPC questioned the

²⁰ Phase 12 is a 120-lot expansion to Cypress Lakes Estates.

dramatic increase in miscellaneous expenses since the last rate case and questioned the reasonableness of allocating certain expenses to a utility the size of CLU. After further analysis and support documentation from the Utility, we find that four of the subaccounts OPC questioned were not reasonable expenses to be borne by the ratepayers and they shall be removed from Miscellaneous expenses. Miscellaneous expenses shall not include the following UI accounts: Account No. 6205 – Travel Entertainment, Account No. 6207 – Travel Other, Account No. 5870 – Holiday Events/Picnics, and Account No. 5875 – Kitchen Supplies. The removal of these accounts resulted in a decrease to Miscellaneous Expense of \$396 for water and \$364 for wastewater.

While analyzing the subaccounts of the Utility's Miscellaneous expense, an annual leadership meeting held at the Rosen Center in Orlando, Florida was further examined. In the instant case, a majority of the expense for the meeting, \$18,993 for the Rosen Center, was recorded in Account No. 6205 – Travel Entertainment. The allocable portion of this expense to CLU was removed in the aforementioned adjustment to Miscellaneous Expense. When asked to provide a breakdown of the meeting's expenses, the Utility stated that it did not have a tracking instrument related to this expense and only resubmitted the Rosen Center invoice for the expense mentioned above. We find that the costs associated with this meeting shall not be borne by the ratepayers, especially in light of the minimal accountability of the event's expenses. An identifiable amount of additional expenses associated with the leadership meeting was calculated based on expense reports and other forms of support documentation provided by the Utility for other requests. Excluding the expense for the Rosen Center, the amount totaled \$12,022. As such, Miscellaneous Expense shall be reduced by \$57 for water and by \$52 for wastewater to reflect the removal of the Utility's allocation of the meeting's expenses. We find that the expense of leadership training is not necessarily impermissible on its face; however, the failure to provide detailed expense support documentation warrants an adjustment in this instance.

Summary

Based on the above, O&M expense shall be reduced by \$5,881 [(\$1,090) + (\$13,121) + \$8,783 + (\$396) + (\$57)] for water and \$5,401 [(\$1,002) + (\$12,048) + \$8,065 + (\$364) + (\$52)] for wastewater to reflect the appropriate level of Contractual Services-Engineering Expense, Miscellaneous Expense, and Contractual Services-other Expense.

Adjustments to Property Taxes Expense

In its initial filing, CLU reflected test year expenses for water and wastewater property taxes of \$17,657 and \$16,228, respectively. Highlands County property tax records indicated that the Utility's assessed value fell significantly in 2013, resulting in a property tax decrease of \$19,802. The Utility had no information as to why the assessed value decreased. Therefore, property taxes shall be decreased by \$10,318 for water and \$9,483 for wastewater to reflect the known and measurable change to the Utility's level of property taxes.

Revenue Requirement

The following revenue requirement shall be approved.

	<u>Test Year Revenue</u>	<u>\$ Increase/ (Decrease)</u>	<u>Revenue Requirement</u>	<u>% Increase/ (Decrease)</u>
Water	\$313,273	\$57,554	\$370,827	18.37%
Wastewater	\$667,342	(\$9,778)	\$657,564	(1.47%)

In its filing, CLU requested revenue requirements to generate annual revenue of \$417,907 and \$694,202 for water and wastewater, respectively. These requested revenue requirements represent revenue increases of \$100,603, or approximately 31.71 percent, for water and \$26,350, or approximately 3.95 percent, for wastewater.

Consistent with our decision in the instant docket concerning the underlying rate base, cost of capital, and operating income issues, we approve rates designed to generate a water revenue requirement of \$370,827 and a wastewater revenue requirement of \$657,564. These approved revenue requirements will allow the Utility the opportunity to recover its expenses and earn an 8.25 percent return on its investment on water and wastewater rate base.

Rate Structure and RatesWater Rates

The Cypress Lakes water system is located in Polk County within the Southwest Florida Water Management District. The Utility provides water service to approximately 1,447 residential customers and 44 general service customers. Approximately 22 percent of the residential customer bills during the test year had zero gallons, indicating a moderately seasonal customer base. The average residential water demand is 2,388 gallons per month. The average water demand, excluding zero gallon bills, is 3,080 per month. Currently, the Utility's residential water rate structure consists of a monthly base facility charge (BFC) and a three-tier inclining block rate structure with rate blocks set at: (1) 0-6,000 gallons; (2) 6,001-12,000 gallons; and (3) usage in excess of 12,000 gallons. General service customers are billed based on a BFC and gallonage charge.

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

Due to the modest revenue increase, we find it appropriate to apply the approved revenue increase across-the-board to the service rates in effect since August 10, 2011. To determine the

appropriate percentage increase to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in an 18.53 percent increase in the service rates. Based on the foregoing, the appropriate monthly water rates are shown on Schedule No. 4-A.

Wastewater Rates

Cypress Lakes provides wastewater service to all 1,447 residential water customers and to 5 of the general service water customers. The Utility also provides reuse service to a golf course. Currently, the residential wastewater rate structure consists of a uniform BFC for all meter sizes and a gallonage charge with a 6,000 gallon cap. General service customers are billed a BFC by meter size and a gallonage charge that is 1.2 times higher than the residential gallonage charge. There is no charge to the golf course for reuse.

We find it appropriate to apply that the approved revenue decrease across-the-board to the service rates in effect since August 10, 2011. To determine the appropriate percentage decrease to apply to the service rates, miscellaneous revenues were removed from the test year revenues, resulting in a 1.47 percent decrease in the service rates.

The golf course is the Utility's only option for disposal of treated wastewater. Therefore, the reuse service shall continue at no charge. The appropriate monthly wastewater rates are shown on Schedule No. 4-B.

Summary

Based on the foregoing, no change shall be made to the water and wastewater rate structures. The rates for Cypress Lakes, in effect as of August 10, 2011, shall be increased by 18.53 percent for water and decreased by 1.47 percent for wastewater. The reuse service shall continue at no charge. The approved monthly water and wastewater rates are shown on Schedule Nos. 4-A and 4-B, respectively. The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until Commission staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date the notice was given within ten days of issuance.

Late Payment Charge

Section 367.091, F.S., authorizes the Commission to establish, increase, or change a rate or charge other than monthly rates or services availability charges. The Utility is requesting a \$5.25 late payment charge to recover the cost of supplies and labor associated with processing late payment notices. The Utility's request for a late payment charge was accompanied by its reason for requesting the charge, as well as the cost justification required by Section 367.091, F.S.

The Utility's requested charge is based on an aggregate of all Utilities, Inc.'s (the parent company) systems in Florida. In its cost justification, the Utility states that approximately 42 percent of the parent company's customer base is consistently delinquent in rendering payment each month. The late payment notices are processed by the same parent company staff for all systems in Florida. The Utility indicated that it takes its parent company two hours per day for three days to process late payment notices. The parent company employee's salary is \$39 per hour, which results in total labor cost of \$234 (3 days x 2 hours x \$39). The parent company's costs are allocated on a per equivalent residential connection basis. The average allocation of the labor costs to the Florida systems is 1.94 percent, which results in \$4.54 (\$234 x 1.94 percent). We find the cost justification provided by the Utility to be reasonable in support of the requested \$5.25 late payment charge. The cost basis for late payment charge, including labor, is shown in the table below.

Table 12

Cost Basis for Late Payment Charge	
Labor	\$4.54
Printing	\$.20
Postage	\$.49
Total Cost	\$5.23

Since the late 1990s, we have approved late payment charges ranging from \$2.00 to \$7.00.²¹ The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing delinquent accounts solely upon those that incur the cost.

Based on the above, Cypress Lake's request to implement a \$5.25 late payment charge shall be approved. The Utility shall file a proposed customer notice to reflect the Commission-approved charge. The approved charge shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved charge shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within ten days of issuance.

²¹ See Order No. PSC-01-2101-TRF-WS, in Docket No. 011122-WS, issued October 22, 2001, In re: Tariff filing to establish a late payment charge in Highlands County by Damon Utilities, Inc.; Order No. PSC-08-0255-PAA-WS, in Docket No. 070391-WS, issued April 24, 2008, In re: Application for certificates to provide water and wastewater service in Sumter County by Orange Blossom Utilities, Inc.; Order No. PSC-10-0257-TRF-WU, in Docket No. 090429-WU, issued April 26, 2010, In re: Request for approval of imposition of miscellaneous service charges, delinquent payment charge and meter tampering charge in Lake County, by Pine Harbour Water Utilities, LLC.; Order No. PSC-11-0204-TRF-SU, in Docket No. 100413-SU, issued April 25, 2011, In re: Request for approval of tariff amendment to include a late fee of \$14.00 in Polk County by West Lakeland Wastewater; Order No. PSC-14-0105-TRF-WS, in Docket No. 130288-WS, issued February 20, 2014, In re: Request for approval of late payment charge in Brevard County by Aquarina Utilities, Inc.

Initial Customer Deposits

Rule 25-30.311, F.A.C., contains the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. Historically, we have set initial customer deposits equal to two times the average estimated bill.²² Currently, the Utility's existing initial deposits for residential 5/8" x 3/4" meters are \$17 for water and \$43 for wastewater. Based on the approved rates, the existing initial customer deposits are not sufficient to cover two months' bills for water and wastewater, respectively. Therefore, the existing initial customer deposit shall be increased to reflect two times the average estimated bill for both water and wastewater to ensure that the cost of providing service is recovered by those incurring the cost.²³

The appropriate initial customer deposits shall be \$43 and \$84 for the residential 5/8" x 3/4" meter size for water and wastewater, respectively. The initial customer deposits for all other residential meter sizes and all general service meter sizes shall be two times the average estimated bill for water and wastewater. The approved customer deposits shall be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility shall charge the approved charges until authorized to change them by this Commission in a subsequent proceeding.

Interim Increase Refunds

By Order No. PSC-13-0673-FOF-WS, we authorized the collection of interim water rates and required the Utility to hold \$49,622 of the current water revenues subject to refund, pursuant to Section 367.082, F.S.²⁴ The Utility did not request interim rates for its wastewater system.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the Utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates were 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, which ended December 31, 2012. CLU's approved interim rates did not include any provisions for pro forma operating expenses or plant. The interim increase was designed to

²² See Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.; Order No. PSC-03-0845-PAA-WS, issued July 21, 2003, in Docket No. 021192-WS, In re: Application for staff-assisted rate case in Highlands County by Damon Utilities, Inc.

²³ See Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In re: Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.; Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In Re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

²⁴ See Order No. PSC-13-0673-FOF-WS, issued December 19, 2013, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in by Cypress Lakes Utilities, Inc.

allow recovery of actual interest costs, and the lower limit of the last authorized range of return on equity. To establish the proper refund amount, revised interim revenue requirements were calculated 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, we have calculated an adjusted interim revenue requirement of \$339,468 for water. The adjusted water interim revenue requirement of \$339,468 is lower than the interim revenue requirement of \$402,356 granted in the Interim Order. This results in a 15.78 percent required refund for water. Further, the corporate undertaking for CLU's funds shall be released upon Commission staff's verification that the required refunds have been made.

Rates After Amortization Period

Section 367.0816, F.S., requires that rates be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for regulatory assessment fees. The total reduction is \$12,246 for water and \$11,245 for wastewater. Using CLU's current revenue, expenses, capital structure and customer base, the reduction in revenue will result in the rate decreases as shown on Schedule Nos. 4-A and 4-B.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. CLU also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense.

Proof of Adjustments

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

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application for increase in water rates in Polk County by Cypress Lakes Utilities, Inc. is granted in part as set forth in the body of this Order. It is further

ORDERED that the Utility's application for increase in wastewater rates is denied. The wastewater rates shall be decreased as set forth in the body of this Order. It is further

ORDERED that all matters contained in the schedules appended to this Order are incorporated herein by reference. It is further

ORDERED that the quality of service provided by the Utility shall be considered satisfactory. However, as set forth herein, the Utility shall meet with its customers, OPC, and Commission staff to explore what alternative disinfection processes may be available to the Utility, including the costs associated with those alternatives. It is further

ORDERED that the Utility shall file revised tariffs 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. In addition, the rates shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within 10 days of the date of the notice. It is further

ORDERED that Cypress Lake's request to implement a \$5.25 late payment charge is hereby approved. The Utility shall file a proposed customer notice to reflect the approved charge. The approved charge shall be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. The approved charge shall not be implemented until Commission staff has approved the proposed customer notice. The Utility shall provide proof of the date the notice was given within ten days of issuance. It is further

ORDERED that Cypress Lake's customer deposits, as approved herein, shall be effective for services rendered or connections made on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475, F.A.C. The Utility shall charge the approved charges until authorized to change them by this Commission in a subsequent proceeding. It is further

ORDERED that the Utility shall provide a 15.78 percent refund to its customers for water, based on its interim water rate increase. Further, the corporate undertaking for CLU's funds shall be released upon Commission staff's verification that the required refunds have been made. It is further

ORDERED that in accordance with Section 367.0816, F.S., the Utility's rates shall be reduced to reflect the removal of revenue associated with the amortization of rate case expense, the associated return in working capital, and the gross-up for Regulatory Assessment Fees. The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The Utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that Cypress Lakes Utilities, Inc. shall provide proof, within 90 days of the final order in this docket, that the adjustments for all applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, 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 Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open for Commission staff's verification that the tariff sheets and customer notices have been filed by the Utility and approved by staff, verification that the Utility has made the required refunds, and verification that the Utility has provided proof that the adjustments for all the NARUC USOA primary accounts have been made and approved by Commission staff. Once these actions are complete, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 30th day of May, 2014.



HONG WANG
Chief Deputy 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.

JSC

DISSENT BY: CHAIRMAN ART GRAHAM

CHAIRMAN GRAHAM dissents with respect to the determination of rate case expense.

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 is preliminary in nature, except for the decision to amortize rate case expense over four years and requiring proof of adjustments to the Utility's books. 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 June 20, 2014. 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.

Cypress Lakes Utilities, Inc.				Schedule No. 1-A	
Schedule of Water Rate Base				Docket No. 130212-WS	
Test Year Ended 12/31/12					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$1,738,817	(\$23,430)	\$1,715,387	\$167,564	\$1,882,951
2 Land and Land Rights	1,365	0	1,365	0	1,365
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(870,888)	37,154	(833,734)	24,866	(808,868)
5 CIAC	(347,273)	0	(347,273)	(200,190)	(547,463)
6 Amortization of CIAC	140,254	12,670	152,924	14,521	167,445
7 Working Capital Allowance	<u>26,891</u>	<u>2,161</u>	<u>29,052</u>	<u>(3,357)</u>	<u>25,695</u>
8 Rate Base	<u>\$689,166</u>	<u>\$28,555</u>	<u>\$717,721</u>	<u>\$3,404</u>	<u>\$721,125</u>

Cypress Lakes Utilities, Inc.				Schedule No. 1-B	
Schedule of Wastewater Rate Base				Docket No. 130212-WS	
Test Year Ended 12/31/12					
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year
1 Plant in Service	\$3,760,608	\$288,493	\$4,049,101	\$394,798	\$4,443,899
2 Land and Land Rights	2,610	0	2,610	0	2,610
3 Non-used and Useful Components	0	0	0	0	0
4 Accumulated Depreciation	(1,524,841)	(85,602)	(1,610,443)	(186,157)	(1,796,600)
5 CIAC	(846,329)	0	(846,329)	(466,036)	(1,312,365)
6 Amortization of CIAC	319,476	0	319,476	70,703	390,179
7 Working Capital Allowance	<u>35,411</u>	<u>1,986</u>	<u>37,397</u>	<u>(2,965)</u>	<u>34,432</u>
8 Rate Base	<u>\$1,746,935</u>	<u>\$204,877</u>	<u>\$1,951,812</u>	<u>(\$189,657)</u>	<u>\$1,762,155</u>

Cypress Lakes Utilities, Inc.		Schedule No. 1-C	
Adjustments to Rate Base		Docket No. 130212-WS	
Test Year Ended 12/31/12			
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$158,109	\$410,053	
2 Phoenix Project adjustment. (Issue 3)	(14,801)	(13,593)	
3 Test year plant adjustments. (Issue 4)	24,256	0	
4 Appropriate pro forma amount. (Issue 5)	<u>0</u>	<u>(1,662)</u>	
5 Total	<u>\$167,564</u>	<u>\$394,798</u>	
<u>Accumulated Depreciation</u>			
1 Audit adjustments agreed to by Utility. (Issue 2)	\$14,348	(\$197,036)	
2 Phoenix Project adjustment. (Issue 3)	13,658	12,545	
3 Test year plant adjustments. (Issue 4)	(3,141)	0	
4 Appropriate pro forma amount. (Issue 5)	<u>0</u>	<u>(1,667)</u>	
5 Total	<u>\$24,866</u>	<u>(\$186,157)</u>	
<u>CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>(\$200,190)</u>	<u>(\$466,036)</u>	
<u>Accumulated Amortization of CIAC</u>			
Audit adjustments agreed to by Utility. (Issue 2)	<u>\$14,521</u>	<u>\$70,703</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital allowance. (Issue 7)	<u>(\$3,357)</u>	<u>(\$2,965)</u>	

Cypress Lakes Utilities, Inc. Capital Structure-Simple Average Test Year Ended 12/31/12							Schedule No. 2 Docket No. 130212-WS	
Description	Total Capital	Specific Adjustments	Subtotal Adjusted Capital	Prorata Adjustments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,672,878)	\$1,327,122	49.71%	6.64%	3.30%
2 Short-term Debt	250,000	0	250,000	(248,157)	1,843	0.07%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	175,327,223	0	175,327,223	(174,034,553)	1,292,670	48.42%	10.22%	4.95%
5 Customer Deposits	13,366	0	13,366	0	13,366	0.50%	3.00%	0.02%
6 Deferred Income Taxes	<u>34,531</u>	<u>0</u>	<u>34,531</u>	<u>0</u>	<u>34,531</u>	<u>1.29%</u>	0.00%	<u>0.00%</u>
7 Total Capital	<u>\$355,625,120</u>	<u>\$0</u>	<u>\$355,625,120</u>	<u>(\$352,955,588)</u>	<u>\$2,669,532</u>	<u>100.00%</u>		<u>8.27%</u>
Per Commission								
11 Long-term Debt	\$180,000,000	\$0	\$180,000,000	(\$178,761,922)	\$1,238,078	49.86%	6.64%	3.31%
12 Short-term Debt	250,000	0	250,000	(248,280)	1,720	0.07%	0.00%	0.00%
13 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
14 Common Equity	175,327,223	(5,194,723)	170,132,500	(168,962,292)	1,170,208	47.12%	10.45%	4.92%
15 Customer Deposits	13,366	0	13,366	0	13,366	0.54%	3.00%	0.02%
16 Deferred Income Taxes	<u>34,531</u>	<u>25,377</u>	<u>59,908</u>	<u>0</u>	<u>59,908</u>	<u>2.41%</u>	0.00%	<u>0.00%</u>
20 Total Capital	<u>\$355,625,120</u>	<u>(\$5,169,346)</u>	<u>\$350,455,774</u>	<u>(\$347,971,569)</u>	<u>\$2,483,280</u>	<u>100.00%</u>		<u>8.25%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>9.45%</u>	<u>11.45%</u>	
OVERALL RATE OF RETURN						<u>7.78%</u>	<u>8.72%</u>	

Cypress Lakes Utilities, Inc. Statement of Water Operations Test Year Ended 12/31/12						Schedule No. 3-A Docket No. 130212-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Commission Adjust- ments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$317,304</u>	<u>\$100,603</u> 31.71%	<u>\$417,907</u>	<u>(\$104,634)</u>	<u>\$313,273</u>	<u>\$57,554</u> 18.37%	<u>\$370,827</u>
Operating Expenses							
2 Operation & Maintenance	\$215,132	\$17,284	\$232,416	(\$26,854)	\$205,562		\$205,562
3 Depreciation	61,810	(3,846)	57,964	(7,247)	50,717		50,717
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	50,038	(3,290)	46,748	(15,693)	31,055	2,590	33,645
6 Income Taxes	<u>22,510</u>	<u>(1,055)</u>	<u>21,455</u>	<u>(20,722)</u>	<u>733</u>	<u>20,683</u>	<u>21,416</u>
7 Total Operating Expense	<u>349,490</u>	<u>9,093</u>	<u>358,583</u>	<u>(70,515)</u>	<u>288,068</u>	<u>23,273</u>	<u>311,341</u>
8 Operating Income	<u>(\$32,186)</u>	<u>\$91,510</u>	<u>\$59,324</u>	<u>(\$34,119)</u>	<u>\$25,205</u>	<u>\$34,281</u>	<u>\$59,486</u>
9 Rate Base	<u>\$689,166</u>		<u>\$717,721</u>		<u>\$721,125</u>		<u>\$721,125</u>
10 Rate of Return	<u>-4.67%</u>		<u>8.27%</u>		<u>3.50%</u>		<u>8.25%</u>

Cypress Lakes Utilities, Inc.						Schedule No. 3-B	
Statement of Wastewater Operations						Docket No. 130212-WS	
Test Year Ended 12/31/12							
Description	Test Year Per Utility	Utility Adjustments	Adjusted Test Year Per Utility	Commission Adjustments	Commission Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$667,852</u>	<u>\$26,350</u> 3.95%	<u>\$694,202</u>	<u>(\$26,860)</u>	<u>\$667,342</u>	<u>(\$9,778)</u> -1.47%	<u>\$657,564</u>
Operating Expenses							
2 Operation & Maintenance	\$283,285	\$15,884	\$299,169	(\$23,711)	\$275,458		\$275,458
3 Depreciation	117,729	(628)	117,101	20,696	137,797		137,797
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	45,987	12,209	58,196	(11,140)	47,056	(440)	46,616
6 Income Taxes	<u>20,688</u>	<u>37,658</u>	<u>58,346</u>	<u>(2,499)</u>	<u>55,847</u>	<u>(3,514)</u>	<u>52,333</u>
7 Total Operating Expense	<u>467,689</u>	<u>65,123</u>	<u>532,812</u>	<u>(16,654)</u>	<u>516,158</u>	<u>(3,954)</u>	<u>512,204</u>
8 Operating Income	<u>\$200,163</u>	<u>(\$38,773)</u>	<u>\$161,390</u>	<u>(\$10,206)</u>	<u>\$151,184</u>	<u>(\$5,824)</u>	<u>\$145,361</u>
9 Rate Base	<u>\$1,746,935</u>		<u>\$1,951,812</u>		<u>\$1,762,155</u>		<u>\$1,762,155</u>
10 Rate of Return	<u>11.46%</u>		<u>8.27%</u>		<u>8.58%</u>		<u>8.25%</u>

Cypress Lakes Utilities, Inc.		Schedule No. 3-C	
Adjustments to Operating Income		Docket No. 130212-WS	
Test Year Ended 12/31/12			
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$100,603)	(\$26,350)	
2 Staff adjustment to annualized revenues (Issue 11)	(3,031)	(510)	
3 Audit adjustments agreed to by Utility (Issue 12)	<u>(1,000)</u>	<u>0</u>	
4 Total	<u>(\$104,634)</u>	<u>(\$26,860)</u>	
<u>Operation and Maintenance Expense</u>			
1 Phoenix Project adjustment. (Issue 3)	(\$2,306)	(\$2,118)	
2 Test year adjustment. (Issue 4)	(1,718)	0	
3 Excessive I&I. (Issue 6)	0	(626)	
4 Audit adjustments agreed to by Utility. (Issue 12)	(11,994)	(11,014)	
5 Reflect salary adjustment. (Issue 13)	(1,967)	(1,806)	
6 Rate Case Expense. (Issue 14)	2,989	2,747	
7 Test year adjustments. (Issue 15)	<u>(5,881)</u>	<u>(5,401)</u>	
8 Total	<u>(\$26,854)</u>	<u>(\$23,711)</u>	
<u>Depreciation Expense - Net</u>			
1 Phoenix Project adjustment. (Issue 3)	(\$4,032)	(\$3,703)	
2 To reflect appropriate test year plant adjustments. (Issue 4)	775	0	
3 To reflect appropriate pro forma plant amount. (Issue 5)	0	(52)	
4 Audit adjustments agreed to by Utility. (Issue 12)	<u>(3,990)</u>	<u>24,451</u>	
5 Total	<u>(\$7,247)</u>	<u>\$20,696</u>	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above.	(\$4,709)	(\$1,209)	
2 To reflect test year plant adjustments. (Issue 4)	320	0	
3 To reflect appropriate pro forma property taxes. (Issue 5)	(704)	(189)	
4 To reflect test year O&M adjustments. (Issue 13)	(282)	(259)	
5 To reflect appropriate property tax. (Issue 16)	<u>(10,318)</u>	<u>(9,483)</u>	
6 Total	<u>(\$15,693)</u>	<u>(\$11,140)</u>	

Cypress Lakes Utilities Inc.	Schedule No. 4-A
Test Year Ended 12/31/12	Docket No. 130212-WS
Monthly Water Rates	

	UTILITY CURRENT RATES	COMMISSION APPROVED INTERIM	UTILITY REQUESTED FINAL	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8"X3/4"	\$5.99	\$7.61	\$7.98	\$7.10	\$0.24
3/4"	N/A	N/A	\$11.97	\$10.65	\$0.35
1"	\$14.97	\$19.03	\$19.95	\$17.74	\$0.59
1-1/2"	\$29.96	\$38.08	\$39.94	\$35.51	\$1.18
2"	\$47.92	\$60.91	\$63.88	\$56.80	\$1.89
3"	\$95.83	\$121.80	\$127.74	\$113.59	\$3.78
4"	\$149.75	\$190.33	\$199.61	\$177.50	\$5.91
6"	\$299.48	\$380.64	\$399.20	\$354.97	\$11.81
Charge per 1,000 Gallons - Residential					
0-6,000 Gallons	\$4.12	\$5.24	\$5.49	\$4.88	\$0.16
6,001-12,000 Gallons	\$6.18	\$7.85	\$8.24	\$7.33	\$0.24
Over 12,000 Gallons	\$8.24	\$10.47	\$10.98	\$9.77	\$0.33
Charge per 1,000 Gallons - General Service					
	\$4.37	\$5.55	\$5.83	\$5.18	\$0.17
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>					
3,000 Gallons	\$18.35	\$23.33	\$24.45	\$21.74	
6,000 Gallons	\$30.71	\$33.81	\$35.43	\$36.38	
10,000 Gallons	\$55.43	\$70.45	\$73.88	\$65.70	

Cypress Lakes Utilities, Inc.		Schedule No. 4-B		
Monthly Wastewater Rates		Docket No. 130212-WS		
Test Year Ended 12/31/12				
	UTILITY CURRENT RATES	UTILITY REQUESTED FINAL	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
<u>Residential</u>				
Base Facility Charge - All Meter Sizes	\$21.46	\$22.32	\$21.14	\$0.36
Charge per 1,000 Gallons				
*6,000 gallon cap	\$7.24	\$7.53	\$7.13	\$0.12
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$21.46	\$22.32	\$21.14	\$0.36
3/4"	N/A	N/A	\$31.71	\$0.54
1"	\$53.67	\$55.81	\$52.88	\$0.91
1-1/2"	\$107.32	\$111.60	\$105.74	\$1.81
2"	\$171.71	\$178.55	\$169.19	\$2.90
3"	\$343.43	\$357.12	\$338.38	\$5.80
4"	\$536.61	\$558.00	\$528.72	\$9.07
6"	\$1,073.23	\$1,116.01	\$1,057.45	\$18.13
Charge per 1,000 Gallons	\$8.68	\$9.03	\$8.55	\$0.15
<u>Reuse Service</u>	\$0.00	\$0.00	\$0.00	\$0.00
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$43.18	\$44.91	\$42.53	
6,000 Gallons	\$64.90	\$67.50	\$63.92	
10,000 Gallons	\$64.90	\$67.50	\$63.92	