BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corporation.	DOCKET NO. 140060-WS ORDER NO. PSC-15-0233-PAA-WS ISSUED: June 3, 2015

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
JULIE I. BROWN
JIMMY PATRONIS

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

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction and proof of adjustment of books and records, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C).

BACKGROUND

Sanlando Utilities Corporation (Sanlando or Utility) is a Class A utility providing water and wastewater service to approximately 10,172 water and 8,428 wastewater customers in Seminole County. Water and wastewater rates were last established for this Utility in its 2011 rate case.[1]

On July 1, 2014, Sanlando filed its application for the rate increase at issue. The Utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim and final rates is the 13-month average period ended December 31, 2013.

The Utility's application did not meet the minimum filing requirements (MFRs). On July 29, 2014, our staff sent Sanlando a letter indicating deficiencies in the filing of its MFRs. On

[1] Order No. 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.

September 29, 2014, the Utility filed a response to our staff's letter correcting its deficiencies, and thus the official filing date was established as September 29, 2014.

Sanlando requested an interim revenue increase of $324,552 (7.8 percent) for water and no revenue increase for wastewater. Sanlando received our approved interim increase of $102,527 (2.46) percent for water.

The Utility requested final revenue increases of $654,796 (15.7 percent) for water and $537,442 (13.7 percent) for wastewater. This order addresses Sanlando's requested final rates. The five month effective date has been waived by the Utility through May 5, 2015. We have jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

DECISION

QUALITY OF SERVICE

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

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

Sanlando's service area is located in Seminole County, Florida. The raw water source is ground water, which is obtained from three water treatment plants (WTPs). The Des Pinar WTP has four wells, the Knollwood WTP has two wells, and the Wekiva WTP has five wells in the service area. The water at each well is treated via aeration, addition of liquid chlorine for disinfection, and addition of orthophosphate for corrosion control. Wastewater service is provided via influent screening, aeration, clarification, chemical feed, disinfection by chlorination, tertiary filtration, dechlorination, and aerobic digestion of residuals.

We reviewed the most recent chemical analyses for each WTP. The analyses dated March 7, 2013, for nitrites and nitrates, and April 22, 2014, for all other contaminants, showed all contaminants are below the Maximum Contaminant Level. We also reviewed the Utility's DEP Sanitary Survey Report dated December 27, 2013. The report noted a deficiency with maintenance of a check valve and an air relief valve, and also mentions that these deficiencies had been corrected by January 9, 2014.

We reviewed the Utility's DEP Wastewater Compliance Report for the Wekiva Wastewater Treatment plant (WWTP), dated July 9, 2014. This report noted an excess of total phosphorus in wastewater effluent for several months during the test year, and also reports that

this noncompliance has been corrected once the public access reuse interconnect was completed in October 2013.

We also reviewed a DEP Consent Order dated April 7, 2015, addressing events occurring on November 23 and November 29, 2014. On November 23, 2014, a forcemain break caused an estimated 750,000 gallons of untreated wastewater to discharge to Sweetwater Creek. On November 29, 2014, a berm breach caused an estimated 1.0 million gallons of partially treated effluent to discharge into Sweetwater Creek and the surrounding wetlands. Additional discharge and daylighting (groundwater emerging above ground) from rapid infiltration basins (RIBs) was observed on December 2, 2014. DEP has ordered several corrective actions, and our staff has confirmed with DEP that Sanlando has been responsive to this order.

We received correspondence from residents of neighboring West Lake Brantley, which is not in Sanlando's service area, who were directly impacted by these events. Specifically, residents and news sources reported that untreated wastewater had been discharged onto residents' properties, causing damage. Our staff contacted DEP to obtain results of an inspection performed December 2, 2014, to investigate the claims made in the correspondence. DEP staff has reported that untreated wastewater did not discharge into the West Lake Brantley community, and that any sewage found in that area was likely due to septic systems affected by heavy rainfall. DEP reported that the daylighting of water from a RIB likely affected the West Lake Brantley residents, but noted that this was treated wastewater, suitable for discharge into RIBs. The Consent Order requires the Utility to re-rate the RIBs to prevent adverse effects on adjacent properties.

The Utility's Attempt to Address Customer Satisfaction

We reviewed our complaint records and there were zero complaints recorded during the test year. DEP reported that it had no complaints for Sanlando on file for the test year or prior four years. The Utility recorded 191 complaints during the test year, down from an average of 260 complaints in each of the four years prior to the test year. Approximately 30 percent of the test year complaints were related to leaks which were on the customer side of the meter and therefore not the responsibility of the Utility. The remaining concerns were varied and did not indicate a systemic problem with customer service. All complaints appeared to have been timely resolved. The Utility also resolved line blockages and sewer backups in a timely manner.

We held a customer meeting in Altamonte Springs, Florida on February 10, 2015. One customer of the Utility and one resident of West Lake Brantley, a neighborhood adjacent to the service territory, attended and provided comments. The customer's comment was related to nitrogen discharge of the wastewater treatment plant. The customer was concerned that DEP may require homeowners to replace septic systems to lower nitrogen levels in the Wekiva River. Sanlando is selling reuse water to the city of Apopka in order to address this concern and reduce total nitrogen and nitrate discharge. The comment from the resident of neighboring West Lake Brantley was related to the unusual discharge events at the Wekiva WWTP that occurred on November 23 and November 29, 2014. This comment claims that these events led to flooding of the West Lake Brantley neighborhood with untreated sewage which caused property damage and pollution to the Wekiva River. Our staff has investigated this concern as discussed above.

We received three comments regarding this rate case. One of these comments concerned the November 23 and 29, 2014, events described above. Two of these comments objected to the rate increase based on the frequency of rate increases. One of the comments also indicated that Sanlando had not satisfied a water pressure complaint. The Utility has responded to this comment with results from a pressure recorder indicate that system pressure of above 50 pounds per square inch was maintained for the week of March 12–March 19, 2015, except for one incident when the plant emergency generator was engaged for maintenance purposes. The Utility also responded with potential causes for the problem on the customer's side, and encouraged the customer to contact them if the problems persist. Based on the above, it appears the Utility has attempted to address its customer's concerns.

Conclusion

We find that the quality of service provided by Sanlando is satisfactory. The Utility is currently meeting all applicable DEP water and wastewater quality standards, and appears to be responsive to its customers and to the DEP.

RATE BASE

Audit Adjustments

In its response to our audit reports of the Utility and affiliate transactions, Sanlando agreed to the audit adjustments as set forth in the following tables.

Table 1

Description of Audit Adjustments	
Sanlando Audit Adjustments	Description of Adjustments
Audit Finding No. 3	Reflect Des Pinar Wastewater Plant Retirement
Audit Finding No. 4	Reflect Water Plant in Service General Retirements
Audit Finding No. 5	Reflect Water Plant in Service Meter Retirements
Audit Finding No. 6	Reflect Water Plant in Service Meter Additions
Audit Finding No. 7	Reflect Wastewater Plant in Service General Retirements
Audit Finding No. 8	Reflect Wastewater Plant in Service Pumping Equipment Retirement
Audit Finding No. 9	Reflect Wastewater Plant in Service T&D Equipment Retirement
Audit Finding No. 10	Reflect Wastewater Plant in Service T&D Transfers
Audit Finding No. 11	Wastewater Plant in Service Reimbursement
Audit Finding No. 12	Wastewater Plant in Service-Capital Project Addition
Audit Finding No. 13	Correction to Erroneous CIAC Retirements
Audit Finding No. 14	Remove Customer Deposits from Working Capital
Audit Finding No. 15	Reduce Sludge Hauling Expense-Change in Contract Rate and New Sludge Belt
Audit Finding No. 16	Reduce Wastewater Purchased Power and Increase Water Purchased Power
Sanlando Affiliate Audit Adjustments	Description of Adjustments
Audit Finding No. 1	Reflect Reduction in Transportation and Vehicle Costs
Audit Finding No. 4	Reflect Correct Allocated Plant, Accumulated Depreciation, Depreciation Expense
Audit Finding No. 5	Reflect Correct Allocations to Water and Wastewater Plant
Audit Finding No. 7	Reflect Correct Allocated Operations & Maintenance (O&M) Expense
Audit Finding No. 8	Reflect Correct Allocated Payroll, Benefits, and Taxes

Based on the audit adjustments agreed to by the Utility, we find that the adjustments set forth in Tables 2 through 7 shall be made to rate base and net operating income.

Table 2

Adjustments to Water Rate Base					
Sanlando Audit Adjustments	Plant	Accum. Depreciation	CIAC	Amort.of CIAC	Working Capital
Finding No. 3	$733				
Finding No. 4	($8,549)	$9,058			
Finding No. 5	($152,645)	$166,861			
Finding No. 6	($51,446)	($54,465)			
Finding No. 12			$605,943	($4,741)	
Finding No. 13			$708,364	($798,118)	
Finding No. 14					$27,695
Adjustment Totals	($211,907)	$121,454	$1,314,307	($802,859)	$27,695

Table 3

Adjustments to Water Net Operating Income			
Sanlando Audit Adjustments	Depreciation Expense	O&M Expense	Amortization Expense
Finding No. 3	$978		
Finding No. 4	($509)		
Finding No. 5	($7,804)		
Finding No. 6	($878)		
Finding No. 12			$3,074
Finding No. 13			($164,256)
Finding No. 16		$5,020	
Adjustment Totals	($8,213)	$5,020	($161,182)

Table 4

Adjustments to Wastewater Rate Base					
Sanlando Audit Adjustments	Plant	Accum. Depreciation	CIAC	Amort.of CIAC	Working Capital
Finding No. 3	($18,644)				
Finding No. 7	($11,101)	$10,058			
Finding No. 8	($49,415)	$55,496			
Finding No. 9	($11,145)	$11,765			
Finding No. 10	($9,480)	$3,950			
Finding No. 11	($2,773)	$62			
Finding No. 12	($8,606)	$67	($315,938)	$1,180	
Finding No. 13			$384,502	($528,709)	
Finding No. 14					$21,854
Adjustment Totals	($111,164)	$81,398	$68,564	($527,529)	$21,854

Table 5

Adjustments to Wastewater Net Operating Income			
Sanlando Audit Adjustments	Depreciation Expense	O&M Expense	Amortization Expense
Finding No. 3	($16,194)		
Finding No. 7	($851)		
Finding No. 8	($2,878)		
Finding No. 9	($619)		
Finding No. 10	($527)		
Finding No. 11	($62)		
Finding No. 12	($67)		($2,845)
Finding No. 13			($136,400)
Finding No. 15		($23,197)	
Finding No. 16		($7,220)	
Adjustment Totals	($21,198)	($30,417)	($139,245)

Table 6

Adjustments to Water Rate Base and Net Operating Income					
Sanlando Affiliate Audit Adjustments	Plant	Accum. Depreciation	O&M Expense	Depreciation Expense	TOTI
Finding No. 1	($224,456)	$242,299	($4,272)	($10,921)	
Finding No. 4	($83,600)	$127,614		$7,393	
Finding No. 5	($61,688)	$17,570			
Finding No. 7			$10,107		
Finding No. 8			($64,343)		($7,698)
Adjustment Totals	($369,744)	$387,483	($58,508)	($3,528)	($7,698)

Table 7

Adjustments to Wastewater Rate Base and Net Operating Income					
Sanlando Affiliate Audit Adjustments	Plant	Accum. Depreciation	O&M Expense	Depreciation Expense	TOTI
Finding No. 1	($177,147)	$191,230	($3,371)	($8,620)	
Finding No. 4	($65,982)	$100,715		$5,384	
Finding No. 5	$61,688	($17,570)			
Finding No. 7			$7,949		
Finding No. 8			$11,442		(6,017)
Adjustment Totals	($181,441)	$274,375	$16,020	($3,236)	($6,017)

Adjustment for the Phoenix Project

The purpose of the Phoenix Project is to improve accounting, customer service, customer billing, and financial and regulatory reporting functions of Utilities, Inc., (UI) and its subsidiaries. UI's Phoenix Project became operational in December 2008. In the Miles Grant Water and Sewer Co. case, we determined that recovery of Phoenix Project costs would be allocated on the basis of Equivalent Residential Connections (ERCs).[2] Beginning with the UI of Pennbrooke case, and in subsequent dockets, we have removed the ERCs of systems divested by UI from total company ERCs when calculating the net investment in the Phoenix Project.[3]

In the instant docket, UI allocated 7.90 percent of its costs to Sanlando based on the ratio of its ERCs to the total ERCs at the corporate level. According to UI, the total Phoenix Project

[2] Order No. PSC-08-0812-PAA-WS, issued December 16, 2008, in Docket No. 070695-WS, In re: Application for increase in water and wastewater rates in Martin County by Miles Grant Water and Sewer Company.
[3] Order No. PSC-10-0400-PAA-WS, issued June 18, 2010, in Docket No. 090392-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

costs for the test year are $23,176,439, of which the Utility calculated its allocated share to be $1,830,939.[4]

UI Generic Docket

In Docket No. 110153-SU, as part of a proposed settlement of Proposed Agency Action protests, UI, with the consent and support of OPC, petitioned us to open a generic docket to address the protested issue relating to the Utility's Phoenix Project.[5] These protested issues were subsequently addressed by Order No. PSC-14-0521-FOF-WS issued in Docket No. 120161-WS (UI Generic Docket).[6] In the UI Generic Docket, we clarified our treatment of divestitures going forward; so that any adjustments related to UI divested systems were net of any UI acquisitions. We also reiterated our position that the appropriate depreciable life for the Phoenix Project is ten years and that remaining depreciable life shall be used in the calculation of depreciation expense.[7]

At the time the Phoenix Project was placed in service, UI had 296,950 total ERCs. The Utility filed an update of closed and pending acquisitions on February 13, 2015. As of that date, there were 297,085 ERCs.[8] According to the Utility, one acquisition closed on January 13, 2015, and several additional pending acquisitions are under contract pending approval by the Louisiana and New York regulatory authorities. Given these acquisitions, an adjustment to the investment is no longer necessary given that UI will exceed the level of total ERCs existing when the Phoenix Project was placed in service. As such, the adjustment identified in Affiliate Audit Finding No. 2 is no longer necessary.

Accordingly, we find that the adjustment to accumulated depreciation and depreciation expense identified in Affiliate Audit Finding No. 3 shall be revised to reflect the full investment of the Phoenix Project. Our audit staff discovered that the Utility did not change the depreciable life for the Phoenix Project from eight to ten years as directed by Order No. PSC-10-0407-PAA-SU. Consistent with our decision in the UI Generic Docket, adjustments shall be made to decrease water and wastewater accumulated depreciation by $26,326 and $20,777, respectively. Water and wastewater depreciation expense shall also be decreased by $26,326 and $20,777, respectively.

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[4] Audit Control No. 14-197-4-1, Work Paper No. 22-4.6.1, in Docket No. 140060-WS.
[5] 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.
[6] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[7] Order No. PSC-14-0521-FOF-WS, p.11.
[8] Document No. 00959-15, filed February 13, 2015.

Creation of a Regulatory Asset or Liability

In addition to establishing the UI Generic Docket in Docket No. 110153-SU, the parties agreed, and we subsequently ordered, that if there is an upward or downward adjustment to the previously approved revenue requirement for Utilities Inc., of Eagle Ridge resulting from our final approved decision in the UI Generic Docket, the Utility shall be authorized to create a regulatory asset or liability, and accrue interest on the regulatory asset or liability, at the 30-day commercial paper rate until the establishment of rates in Utilities Inc. of Eagle Ridge's next rate proceeding.[9,10,11] We also ordered that the regulatory asset or liability be amortized over four years. We ordered this same treatment for other UI companies, including Sanlando.[12]

As stated previously, we recently clarified our divestiture adjustment methodology when addressing Phoenix Project costs. We found that adjustments for divestitures, net of any acquisitions, was a more appropriate methodology going forward for UI systems. As a result of the clarification, we recalculated the computer maintenance expense, depreciation expense, and incremental return, as well as the revenue impact for each year since the implementation of rates in Sanlando's last rate case (2013 through 2015). Because the current adjustment is less than the adjustment calculated by us in the last rate case, a regulatory asset is required pursuant to the UI Generic Docket. Including interest, the revenue impact associated with the foregone return, computer maintenance expense, and depreciation expense is $5,925. The annual amortization of the regulatory asset is $1,481 per year, or $832 for water and $649 for wastewater.

Conclusion

Therefore, we find that accumulated depreciation shall be reduced by $26,326 for water and $20,777 for wastewater. Depreciation expense shall be reduced by $26,326 for water and $20,777 for wastewater. In addition, consistent with our previous decisions, Sanlando shall be authorized to create a regulatory asset of $5,925. The annual amortization of the regulatory asset is $1,481 per year, or $832 for water and $649 for wastewater. These amounts are also reflected in Schedule Nos. 1-C and 3-C.

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[9] Order No. PSC-12-0346-FOF-SU; pp. 2, 9.

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

[11] 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. The Commission's 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.

[12] 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.

Other Adjustment to Test Year Rate Base

We have reviewed the test year rate base components along with other support documentation. As such, we find that further adjustments are necessary to the Utility's rate base, as discussed below.

Sanlando Audit Finding Nos. 1 and 2

Our staff audit report for Sanlando was filed on October 23, 2014. The Utility's response to the audit was received on January 30, 2015. In its response, the Utility contested Audit Finding Nos. 1, 2, 17, and 18.

In regard to Audit Finding No. 1, our audit staff identified Commission Ordered Adjustments (COAs) from Order No. PSC-13-0085-PAA-WS that were incorrectly booked to the Utility's general ledger on May 31, 2013. In addition to erroneous plant adjustments, the Utility used incorrect depreciation rates. Our audit staff requested more information and an explanation of the adjustment schedules; however, the Utility did not respond to these requests in a timely manner. Although the Utility contested Audit Finding No. 1, it failed to provide an explanation as to why it disagreed. As such, our audit staff calculated the effect of the COAs on the test year for the instant proceeding and compared the balance to the Utility's filing. Based on this analysis, plant shall be reduced by $112,706 for water and $27,535 for wastewater. Accumulated depreciation shall be increased by $126,680 for water and $115,219 for wastewater. Corresponding adjustments shall be made to increase depreciation expense by $46,010 for water and decrease depreciation expense by $656 for wastewater. In addition, contribution in aid of construction (CIAC) shall be increased by $15,383 for water. Accumulated amortization of CIAC shall be decreased by $17,836 for water and $24,862 for wastewater. Corresponding adjustments shall be made to decrease amortization of CIAC expense by $42,348 for water and increase amortization of CIAC by $12,364 for wastewater.

According to Audit Finding No. 2, the Utility booked corresponding COAs to depreciation expense and amortization of CIAC in the test year. For accounting purposes, the COAs shall be treated as prior-period adjustments because they were adjustments to the Utility's December 31, 2010, general ledger balances. COAs shall not affect the current year's operating expenses. The Utility did not provide an explanation as to why it disagreed with this audit finding either. As such, depreciation expense shall be decreased by $30,516 for water and increased by $213,431 for wastewater. Amortization of CIAC expense shall be increased by $298,851 for water and $146,648 for wastewater.

Conclusion

Based on the above adjustments to rate base, we find that plant shall be reduced by $112,706 for water and $27,535 for wastewater. Accumulated depreciation shall be increased by $126,680 for water and $115,219 for wastewater. CIAC shall be increased by $15,383 for water. Accumulated amortization of CIAC shall be decreased by $17,836 for water and $24,862 for wastewater. Additionally, depreciation expense shall be increased by $15,494 ($46,010 - $30,516) for water and $212,775 ($213,431 - $656) for wastewater. Amortization of CIAC shall be increased for water and wastewater by $256,503 ($42,348 - $298,851) and $159,012 ($12,364 + $146,648), respectively.

Adjustment to Pro Forma Plant

Section 367.081, F.S., provides that, in fixing rates, we shall consider facilities to be constructed within a reasonable time in the future, to be Used and Useful (U&U) if such property is needed to serve current customers. Costs associated with each of the pro forma plant items discussed below have been or are projected to be incurred within two years of the test year. Section 367.081, F.S., additionally provides that we shall approve rates for service which allow a utility to recover the full amount of environmental compliance costs.

Sanlando's initial filing contained three pro forma plant additions. Subsequent to its filing, the Utility identified two additional pro forma plant items that it believes should be included in the current rate case. We have reviewed the Utility's filings and responses to data requests and find that several adjustments to the Utility's desired pro forma plant additions are necessary. Table 8 provides a summary of our approved pro forma plant additions.

Table 8

Commission Approved Pro Forma Plant Additions				
Pro Forma Plant Items	Initial MFR	Response from data request / Filing	Commission Approved Amount	Documentation
Wekiva Hunt Club WWTP EQ Tank and Headworks	$2,200,000	$2,185,225	$2,185,225	Bids/Invoices
Wekiva Hunt Club WWTP Electrical Improvements	$600,000	$257,478	$257,478	Bids/Invoices
Sanlando Collection System Improvements	$1,000,000	$973,127	$973,127	Bids/Invoices
Backhoe Replacement	Not Included	$74,241	$66,254	Invoice
Wekiva Hunt Club WWTP Air Header Replacement	Not Included	$38,634	$38,634	Invoice
Total	$3,800,000	$3,912,875	$3,520,817	

Wekiva Hunt Club WWTP EQ Tank and Headworks Improvements

Sanlando's MFRs included $2.2 million for the construction of a new equalization tank and headworks improvements at its Wekiva WWTP. Per Sanlando's application to DEP, the planned equalization tank and headworks improvements will optimize operations by equalizing flows into the treatment system. Sanlando indicated that increases in peak demand and average day flow negatively impacts the ability to produce plant effluent that meets public access reuse water quality standards. Excess flows during peak periods will be diverted to the equalization tank reducing load variations experienced by the facility. During periods of low flow, surge pumps will pump flow to the WWTP. The headworks improvements include a new splitter box as well as a new mechanical screen that will prevent rags and debris from entering the equalization tank. On March 26, 2014, DEP authorized the construction and installation of the discussed components. This project is scheduled for completion by April 30, 2015.

Sanlando provided a bid tabulation consisting of five bids. Sanlando selected the lowest bid provided by Florida Environmental Construction, Inc. Sanlando's costs also include design and permitting services provided by CPH Engineering. We have reviewed the bids as well as recent invoices and approve $2,185,225 for this project, which is a $14,775 reduction to the amount requested in the Utility's MFRs. Corresponding adjustments shall be made to reduce wastewater accumulated depreciation and depreciation expense by $919.

Wekiva WWTP Electrical Improvements

In its application, Sanlando included $600,000 to replace electrical components within the motor control center at its Wekiva WWTP. The Utility's adjusted plant-in-service balance included a reduction of $450,000 for the corresponding retirement of the existing electrical components. Documentation provided by the Utility indicated that replacement parts for the existing electrical components are unavailable due to the age of the components, and the current configuration of the components is not ideal for maintenance or operation. The new equipment will be installed in a cooler location that allows for safe access for service and maintenance tasks. We find that Sanlando has reasonably justified that the proposed electrical improvements will increase operational reliability. This project is scheduled for completion by June 1, 2015.

The Wekiva WWTP electrical improvements project was separated into a design element and a construction element. For the design element of the electrical improvement project Sanlando did not issue a request for proposals. Sanlando selected an engineering consultant (CPH Engineering) that the Utility has used in the past for various electrical improvement projects including the design of the Wekiva Hunt Club Water Treatment Plant. Additionally, the scope of work associated with the design element of the electrical improvement project amounts to a relatively small portion (5.5 percent) of the total project. We find that the Utility's decision to not solicit multiple bids is a reasonable approach based on the facts discussed above. We have reviewed the quote provided to Sanlando and find $42,000 for the cost of the design element of the electrical improvement project is appropriate.

Regarding the construction element of the electrical improvements project, the Utility received three bids and accepted the lowest bid. We have reviewed the bids and recent invoices and approve $215,478 for the cost of the construction element of the electrical improvement project. In total, we approve $257,478 for this project, which is a reduction of $342,522 from the amount requested in the Utility's MFRs. An additional adjustment shall be made to reduce the retirement amount by $256,892 to $193,109. The net wastewater plant adjustment is a decrease of $85,631. Corresponding adjustments shall be made to increase wastewater accumulated depreciation by $252,416 which equates to a reduction of $4,476 to the amount requested in the MFRs for the plant addition and an increase of $256,892 for the amount of the retirement adjustment. In addition, wastewater depreciation expense shall be decreased by $12,526, which reflects a reduction of $4,476 to the amount requested in the MFRs for the plant addition and a decrease of $8,050 for the amount of the retirement adjustment.

Sanlando Collection System Improvements

During the third quarter of 2013, an inspection of Sanlando's gravity collection system identified deficiencies that needed repair. In its application, Sanlando included $1 million for these repairs. Repairs included excavation and replacement of approximately 205 linear feet of vitrified clay pipe and the installation of cured in place pipe lining. This project was completed on September 30, 2014. Documents provided by the Utility indicated that completion of these repairs would reduce the infiltration of groundwater into the collection system which will result in reduced electric and chemical costs. The Utility indicated that reduced operating costs are not measurable at this time as the quantity of infiltration is based upon seasonal groundwater tables

that vary according to weather patterns. We believe that the described project will improve the operation of Sanlando's collection system. We note that the Utility's filing did not indicate excessive inflow and infiltration (I&I).

The Collection System Improvements project consists of two components which include lining and excavation. Four bids were provided for the lining component and three bids were provided for the excavation component. Sanlando accepted the lowest bid for each component and provided invoices totaling $534,677 and $438,450 for the lining and excavation components, respectively. We have reviewed the bids and resultant invoices and approve a total of $973,127 for the cost of the Collection System Improvements which is a reduction of $26,873 from the amount requested in the Utility's MFRs. A corresponding adjustment shall be made to reduce wastewater accumulated depreciation and depreciation expense by $6,125.

Backhoe Replacement

On February 6, 2015, Sanlando filed documentation indicating that it would be replacing its existing backhoe which is used to make repairs to the Utility's distribution and collection systems. According to the filing, the backhoe has been in-service since 1990, and the cost for repairs exceeds its salvage value. During our staff's site visit, Utility representatives estimated repairs for the backhoe would cost between $15,000 and $20,000. Given that the age of the current back-hoe is more than twice the average service life (12 years) specified in Rule 25-30.140, F.A.C., we find that replacement of the backhoe at this time is reasonable.

The Utility's filing included three bids for a replacement backhoe. The Utility accepted the lowest bid of $74,241. The backhoe was delivered on February 13, 2015, and a receipt of payment was provided to us. In response to Commission staff's data request, the Utility stated that the salvage value of the backhoe is $4,500. The Utility also estimated that 95 percent of the time the backhoe would be used for service to Sanlando and the other 5 percent would be used for other Utilities, Inc., water and wastewater systems. Therefore, we find that the original cost shall be reduced by $4,500 for the salvage value of the old backhoe, plus a reduction of 5 percent, or $3,487, to account for the value of the backhoe not used by Sanlando. We approve $66,254 for the cost of the replacement backhoe and allocate the cost between water and wastewater based on ERCs. Accordingly, we find that water and wastewater plant shall be increased by $37,029 and $29,225, respectively. Corresponding adjustments shall also be made to increase water and wastewater accumulated depreciation, and depreciation expense, by $3,086 and $2,435, respectively.

Wekiva WWTP Air Header Replacement

On February 20, 2015, Sanlando filed documentation indicating that it would need to replace the air header pipe at its Wekiva WWTP and that it believed the related expense should be included in this rate case. According to Sanlando's filing, Sanlando has made numerous repairs, without sustained success, to the existing air header pipe which was installed in 1973. The air header pipe is critical in the Wekiva WWTP's conformance with its National Pollutant Discharge Elimination System operating permit. Sanlando's filing included a signed proposal from Sunshine Building and Development identifying a total project cost of $38,634. The air

header replacement was completed and placed in service on March 31, 2015. We approve $38,634 for this project. Corresponding adjustments shall be made to increase wastewater accumulated depreciation and depreciation expense by $2,147.

Conclusion

Based upon our discussion the above, we find that water plant shall be increased by $37,029 and wastewater plant shall be decreased by $59,420. Corresponding adjustments shall be made to increase water and wastewater accumulated depreciation by $3,086 and $249,954, respectively. Depreciation expense shall also be increased by $3,086 for water and decreased by $14,988 for wastewater. Additionally, pro forma property taxes shall be increased by $527 for water and increased by $55,296 for wastewater.

Used and Useful (U&U) Percentages

As part of its MFRs, Sanlando provided U&U analyses, of its water and wastewater facilities, in accordance with Rule 25-30.4325, F.A.C., and Rule 25-30.432, F.A.C., respectively. For these analyses, the Utility relied on its records for the test year ended December 31, 2013. In its application, the Utility asserted that its water and wastewater treatment plants, storage facilities, water distribution and wastewater collection systems, and reuse facilities should all be considered 100 percent U&U.

In Sanlando's last rate case, each of the previously mentioned items was determined to be 100 percent U&U. The Utility has not increased the capacity of its water treatment facilities, including storage, or its wastewater treatment facilities since its last rate case. Giving consideration to our decisions in past rate cases, as well as information provided by the Utility in the current rate case, we find that the Utility's water and wastewater treatment plants, storage facilities, water distribution and wastewater collection systems, and reuse facilities continue to be considered 100 percent U&U.

Working Capital Allowance

Rule 25-30.433(2), F.A.C., requires that Class A utilities use the balance sheet method to calculate the working capital allowance. In its MFRs, Sanlando reflected a working capital allowance of $164,019 for water and $215,575 for wastewater. As addressed above, customer deposits shall be removed from working capital. This results in an increase of $27,695 for water and an increase of $21,854 for wastewater. We find theses additional adjustments are necessary.

Regulatory Asset

We adjusted working capital to reflect the unamortized balance of the regulatory asset granted in the UI Generic Docket.[13] This reflects an increase of $2,496 for water and an increase of $1,948 for wastewater.

Deferred Rate Case Expense

In its MFRs, Sanlando reflected deferred rate case expense of $95,203 for water and $75,122 for wastewater. In the UI Generic Docket, we approved an allocated total rate case expense of $43,498.[14] In the Utility's last rate case, we approved total rate case expense of $226,820.[15] As discussed below, we approve a total rate case expense of $137,144. It is our practice to include one-half of the approved amount of rate case expense from prior cases that have not been fully amortized, as well as half of the approved amount in the instant docket in working capital under the balance sheet method.[16] Consistent with our practice, we calculated deferred rate case expense to include in working capital to be $113,949 for water and $89,932 for wastewater. As such, we find that working capital shall be increased by $18,746 for water and $14,810 for wastewater.

Materials & Supplies

In its MFRs, Sanlando reflected materials and supplies expense of $27,515 for water and $32,584 for wastewater. The Utility allocated materials and supplies expense based on the gross plant of its water and wastewater systems. As a result of adjustments to the gross plant, Sanlando's working capital shall be decreased by $1,700 for water and increased by $1,700 for wastewater.

Conclusion

Based on the adjustments above, we approve a working capital allowance of $211,256 for water and $255,887 for wastewater. This reflects an increase of $47,237 for water and an increase $40,312 for wastewater to the Utility's requested working capital allowance of $164,019 and $215,575 for water and wastewater, respectively.

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[13] Order No. PSC-14-0521-FOF-WS, issued September 30, 2014, in Docket No. 120161-WS, In re: Analysis of Utilities, Inc.'s financial accounting and customer service computer system.
[14] Order No. PSC-14-0521-FOF-WS, p. 25.
[15] Order No. 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.
[16] Order Nos. PSC-09-0057-FOF-SU, issued January 27, 2009, in Docket No. 070293-SU, In re: Application for increase in wastewater rates in Monroe County by K W Resort Utilities Corp.; PSC-04-0369-AS-EI, issued April 6, 2004, in Docket No. 030438-EI, In re: Petition for rate increase by Florida Public Utilities Company; and PSC-010326-FOF-SU, issued February 6,2001, in Docket No. 991643-SU, In re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Appropriate Rate Base for 2013 Test Year

In its MFRs, the Utility recorded rate base of $8,535,204 for water and $14,862,863 for wastewater. We calculated Sanlando's water and wastewater rate bases using the Utility's MFRs with the adjustments discussed above. Accordingly, we find that the appropriate 13-month average rate base for the test year ended December 31, 2013, is $8,808,839 for water and $14,051,164 for wastewater. The appropriate water and wastewater rate bases are shown on Schedule Nos. 1-A and 1-B, respectively. The adjustments are shown on Schedule No. 1-C.

COST OF CAPITAL

Return on Equity

The return of equity (ROE) included in the Utility's MFRs is 10.53 percent. Based on the current leverage formula in effect and an equity ratio of 47.34 percent, the appropriate ROE is 10.53 percent.[17] We find that an allowed range of plus or minus 100 basis points shall be recognized for ratemaking purposes.

Weighted Average Cost of Capital

In its filing, Sanlando requested an overall cost of capital of 7.96 percent. We find that two adjustments to the Utility's capital components included in its capital structure are appropriate.

First, the Utility included a cost rate of 6.00 percent for customer deposits. Pursuant to Rule 25-30.311, F.A.C., Customer Deposits, the minimum interest rate for residential customer deposits is 2.00 percent per annum. The Utility confirmed that its sister UI water and wastewater utilities use a 2.00 percent cost rate for customer deposits. Therefore, we find that 2.00 percent is the appropriate cost rate for customer deposits. This adjustment results in the 2 basis point reduction in the overall cost of capital requested by the Utility.

Second, the Utility has requested to include pro forma plant additions in the instant docket. Pursuant to UI's settlement agreement with the Office of Public Counsel and approved by us in Order No. PSC-14-0044-FOF-WS, the Utility agreed to make adjustments to its capital structure as necessary to reflect the proper amount of deferred income taxes on pro forma plant additions.[18] Due to tax timing differences between the Internal Revenue Service and state regulatory depreciation, the additional plant investment caused changes to the balance of ADITs. Sanlando did not include in its filling an adjustment to its capital structure to reflect the proper amount of deferred income taxes on its pro forma plant additions.

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[17] Order No. PSC-14-0272-PAA-WS, issued May 29, 2014, in Docket No. 140006-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.

[18] Order No. PSC-14-0044-FOF-WS.

In its response to Commission staff's Fourth Data Request, filed on March 16, 2014, the Utility provided its calculation of the deferred income taxes on pro forma plant additions. The Utility presented an adjustment to reduce deferred taxes by $12,340. Upon review of the Utility's filing, we determined the calculation included incorrect depreciation lives for some of the plant items and used an incorrect composite income tax rate. After making corrections to the Utility's calculation, we find that the appropriate amount of the adjustment is a reduction of $7,254.

Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2013, including the aforementioned adjustments, we approve a weighted average cost of capital of 7.94 percent. Schedule No. 2 details our approved overall cost of capital.

Test Year Revenues

In its MFRs, Sanlando's adjusted test year revenues were $4,168,755 for water and $3,935,620 for wastewater. The water revenues include $4,132,547 of service revenues and $36,208 of miscellaneous revenues. The wastewater revenues include $3,923,332 of service revenues and $12,288 of miscellaneous revenues.

In order to determine the appropriate test year service revenues, we annualized test year revenues by applying the rates in effect as of August 26, 2014, to the appropriate billing determinants.[19] Accordingly, test year service revenues shall be $4,082,495 for water and $3,893,622 for wastewater. This results in a decrease of $50,052 ($4,132,547 - $4,082,495) for water and $29,710 ($3,923,332 - $3,893,622) for wastewater test year service revenues. We also made adjustments to miscellaneous revenues for water and wastewater. The Utility improperly recorded $463 for water and $420 for wastewater as connection meter fees. In addition, the Utility recorded $2,268 of unsupported revenues to water miscellaneous revenues. Therefore, we decrease miscellaneous revenues by $2,731 ($2,268 + $463) and $420 for water and wastewater, respectively.

Further, in its letter dated February 18, 2015, the Office of Public Counsel raised a concern about the revenues received by the Utility's parent company, Utilities, Inc. (UI), from HomeServe USA (HomeServe). HomeServe is an independent contractor that provides maintenance contracts to Sanlando's customers. The Utility states that the revenues are booked at the UI level and are not allocated to the operating companies. OPC expressed the opinion that these revenues should be allocated to the utility systems. We have previously concluded that the revenues are recorded below-the-line and, therefore, do not need to be included in test year revenues.[20]

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[19] The Utility had a Four Year Rate Reduction that became effective August 26, 2014.

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

Based on the above, the appropriate test year revenues for Sanlando's water and wastewater systems, including miscellaneous revenues are $4,115,972 and $3,905,490, respectively. Test year revenues are shown on Schedule Nos. 3-A and 3-B.

Adjustments to Pro Forma Expense

We have reviewed the Utility's filings and find two adjustments to pro forma expense are necessary. These adjustments are discussed below.

Annual Inspection Activities

On February 18, 2015, Sanlando provided a letter requesting costs associated with a program to inspect and clean 10 percent of its gravity collection system annually be included as pro forma expense in this rate case. The Utility estimated the cost of the program to be $83,684 based on a per linear foot estimate provided by American In-Line Inspection Inc. (American In-Line). Sanlando does not have a signed bid for the work to be performed in the future; rather, the Utility has indicated that it intends to solicit multiple bids each year in advance of its annual inspection activities.

Sanlando indicated that it would typically initiate an investigation of a portion of its collection system after analyzing wet and dry weather flow patterns in order to identify likely locations of excess I&I entering the system. In the fourth quarter of 2013 and the first quarter of 2014, following the identification of potential excess, American In-Line performed inspection and cleaning for Sanlando. Invoices indicate that American In-Line inspected and cleaned roughly 10 percent of the Utility's gravity collection system at a cost of $73,731. We have reviewed the Utility's filings and these costs do not appear to be included in the test year. We would note that the invoices as well as a signed bid indicate that American In-Line performed a lesser scope of work than that assumed in the Utility's estimated cost.

In response to our data request, Sanlando indicated that the majority of the wastewater collection flow system is comprised of vitreous clay pipe installed prior to 1990, which by its age and nature, presents an elevated risk of pipe and gasket failure. Therefore, the Utility explained that an annual inspection program would be prudent in order to identify deficiencies before failures occur or the delivery of wastewater service to customers is impacted. Sanlando further asserted that the proposed program will provide multiple benefits that will improve the operation of the Utility's wastewater facilities and reduce purchased power costs by maintaining pumping efficiency and reducing excess flow volume. Thus, we approve $73,731 of pro forma expense for the annual inspection activities discussed above. We find that the cost reflects the same scope of work performed by American In-Line in 2013 and 2014.

Wastewater Amortization Expense

On September 11, 2012, the Utility decommissioned and diverted all wastewater flows from its Des Pinar WWTP to its Wekiva WWTP. The demolition of the Des Pinar WWTP was completed in May 2014. Subsequently, the Utility requested to recover expenses of $11,490 for the demolition and removal of a steel tank and disconnection of all power and control circuits in

preparation for the demolition of the wastewater treatment plant. Sanlando requested that the expense be amortized over five years pursuant to Rule 25-30.433(8), F.A.C., Rate Case Proceedings, which states, "Non-recurring expenses shall be amortized over a five-year period unless a shorter or longer period of time can be justified." We have reviewed the Utility's request and verified that invoices in the amount requested have been provided and the expense is known and reasonable. Therefore, we find that wastewater amortization expense shall be increased by $2,298.

Conclusion

We approve $73,731 of pro forma wastewater expense for annual inspection activities. In addition, wastewater amortization expense shall be increased by $2,298.

NET OPERATING INCOME

Salaries and Wages Expense

In its MFRs, the Utility reflected water and wastewater salaries and wages expense of $716,9273 and $503,889, respectively. In the audit of UI affiliate transactions for Sanlando and Labrador Utilities, Inc. (Labrador), our audit staff compared the most current annualized salaries and the allocated salaries, benefits, and payroll taxes for Sanlando to the total adjusted amounts in the Utility's filing. Adjustments were made to reflect the variances between the amounts in the audited schedules and the amounts in the MFRs. The Utility agreed with the audit findings and the resulting adjustments to the expenses are reflected in Table 9, which are also shown above.

Table 9

Audit Adjustments		
	Water	Wastewater
Salaries and Wages	($49,932)	$22,519
Payroll Taxes	($7,698)	($6,017)
Pensions and Benefits	($14,411)	($11,077)
Total	($72,041)	$5,425

Based on the audit adjustments, total salaries for water and wastewater are $666,991 and $526,408, respectfully. To determine whether the adjusted salary amounts were reasonable, we took the total salaries approved in Sanlando's last rate case and applied our approved index increases for 2012, 2013, and 2014. Based on this calculation, the indexed salaries are essentially the same as the Utility's requested salaries adjusted for our staff's audit findings. Therefore, applying the adjustments in Table 9 maintains the Utility's salaries and wages expense at a level consistent with our approved annual indices through 2014, which we find reasonable.

As discussed below, we approve the removal of in-house staff fees associated with processing the instant docket. As such, Salaries and Wages expense shall be increased by $22,309 for water and $17,607 for wastewater.

The audited Pensions and Benefits expense for Sanlando is $193,126 for water and $152,420 for wastewater, which represents an increase of 28 percent over the amounts approved in the Utility's last rate case. These amounts also include a 3 percent increase to annualize the expense for 2015. We find that the 3 percent increase associated with the 2015 annualization shall be disallowed because it is outside the test year and is greater than the price index increase previously authorized by us. The resulting expense is $187,332 for water and $147,847 for wastewater, or an increase of 16.18 percent over the amounts approved by us in the last rate case. Therefore, we find that Pensions and Benefits expense shall be reduced by $5,794 for water and $4,573 for wastewater.

Adjustments to O&M Expense

Based on the review of test year O&M expense, we find several adjustments to the Utility's O&M expense are necessary as summarized below.

O&M Expense Allocation

In the Affiliate Audit for UI, our staff auditors examined O&M expense allocations for Sanlando. Our staff auditors found that the Utility changed the methodology in which it allocated all but direct O&M expenses between water and wastewater. In prior rate cases, the Utility used test year-end ERC factors to allocate O&M expenses between water and wastewater in accordance with our post-hearing decision in a sister utility's 2002 docket.[21] However, in the instant filing, the expenses were allocated based on business units. As a result, our staff auditors recalculated O&M water and wastewater balances based on the practice in prior rate cases and we find that O&M expense shall be increased by $45,660 for water and decreased by $42,875 for wastewater.

In its response to Affiliate Audit Finding No. 6, Sanlando disagreed with the finding and asserted that it is still using ERCs to allocate common plant and expenses and that there has been no change in its methodology. Although the Utility disagreed with Audit Finding No. 6, it failed to provide any calculations or documentation to refute the finding. Therefore, in accordance with our post-hearing decision in Order No. PSC-03-1441-FOF-WS, we find that Sanlando's water and wastewater expenses shall be adjusted as indicated above.

Chemicals and Purchased Power

Sanlando's MFRs indicated that the Utility had negative unaccounted for water (-2.88 percent or -63.603 million gallons) during the test year, meaning that the Utility sold more water than it pumped during 2013. In response to our data request, Sanlando indicated that its staff, on

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

July 12, 2014, discovered that a normally closed emergency interconnection with Orange County Utilities was fully open thus allowing water to flow from one system to the other. Pressure data gathered by Sanlando field staff indicated that Orange County Utilities supplied water to the Sanlando water system for an unknown period of time terminating in July 2014. According to Sanlando's 2012 and 2013 Annual Reports, gallons sold exceeded gallons pumped and unaccounted for water was negative. Therefore, we find that it is reasonable to assume that the valve was open for the entirety of the 2013 test year.

Sanlando believes that adjustments to its chemical and purchased power expenses should be made to reflect additional operating expenses to make up for the water no longer supplied through the Orange County Utilities interconnection. We agree with the Utility and find that adjustments to O&M expense shall be made.

Giving consideration to the age of its meters, Sanlando suggested that an unaccounted for water percentage of 2.78 percent is reasonable for making the requested adjustments. This equates to a 125 million gallon adjustment to Sanlando's gallons pumped during the test year. We find that a reasonable minimum for the proposed adjustment shall be 63.60 million gallons, which is the difference between the water sold in the test year and the volume produced by Sanlando. We further find that a reasonable maximum shall be 339.9 million gallons, which results in the same unaccounted for percentage (10.91 percent) as calculated in Sanlando's last rate case. Therefore, we find that Sanlando's proposed adjustment of 125 million gallons is reasonable based on data in the Utility's last rate case and the test year.

Based on the above, Sanlando requested an adjustment to increase water O&M expenses by $27,220 to account for increased chemicals and purchased power. We have reviewed Sanlando's calculation and find that the Utility made an error by not multiplying the adjusted chemical consumption by the relevant per unit cost. We have corrected the error, and based on its calculation, we approve an increase of $7,417 to chemical expense and $20,793 to purchased power expense for Sanlando's water system.

Prior to the 2013 test year, Sanlando's Des Pinar WWTP was taken out of service and flows were diverted to the Utility's Wekiva WWTP. According to our staff's audit, the Utility asserted that any increase in annual operating expense at the Wekiva WWTP was offset by a corresponding decrease in annual operating expense due to the closure of the Des Pinar WWTP. Subsequently, in response to Commission staff's Fourth Data Request, the Utility indicated there was one exception. According to Sanlando's response, the Utility incurred $41,645 in chemical costs for the purchase of sodium aluminate that was used in the treatment process approximately 182 days in that year. Sanlando stated that, on a going forward basis, it expects DEP to drastically reduce the permitted loading rate on the percolation ponds. As a consequence, Sanlando anticipates that the discharge of Wekiva Plant's effluent to surface waters will occur sporadically throughout the year thus impacting the use of sodium aluminate on a going forward basis. Sanlando estimated an increase of $83,290 in chemical expense associated with the anticipated DEP permit changes.

As discussed above, the basis for Sanlando's estimated increase is an expected DEP permit change which the Utility describes as drastic. We understand that the anticipated changes

may impact the Utility's operations; however, we find that the uncertainty of the changes make it difficult to quantify the magnitude of the changes. Therefore, we do not approve an $83,290 increase in chemical expense as estimated by the Utility.

Computer Maintenance Expense

In several recent rate cases involving Sanlando's sister companies, we recognized the volatility of computer maintenance expense.[22] Due to this volatility, we have routinely used a five-year average as 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 at that time.[23]

A five-year average was initially calculated using the computer maintenance expense included in the Utility's general ledger for 2009, 2010, 2011, 2012, and 2013. However, we note that the computer maintenance expense for 2010 is an anomaly when compared to the other years, as reflected in the following table. We find that computer maintenance expense shall be determined in a prospective manner for the Utility. In this docket, we find that computer maintenance expense shall be based on a three-year average, using amounts from 2011, 2012, and 2013. This results in an average computer maintenance expense of $114,134, a reduction of $8,139 from the expense included in the Utility's test year. Based on the three-year average, we find a reduction of $4,549 for water and $3,590 for wastewater are necessary.

Table 10

Computer Maintenance Expense	
Year	Expense
2009	$126,190
2010	$144,753
2011	$107,799
2012	$112,330
2013	$122,273

[22] Order Nos. PSC-14-0335-PAA-WS, issued June 30, 2014, in Docket No. 130243-WS, In re: Application for staff-assisted rate case in Highlands County by Lake Placid Utilities Inc.; PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water/wastewater rates in Polk County by Cypress Lakes Utilities, Inc.; 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.

[23] Order Nos. 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; 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 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.

As mentioned previously, we altered our treatment of divestitures so that any adjustment related to UI divested systems was net of any UI acquisitions, and, based on 2015 total ERCs, a divesture adjustment is no longer necessary. Accordingly, an adjustment to computer maintenance expense related to divestitures is no longer necessary.

Contractual Services-Engineering

According to Audit Finding No. 17 of the Sanlando audit, costs associated with pro forma plant improvements were incorrectly recorded as O&M expenses. Our audit staff discovered two invoices for engineering services associated with the Wekiva Surge Tank expansion, totaling $12,945, that were recorded as expenses in Account No. 731, contractual services-engineering. The Wekiva Surge Tank expansion is a pro forma plant improvement in the instant docket and these costs were included in our pro forma plant adjustment. The Utility disagreed with Audit Finding No. 17 but did not provide an explanation or justification as to why it disagreed. Therefore, we find that $12,945 shall be removed from contractual services-engineering expense.

Contractual Services-Other

According to our audit staff's work papers and the UI general ledger, the account for "Internet Supplier" expense included 13 monthly payments allocated to Sanlando. We find that the second December payment of $13,943 is an out-of-period expense and shall be removed. This results in a reduction of Sanlando allocated expenses by $1,101 (7.90 percent x $13,943). The removal of these costs result in a decrease to contractual services-other expense of $616 for water and $486 for wastewater.

A review of UI's general ledger for "Other Outside Services" expense revealed a May entry for $18,225 that was for the review of the forecast for three utilities (Lake Utility Services, Inc., a Carolina utility, and a Louisiana utility). We find that these expenses shall be a direct charge to those systems and the amount allocated to Sanlando shall be removed. This results in a reduction of $1,440 (7.90 percent x $18,225) to Sanlando. The removal of these costs results in a further reduction to contractual services-other expense of $805 for water and $635 for wastewater.

Regulatory Commission Expense-Rate Case Amortization

In Sanlando's last rate proceeding, we approved annual amortization of rate case expense in the amount of $31,851 and $24,854 for water and wastewater, respectively.[24] In its MFRs, the Utility recorded test year rate case expense of $63,137 and $49,789, respectively, for water and wastewater. Consistent with the annual amortization amount approved in the Utility's last rate case, we find that test year rate case expense shall be reduced by $31,286 ($63,137 - $31,851) for water and $24,935 ($49,789 - $24,854) for wastewater.

[24] Order No. PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes, Inc.

Miscellaneous Expense

We reviewed the Affiliate Audit Work Papers 43-7.5 for miscellaneous expenses which showed that multiple payments totaling $46,259 were recorded for the Leadership Training Conference in Orlando, Florida, at the Rosen Conference Center. 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. The Utility was put on notice that detailed support of this expense was required. Therefore, these costs shall be disallowed consistent with our decision in a prior rate case where similar costs were removed due to inadequate detailed expense support documentation.[25] Therefore, Sanlando's expenses shall be reduced by $3,654 (7.90 percent x $46,259). The removal of these costs result in a decrease to miscellaneous expense of $2,043 for water and $1,611 for wastewater.

The Affiliate Audit work papers for UI also indicated that office landscape and mowing allocations included in miscellaneous expense increased substantially from 2012 to 2013. A substantial amount of this increase was due to tree removal. We verified that this was a reccurring expense. To determine an amount that is more representative of the costs the Utility would normally incur, we calculated a four-year average using the amounts recorded for 2010-2013. Based on a four-year average, the 2013 expenses for office landscape/mowing shall be reduced by $11,574, with an allocation for Sanlando of $914. Miscellaneous expense for water and wastewater shall be reduced by $511 and $403, respectively.

Our final adjustment to miscellaneous expense is to decrease landscaping costs associated with the retirement of the Des Pinar WWTP. The Utility retired the Des Pinar WWTP since its last rate case; and therefore, O&M expenses associated with the land shall be removed. Our staff's audit of Sanlando indicates $25,800 in landscape and lawn services for the test year. Approximately 9.94 acres of the 60.87 total acres of utility land contained three percolation ponds that will be reclassified as land held for future use. Since this land does not currently serve customers, expenses associated with its maintenance shall be removed. Thus, we approve a $4,213 ((9.94/60.87) x $25,800) reduction to miscellaneous expenses for wastewater to reflect the removal of landscape costs for the land associated with the retired portion of the Des Pinar WWTP.

Conclusion

Based on the adjustments above, we find that O&M expenses shall be increased by $34,060 for water and decreased by $91,693 for wastewater, as shown in the following table.

[25] Order No. PSC-14-0283-PAA-WS.

Table 11

Summary of Further Adjustments to O&M Expense			
		Water	Wastewater
1	Audit Finding No. 6	$45,660	($42,875)
2	Chemicals	7,417	0
3	Purchased Power	20,793	0
4	Computer Maintenance	(4,549)	(3,590)
5	Contractual Services-Engineering	0	(12,945)
6	Contractual Services - Other		
7	Internet Supplier	(616)	(486)
8	Other Outside Services	(805)	(635)
9	Regulatory Commission Expense-Rate Case Amortization	(31,286)	(24,935)
10	Miscellaneous Expense -		
11	Rosen Hotel	(2,043)	(1,611)
12	Office Landscaping/Mowing	(511)	(403)
13	Des Pinar Landscaping	0	(4,213)
14	Total	$34,060	($91,693)

Rate Case Expense

In its MFRs, Sanlando requested $227,100 for current rate case expense. We requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On February 2, 2015, the Utility submitted its last revised estimate of rate case expense, through completion of the PAA process, which totaled $173,912. A breakdown of the Utility's requested rate case expense is as follows:

Table 12

Initial and Revised Rate Case Expense				
	MFR B-10 Estimated	Actual	Additional Estimated	Revised Total
Legal Fees	$53,000	$28,872	$15,465	$44,337
Accounting Consultant Fees	66,000	65,188	7,400	72,588
Engineering Consultant Fees	3,000	3,188	0	3,188
Water Service Corporation (WSC) In-house Fees	95,000	40,660	3,040	43,700
Filing Fee	4,000	0	4,000	4,000
WSC Travel	1,000	0	1,000	1,000
WSC FedEx/Misc.	100	0	100	100
Cust. Notices and Postage	5,000	0	5,000	5,000
Total	$227,100	$137,908	$36,005	$173,912

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

Legal Consultant Fees – Friedman & Friedman, P.A. (F&F)

The first adjustment to rate case expense relates to Sanlando's legal fees. In its MFRs, the Utility included $53,000 in legal fees to complete the rate case. The Utility provided support documentation detailing this expense through December 10, 2014. The actual fees and costs totaled $28,872 with an estimated $15,465 to complete the rate case, totaling $44,337. Actual expenses included the $9,000 filing fee, of which $4,000 was also included under "Public Service Commission – Filing Fee." We have left the filing fee as part of the legal fees and will remove the entry elsewhere to avoid double recovery of this fee.

According to invoices, the law firm of F&F identified and billed the Utility $245 related to the correction of MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[26] In addition to the deficiency expense identified by F&F, we also found an entry in the October 1, 2014, invoice

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

that referenced, in part, "Research and draft responses to Deficiency Letter and file same." We find that a portion of the 2.90 hours referenced in that invoice entry shall also be removed. Since there were four broad activities included in that entry, we find that 0.725 hours (¼ of the time), or $254 ($350/hr. x 0.725), shall be attributed to the deficiency and removed.

In a June 11, 2014, invoice entry, F&F noted 5.90 hours, or $2,065, for "Travel to Tallahassee for pre-filing meeting with PSC staff." This same entry appears in F&F's support documentation in Labrador rate case. While we find that it is appropriate to split the shared costs, we find that it shall be split three ways instead of in half. UI and our staff discussed a sister utility, Mid-County Services, Inc., in addition to Sanlando and Labrador at that meeting. As such, the total cost of the pre-filing meeting, $4,130 ($2,065 + $2,065), shall be divided among the three utilities. This results in a per utility cost of approximately $1,377. As such, $688 ($1,377 – $2,065) shall be removed from F&F's fees to reflect the revised division.

Adjustments to actual rate case expense shall be made for the time associated with a missed customer notice mailing deadline. We find that a total of 1.067 hours, or $373 ($350/hr. x 1.067 hrs.), shall be removed due to the time required to redraft documents and reschedule the customer meeting that would have been unnecessary had the deadline been met.[27,28] Accordingly, we find that $1,560 ($245 + $254 + $688 + $373) shall be removed as duplicative and unreasonable rate case expense.

Additionally, we find that an adjustment to the estimated cost to complete this case is appropriate. F&F's estimate to complete included fees for 41 hours at $360/hr.[29] and additional costs totaling $705. We find that most of the estimated hours to complete appear reasonable, except for 5.5 hours related to the customer meeting in Altamonte Springs and 15 hours requested to "prepare for and attend Agenda conference, discuss Agenda with client and staff." We find that 1.5 hours is appropriate for preparation and attendance at the customer meeting due to the brevity of the meeting and the proximity of F&F's offices to the meeting site. According to the transcript, the customer meeting lasted less than 30 minutes, beginning at 6:07 p.m. and ending at 6:24 p.m.[30] Moreover, F&F's offices are located approximately 10 miles away in Lake Mary. As such, 4 hours, or $1,440 ($360/hr. x 4 hrs.), related to the customer meeting shall be removed. Attorney's fees and costs associated with our Commission Conference shall also be reduced due to the fact that the attorney is also handling a rate case for a Utilities, Inc., sister utility at the same Commission Conference.[31] As such, legal fees and costs associated with

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[27] Support documentation provided by F&F indicated that on December 3, 2014, 0.90 hours, or $315 ($350/hr. x 0.90 hours), were spent on various tasks related to the missed mailing deadline. On December 10, 2014, three activities, totaling 0.50 hours are noted, with one of the activities labeled "Review affidavit and initial Customer Notice and draft Notice of Filing." As such, we find that 1/3 of the time, or 0.167 hrs., shall be removed. These adjustments total 1.067 hours.

[28] F&F's Work-In-Progress indicated 0.90 hours on December 3, 2014, related to the missed customer notice deadline. One-third of the 0.50 hours on December 10, 2014, also appears to be related to the missed deadline. As such, we find 0.167 hours (0.50 hrs./3) shall be removed from actual expenses. Document No. 00226-15.

[29] Beginning January 1, 2015, the hourly rate increased based upon the application of the Price Index since hourly rates were last adjusted. This results in a new hourly rate of $360.

[30] Document No. 01172-15, Customer Meeting Transcript from February 10, 2015.

[31] Docket No. 140135-WS, In re: Application for increase in water/wastewater rates in Pasco County by Labrador Utilities, Inc.

attending our Commission Conference shall be shared by both Utilities. Accordingly, we find that 7.5 hours, or $2,700 ($360/hr. x 7.5 hrs.), shall be removed from estimated rate case expense. In total, we find that legal fees and costs shall be reduced by $5,700 ($1,560 + $1,440 + $2,700) to reflect these adjustments.

Accounting Consultant Fees – Milian, Swain & Associates (MS&A)

The second adjustment relates to MS&A's actual and estimated fees of $72,588, which was comprised of $65,188 in actual costs and $7,400 in estimated fees to complete the rate case as of December 11, 2014.

In regard to MS&A's actual expenses, we reviewed the supporting documentation and found that approximately 351 hours were related to MFR preparation. We were concerned that the number of hours related to MFR preparation might be duplicative of the hours spent by WSC In-House employees on the same task. Our staff asked the Utility to explain why the WSC In-House hours related to MFR preparation (190 hours) were not duplicative of the hours for MFR preparation and review that MS&A documented in its rate case expense support documentation.[32] In response to Commission staff's data request on the matter, the Utility responded by stating:

> The WSC In-House hours related to MFR preparation are in no way duplicative of the hours Milian, Swain and Associates, Inc. spends on MFR preparation. The WSC In-House hours associated with the MFR preparation primarily entail gathering the company's raw data, project plans, invoices and a slew of other information and then translating those items into a usable format for Milian, Swain and Associates, Inc. to use in the preparation of the MFRs.[33]

We will address adjustments to WSC's hours below. Given the Utility's response above and the additional adjustments to WSC hours discussed below, we find that no additional adjustments to MS&A's actual expense are necessary.

MS&A estimates that a total of 47 hours are needed to complete the case. According to MS&A's summary, the consultant estimated the following:

[32] Based on the itemized descriptions of rate case work performed by WSC employees, approximately 16 hours of various MFR preparation are recorded for Patrick Flynn. Darrien Pitts' hours reflected approximately 124 for preparation of MFR schedules A, B, D, and E, and an additional 50 hours for the preparation of the chemical and transportation schedules.

[33] Document No. 01439-15, filed March 16, 2015.

Table 13

MS&A's Estimated Hours to Complete Case	
Est. Hours	Activity
11.5	Provide support to client – Responses to staff's Data Requests, including updates to Rate Case Expense.
2.5	Review staff's Interim Order, test interim rates and consult with client.
11	Review audit, discuss issues with client
3	Review Office of Public Counsel's (OPC) interrogatories, researching and preparing response, discussion with client and legal and follow-up.
12	Review staff recommendations, testing recommended revenue requirements and resulting rates, including suppression calculations, and discuss with client.
7	Review PAA Order, testing final approved revenue requirements and resulting final rates, including suppression calculations, and discuss with client.
47	Total

We find the number of hours estimated for accounting consultant fees is excessive and unreasonable. MS&A has estimated 11.5 hours to respond to data request responses and provide updates to rate case expense. Only one additional data request was sent after MS&A's summary was assembled and we find that any response would require minimal time from the accounting consultant. In fact, it is likely that these data requests would be more appropriately addressed by WSC In-House employees. Moreover, no additional updates to rate case expense were received from this consultant. As such, we find that a total of 5.75 hours shall be sufficient to address any remaining tasks. Accordingly, we approve a reduction of 5.75 hours (5 hours for C. Yapp, 0.75 hours for D. Swain).

MS&A included 2.5 hours in connection with reviewing our Interim Order in this docket. We note that our Interim Order was issued on October 22, 2014.[34] We find that any review of our Interim Order would have taken place between the order's issuance and the billed through date of December 11, 2014. As such, we approve a reduction of 2.5 hours (2 hours for C. Yapp, 0.5 hours for D. Swain).

Likewise, MS&A included 3 hours for reviewing OPC's interrogatories, preparing responses, discussions with client, and any follow-up. OPC did not file any interrogatories in this proceeding. As such, 3 hours (2 hours for C. Yapp, 1 hour for D. Swain) shall be removed from estimated rate case expense.

In addition, MS&A included 11 hours to review the audit and discuss issues with client. We note that two audit reports were prepared in this docket: the Sanlando audit report (issued on October 23, 2014) and the UI affiliate transactions audit report (issued on November 6, 2014). We find that the majority of MS&A's audit review likely occurred between each audit's issuance

[34] Order No. PSC-14-0591-PCO-WS, issued October 22, 2014.

and the billed through date of December 11, 2014. However, we recognize that some additional review and discussion may have occurred outside of that period. Even though the Utility agreed with the majority of our audit staff's adjustments, we find that MS&A may have provided information or analysis prior to the Utility filing its audit responses.[35] Absent additional information, we find that a total of 5.5 hours shall be sufficient to address any remaining audit-related tasks. Accordingly, we approve a reduction of 5.5 hours (5 hours for C. Yapp, 0.5 hours for D. Swain).

MS&A included an additional 19 hours to complete the case from the filing of Commission staff's recommendation to the completion of the PAA process. This consultant has worked with Sanlando, and other UI systems, on numerous dockets before us through the years. The consultant's familiarity with the Utility and this Commission leads us to find that the request is excessive and unreasonable. Absent additional support, we find that a total of 9.5 hours is an ample amount of time to review our staff's recommendation and our PAA Order, and consult with their client in the instant docket. Accordingly, we approve a reduction to audit related hours of 9.5 hours (8 hours for C. Yapp, 1.5 hours for D. Swain).

In summary, we find that reducing the associate accountant's estimated hours to complete from 40 to 18, and the accounting firm partner's estimated hours to complete from 7 to 2.75 are appropriate. As such, we find that an additional $3,300 (22 hrs. x $150/hr.) shall be removed for C. Yapp and $850 (4.25 hrs. x $200/hr.) shall be removed for D. Swain. Accordingly, we find that accounting consultant fees shall be reduced by $4,150 ($3,300 + $850).

Engineering Consultant Fees – M&R Consultants

The Utility included $3,000 in its MFRs for M&R Consultants to provide consulting services for engineering-related schedules and responses to our data requests. The Utility provided support documentation detailing this expense through December 2014. The actual fees and costs totaled $3,188 with no additional estimated to complete the rate case. We find that the full amount of $3,188 to be reasonable and justified. Accordingly, no adjustment is necessary.

WSC In-House Staff Fees

We have previously disallowed WSC in-house staff fees in several dockets involving the Utility's sister companies.[36] However, we subsequently allowed the inclusion of this expense for its sister companies, Utilities, Inc. of Florida and Cypress Lakes Utilities, Inc., based on the

[35] The Utility accepted 14 of the 18 findings in the Audit Report of Sanlando Utilities, Corporation and 5 of the 8 findings in the Audit of Affiliate Transactions Report. Document No. 00712-15, filed February 2, 2015.

[36] 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.

removal of employee salaries from the total salaries and wages balance prior to any allocation.[37] Based on its review of Sanlando's confidential salary information, we find that the Utility failed to adjust the test year salary and wage expense to exclude capitalized time spent on the instant docket.

In its MFRs, Sanlando originally estimated $95,000 in expense for in-house staff fees. The Utility provided updates of actual and estimated rate case expense through December 31, 2014. The Utility reflected $40,660 of actual expense for in-house staff and estimated expense to completion of $3,040, totaling $43,700. In support of the actual expense, the Utility also provided a breakdown of the work performed by each employee including hours and descriptions.

The total employee compensation reflected in the Utility's confidential salary information did not include an adjustment that corresponded to the amount of in-house employee expense estimated by the Utility in its MFRs. The total employee compensation prior to any allocation reflected a full year of salaries and wages for each employee. Further, the Utility stated that in-house employees did not incur any overtime or bonuses for their work in the instant docket.

As such, we find the entire amount of WSC in-house staff fees shall be removed from rate case expense. The job duties and descriptions of the in-house employees that comprise this expense include rate case related functions. Thus, this expense is appropriately reflected in the Utility's salaries and wages expense. Therefore, we find that the $43,700 related to in-house staff fees shall be removed from rate case expense.

Filing Fee

The Utility included $4,000 in its MFR Schedule B-10 for the filing fee. There was no other mention of the $4,000 filing fee in the Utility's revised actual and estimate to complete. We note that according to documentation provided by F&F, the actual filing fee of $9,000 was paid as part of the legal fees. As such, the filing fee is addressed above and shall be removed from the filing fee line item.

WSC Travel Expense

In its MFRs, Sanlando estimated $1,000 for travel expenses. The Utility provided no support documentation for this expense, or 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 our Commission Conference for PAA rate cases. Therefore, we find that $1,000 of rate case expense associated with WSC Travel Expense shall be disallowed.

[37] 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; and PSC-14-0283-PAA-WS, issued May 30, 2014, in Docket No. 130212-WS, In re: Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

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 $100 of FedEx and other miscellaneous costs in its initial filing, but did not provide any support of these expenses. Based on the lack of support documentation, we find that rate case expense shall be decreased by $100.

Customer Notices and Postage

In its revised rate case expense schedule, Sanlando reflected estimated costs of $5,000 for customer noticing and postage. The Utility is responsible for sending out four notices: the interim notice, the initial notice, customer meeting notice, and notice of the final rate increase. No notices were combined in this docket. The Utility did not provide any invoices reflecting the actual cost associated with sending the interim notice, the initial notice, or the customer meeting notice.

We have historically approved recovery of noticing and postage, 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.[38] Had the Utility not missed the mailing deadline for the original customer meeting, there would have been a combined initial and customer meeting notice. Because of the missed notice, there were additional costs related to mailing separate notices that shall be disallowed. As such, costs related to the number of envelopes used and postage required reflect those of a combined notice. The estimated cost of postage for the interim notice, initial notice, customer notice, and the final notice is approximately $12,099 (11,827 customers x $0.341 pre-sorted rate x 3 notices), the cost of copies is approximately $13,010 (11,827 customers x $0.10 per copy x 11 total pages), and the cost of envelopes is approximately $1,774 (11,827 customers x $0.05 x 3 notices). Based on these components, we find that the total cost for these notices and postage is $26,883 ($12,099 + $13,010 + $1,774). As such, rate case expense shall be increased by $21,883 ($26,883 - $5,000) to allow for adequate expenses related to mailing notices in accordance with Rule 25-22.0407, F.A.C.

Additional Rate Case Expense

In addition to the rate case expense provided by the Utility, we found in the Utilities, Inc., generic docket "that rate case expense shall be allocated to each UI Florida subsidiary based on the ratio of each subsidiaries' ERCs to UI's total Florida ERCs as of December 31, 2013."[39] The Order specified that each subsidiary would be allowed to recover its allocated portion of rate case expense over four years, pursuant to Section 367.0816, F.S. Recovery of this expense should be included as a separate line item within rate case expense as part of each subsidiaries'

[38] Order No. PSC-14-0025-PAA-WS.
[39] Order No. PSC-14-0521-FOF-WS, p. 19.

next file and suspend rate case, limited proceeding, or our staff-assisted rate case. Sanlando's portion of rate case expense from that docket is $43,798, or $10,950 on an annual basis.[40]

Conclusion

Based upon the adjustments discussed above, we find that Sanlando's revised rate case expense of $173,912 shall be increased by $7,030, to reflect our adjustments and the additional rate case expense allocated from Docket No. 120161-WS, for a total of $180,942. A breakdown of our approve rate case expense is as follows:

Table 14

Commission Approved Rate Case Expense				
Description	MFR Estimated	Utility Revised Act.& Est.	Commission Adjustments.	Approved Total
Legal Fees	$53,000	$44,337	($5,700)	$38,636
Accounting Consultant Fees	66,000	72,588	(4,150)	68,438
Engineering Consultant Fees	3,000	3,188	0	3,188
WSC In-House Fees	95,000	43,700	(43,700)	0
Filing Fee	4,000	4,000	(4,000)	0
WSC Travel	1,000	1,000	(1,000)	0
WSC FedEx/Misc.	100	100	(100)	0
Cust. Notices and Postage	5,000	5,000	21,883	26,883
Total	$227,100	$173,912	($36,768)	$137,144
Add'l RCE – Generic Dkt.				$43,798
Total w/Add'l RCE				$180,942

In its MFRs, the Utility requested total rate case expense of $227,100. When amortized over four years, this represents an annual expense of $56,775. Pursuant to Section 367.081(6), F.S., the approved total rate case expense of $180,942 shall be amortized over four years. This represents an annual expense of $45,236. Based on the above, we find that rate case expense shall be decreased by $46,158 ($227,100 – $180,942). As a result, annual rate case expense shall be decreased by $6,449 for water and $5,090 for wastewater from the respective levels of expense included in the MFRs.

Adjustments to Taxes

In its MFRs, Sanlando included water and wastewater property tax expense of $170,612 and $253,030, respectively, for the test year ended December 31, 2013. On February 11, 2015, the Utility filed with us a letter requesting to include additional property tax expense of $63,371

[40] Id.

in the instant rate case to recover the increase in property tax from 2013 to 2014. The total amount of property tax increased from $361,074 in 2013 to $424,446 in 2014. We compared the property tax assessments from 2013 and 2014 and find that the primary cause for the increase in property tax is an increase in the assessed value due to plant additions. The amount of property tax included in Sanlando's MFRs includes adjustments for its pro forma plant additions. The total amount of property tax requested in the Utility's MFRs is $423,642. We find that the property tax expense shall be increased by $804 ($424,446 - $423,642), or $449 for water and $355 for wastewater, to account for the increase in property tax from 2013 to 2014.

In addition, a 9.94 acre parcel of land that contained three percolation ponds used in the Des Pinar WWTP is no longer used to provide service to customers since the Des Pinar WWTP was retired. The property taxes levied against this parcel was $2,223 in 2014, and shall be removed from wastewater property tax expense. Therefore, we find that property tax expense shall be decreased by $2,223 for wastewater.

In its MFRs, the Utility included water and wastewater regulatory assessment fees (RAFs) of $181,494, and $175,850, respectively, for the test year ended December 31, 2013. As part of our audit of Sanlando, our audit staff calculated the RAFs based on actual 2013 revenues and determined that water RAFs are understated by $1,927 and the wastewater RAFs are overstated by $869. The results are provided in Audit Finding No. 18 of the Auditor's Report dated October 18, 2014. In its response to the findings in the our staff's Audit Report, the Utility stated that it disagreed with the audit finding but did not provide a reason for its disagreement. We reviewed the Audit Report and find that water RAFs shall be increased by $1,927 and wastewater RAFs shall be decreased by $869.

Conclusion

We find that property taxes shall be increased by $449 for water and decreased by $1,868 for wastewater to reflect the known and measureable change to the Utility's property taxes. In addition, RAFs shall be increased by $1,927 for water and decreased by $869 for wastewater.

REVENUE REQUIREMENT

In its filing, Sanlando requested revenue requirements to generate annual revenue of $4,823,551 for water and $4,473,063 for wastewater. These requested revenue requirements represent revenue increases of $654,796, or approximately 15.70 percent, for water, and $537,442, or approximately 13.66 percent, for wastewater.

Consistent with our findings concerning rate base, cost of capital, and operating income issues, we approve rates designed to generate a water revenue requirement of $3,894,948, and a wastewater revenue requirement of $4,737,791. The water revenue requirement of $3,894,948 is $221,024 less than our adjusted test year revenue of $4,115,972, or a decrease of 5.37 percent. Our approved wastewater revenue requirement exceeds our adjusted test year revenue by $832,301, or 21.31 percent. These pre-repression revenue requirements will allow the Utility the opportunity to recover its expenses and earn a 7.94 percent return on its investment in water and wastewater rate base.

RATE STRUCTURE AND RATES

Water Rates

As previously stated, Sanlando is located in Seminole County within the St. Johns River Water Management District (SJRWMD). Although the Utility's average residential consumption is relatively high, Sanlando's water withdrawals are within the limits prescribed by its consumptive use permit. The Utility provides water service to approximately 10,172 customers. Only about 3 percent of the residential customer bills during the test year had zero gallons, indicating a non-seasonal customer base. The average residential water demand is 15,694 gallons per month. The average residential water demand, excluding zero gallon bills, is 15,154 gallons per month.

The Utility's current water system rate structure for residential customers consists of a base facility charge (BFC) and four-tier inclining block rate structure. The rate blocks are: (1) 0-6,000 gallons; (2) 6,001-10,000 gallons; (3) 10,001-15,000 gallons; and (4) all usage in excess of 15,000 gallons per month. General service customers are billed a BFC and uniform gallonage charge. The private fire protection customers are billed one-twelfth of the approved BFC, pursuant to Rule 25-30.465, F.A.C.

We performed an analysis of the Utility's billing data 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 recommended revenue requirement; (2) equitably distribute cost recovery among the Utility's customers; (3) establish the appropriate non-discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

Revenue Allocation

In the Utility's last three rate cases, a portion of the wastewater revenue requirement was allocated to the water system, pursuant to Section 367.0817(3), F.S., which provides that a utility may recover the cost of providing reuse to water, wastewater, and reuse customers.[41] In those prior cases, several criteria were considered in determining the amount of revenues associated with the cost of the Utility's reuse system to allocate to the water system in order to design an aggressive conservation oriented rate structure to help mitigate the high average residential water demand.

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

Consistent with the prior rate cases, we find that a portion of the wastewater revenue requirement shall be allocated to the water system. At a minimum, sufficient revenues shall be allocated to the water system from the wastewater revenue requirement to avoid a reduction to the Utility's existing water rates. While Schedule 3-A indicates a 5.37 percent revenue reduction for the water system, it should be noted that the test year revenues were based on water rates that included the $625,000 allocation of wastewater revenues to the water revenue requirement approved in the Utility's last rate case. If $625,000 of the current wastewater revenue requirement is allocated to the water system, the resulting increases to the water and wastewater revenue requirements, excluding miscellaneous revenues, would be 9.90 percent and 5.32 percent, respectively.

Determining the additional costs the utility incurred in treating wastewater to reuse standards is difficult because the treatment process includes assets and operating expenses that are needed whether or not the wastewater is treated to reuse standards. Filters, storage facilities, and reuse transmission and distribution facilities, as well as additional chemicals, electricity, and operator time are necessary to treat the wastewater and deliver it to reuse customers. We find that $625,000 is representative of the costs associated with treating the Utility's wastewater to reuse standards. Therefore, due to the Utility's high average monthly consumption per residential customer, low rates, and the need to send stronger price signals to achieve conservation, we find that $625,000 of the wastewater system revenue requirement shall be shifted to the water system.

Water Rate Structure

Currently, the Utility's BFC generates approximately 24 percent of the total water revenues. In order to design a rate structure that continues to promote water conservation, the current BFC shall remain the same and all of the revenue increase shall be allocated to the gallonage charges. As a result, approximately 21.45 percent of our approved revenue requirement shall be allocated to the BFC.

In addition, we find that the current four-tier gallonage charge for residential water customers shall be changed to a three-tier gallonage charge. While the first tier is typically designed to reflect the non-discretionary residential demand based on average household size, the Utility's service area is very diverse, making it difficult to identify the average non-discretionary demand. Therefore, we find that the first tier include 6,000 gallons, consistent with the current rate structure. Approximately 37 percent of the residential customer bills during the test year reflected less than 6,000 gallons per month. In order to design a rate structure that reflects a more significant rate increase for demand in excess of the first 6,000 gallons of water per month, we find that the current second and third tiers be collapsed into a single second tier that includes 6,001 to 15,000 gallons. The resulting third tier shall include demand in excess of 15,000 gallons per month. Approximately 36 percent of the residential customer bills during the test year exceeded 15,000 gallons per month. The second and third tier gallonage charges shall be 1.5 and 2.5 times the first tier gallonage charge, respectively. This rate structure has the effect of minimizing the price increase for those residential customers whose monthly consumption is

6,000 gallons or less. General service customers should be billed a BFC and uniform gallonage charge.

Based on our approved revenue shift of $625,000 from the wastewater system and the resulting revenue increase for water customers of approximately 9.90 percent, the residential consumption can be expected to decline by 77,354,000 gallons resulting in anticipated average residential demand of 15,012 gallons per month or a 4.35 percent reduction in total residential consumption. This results in reductions of $11,490 for purchased power, $43 for purchased water, $4,556 for chemicals, and $758 for RAFs to reflect the anticipated repression. The post repression revenue requirement will be $4,469,625.

Private Fire Protection

Although the Utility's approved tariff for private fire protection reflects monthly billing, the current charge is billed annually. The Utility stated that the annual billing provides a convenience for the customer in that they only have to pay for the service once a year. We find that it is reasonable to bill this customer type on an annual basis. Therefore, we find that the private fire protection service continue to be billed annually based on one-twelfth of the approved BFC, pursuant to Rule 25-30.465, F.A.C.

Water Summary

We find that $625,000 of the wastewater revenue requirement shall be shifted to the water system, resulting in a 9.90 percent increase in the water revenue requirement over the test year revenues, excluding miscellaneous revenues. In addition, a BFC based on 21.45 percent of the water revenue requirement shall be approved. A three-tier gallonage charge shall be approved for residential water customers based on anticipated repression of 4.35 percent. A uniform gallonage charge shall be approved for general service water customers. Furthermore, private fire protection customers shall be billed annually based on one-twelfth of the approved BFC for the appropriate meter size. We approve the rate structure and rates are shown on Schedule Nos. 4-A and 4-B.

Wastewater Rates

Sanlando provides wastewater service to approximately 8,428 customers. The Utility also provides reuse service to several bulk and residential customers. Currently, the residential wastewater rate structure consists of a BFC for all meter sizes and a uniform gallonage charge with a 10,000 gallon cap per month. 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. In addition, the Utility provides bulk wastewater service to Seminole County for approximately 1,379 units that receive water service from the County. Sanlando bills the County a flat rate per unit.

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

requirement; (2) equitably distribute cost recovery among the Utility's customers; and (3) implement a gallonage cap that considers approximately the amount of water that may return to the wastewater system.

Wastewater Rate Structure

Our practice is to allocate at least 50 percent of the wastewater revenue to the BFC due to the capital intensive nature of wastewater plants. We approve a continuation of the current BFC and uniform gallonage charge rate structure for the wastewater system, with the BFC based on an allocation of 50 percent of the wastewater revenue requirement less the $625,000 revenue shift to the water revenue requirement. The monthly residential wastewater gallonage cap for billed consumption shall continue at 10,000 gallons and the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge consistent with our practice.

Based on the expected reduction in water demand described above, we find that a repression adjustment shall also be made for wastewater. Because wastewater rates are calculated based on customers' water demand, if those customers' water demand is expected to decline, then the billing determinants used to calculate wastewater rates shall also be adjusted. Therefore, we find that a repression adjustment shall be made to calculate wastewater rates. Based on the billing analysis for the wastewater system, we approve a repression adjustment of 13,601,797 gallons to reflect the anticipated reduction in water demand used to calculate wastewater rates. This results in a 1.88 percent reduction in total residential consumption and corresponding reductions of $8,539 for purchased power, $3,170 for chemicals, $2,349 for sludge removal, and $633 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of $3,985,695. The residential wastewater gallonage cap of 10,000 gallons shall remain unchanged and the general service gallonage charge shall be 1.2 times greater than the residential gallonage charge, consistent with our practice.

Seminole County

In a letter dated August 20, 2014, Seminole County expressed a desire to change from a flat rate per unit to metered rates based on wastewater flows. In a subsequent letter the County estimated that it pays nearly four times the charges for wastewater than it would pay if it were charged a bulk volumetric rate. In order for Sanlando to bill based on wastewater flows, Seminole County would need to install wastewater flow meters. Alternatively, we considered whether the Utility would be able to bill the County based on those customers' water demand. The Utility stated that it is unaware if Seminole County would be willing to provide the water demand data on a monthly basis or if there would be a cost associated with doing so. The County provided us with 12 months of usage data for their water customers who receive wastewater service through the County's bulk service agreement with Sanlando.

During the test year, the County was billed $446,038 for bulk wastewater service. The County believes that a rate restructuring should result in the County paying approximately $300,000 per year less for bulk wastewater service. Based on our review of the water demand information provided by the County, we determined the approximate demand that the County's

customers place on the wastewater system. In order to generate the appropriate revenues needed to recover the costs associated with the County's demand on the wastewater system, the gallonage charge portion of the rate structure would be higher than a gallonage charge based on wastewater flows.

Therefore, we approve a continuation of the flat rate per unit for the County; however, we find that the flat rate shall be adjusted to reflect current average demand for the residential and general service customers based on information provided to us in this docket. As a result, the County would be billed approximately $387,459 per year, assuming the number of County wastewater customers remains constant. We also approve a separate flat rate for the residential and general service customers based on the average water demand of the respective customer class.

Reuse

The Utility provides reuse at no charge to several bulk reuse customers. In addition, the Utility provides reuse to approximately 100 residential customers. The current reuse rate for those residential customers includes a BFC of $4.50 and a gallonage charge of $.45 per 1,000. Reuse rates are typically market based rather than cost based. This provides an incentive to encourage customers to use the reuse. In addition, there are cost savings associated with providing reuse to customers rather than treating the wastewater further in order to dispose of it in percolation ponds or through spray irrigation. We conducted a review of reuse rates charged throughout Seminole County and determined that the Utility's current rates are relatively low compared to other reuse rates in the County. Therefore, we approve an across-the-board increase of 5.32 percent to current reuse rates commensurate with the overall approved increase in wastewater rates.

Wastewater Summary

We find that $625,000 of the wastewater revenue requirement shall be shifted to the water system, resulting in a 5.32 percent increase in the wastewater revenue requirement over the test year revenues, less miscellaneous revenues. In addition, a BFC based on 50 percent of the resulting revenue requirement and a uniform gallonage charge shall be approved. The residential wastewater monthly gallonage cap shall continue at 10,000 gallons and the general service gallonage charge shall be set at 1.2 greater than the residential gallonage charge. Furthermore, an across-the-board increase of 5.32 percent shall be approved for the reuse customers. Our approved rate structure and rates are shown on Schedule Nos. 4-C and 4-D.

Conclusion

Based on the foregoing, our approved rate structures and monthly water and wastewater rates are shown on Schedule Nos. 4-A through 4-D. The Utility shall file revised tariff sheets and a proposed customer notice to reflect our approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until our

staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide proof of the date notice was given within ten days of the date of the notice.

OTHER ISSUES

Interim Refunds

We authorized Sanlando to collect interim water rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement for water of $4,270,819 represented an increase of $102,527 or 2.46 percent. The Utility did not request an interim revenue increase for wastewater.

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

In this proceeding, the test period for establishment of interim and final rates is the 12-month period ended December 31, 2013. Sanlando's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest expense, and the lower limit of the last authorized range for equity earnings.

To establish the proper refund amount, we have calculated an adjusted interim period revenue requirements utilizing the same data used to establish final rates. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, the interim test year revenue requirements of $4,270,819 for water and $3,935,620 for wastewater, granted in Order PSC-14-0591-PCO-WS, issued October 22, 2014, are greater than the final revenue requirement for water by 9.18 percent and less than the final revenue requirement for wastewater by 20.18 percent. This would result in a 9.18 percent water refund and no refund for wastewater.

However, as stated above, we find that wastewater revenues of $625,000 related to the Utility's reuse system shall be shifted and reallocated to the water system. Because of the reallocation of these revenues, we find that using Sanlando's total company revenue requirement for determining whether an interim refund is warranted. This methodology is consistent with our decision in the Utility's last two rate cases.[42] No refund is required because the total interim collection period revenue requirement calculated is greater than the total interim revenue requirement granted. As a result, the corporate undertaking amount of $59,819 shall be released.

[42] Order No. PSC-13-0085-PAA-WS, pp. 29-30 and Order No. PSC-10-0423-PAA-WS, pp. 30-31.

Four Year Rate Reduction

Section 367.0816, F.S., requires that the 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 RAFs. The total reduction is $30,361 for water and $23,962 for wastewater. Using Sanlando'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-B and 4-D.

The Utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Sanlando 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.

Proof of Adjustments

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

The Utility's support documentation shall include a list, by issue, of all rate base and cost of capital of our ordered adjustments and a reference to where the corresponding bookkeeping entries can be found in the general ledger that is provided. All support documentation shall follow the guidelines set forth in Rule 25-30.450, F.A.C., which states:

> In each instance, the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. The work sheets, etc., supporting the schedules and data submitted must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimum amount of time. The supporting work sheets, etc., shall list all reference sources necessary to enable Commission personnel to trace to original source of entry into the financial and accounting system and, in addition, verify amounts to the appropriate schedules.

Based on the foregoing, it is

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

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

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

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

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

ORDERED that the tariffs shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers as set forth in the body of this Order. It is further

ORDERED that Sanlando Utilities Corporation shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

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

ORDERED that the water and wastewater rates shall be reduced as shown on Schedule Nos. 4A and 4B to remove rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. It is further

ORDERED that the decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. It is further

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

ORDERED the provisions of this Order, except for the four-year rate reduction and the requirement of proof of adjustments, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201,F.A.C., is received by the Office of the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings." It is further

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

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

By ORDER of the Florida Public Service Commission this 3rd day of June, 2015.

Hong Wang

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.

KY

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein, except for the four-year rate adjustment and proof of books and records, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 24, 2015. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Sanlando Utilities Corporation
Schedule of Water Rate Base
Test Year Ended 12/31/13

Schedule No. 1-A
Docket No. 140060-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year
1	Plant in Service	$26,039,977	($1,497,684)	$24,542,293	($657,328)	$23,884,965
2	Land and Land Rights	97,286	(18)	97,268	0	97,268
3	Accumulated Depreciation	(15,022,215)	1,146,809	(13,875,406)	405,497	(13,469,909)
4	CIAC	(11,147,950)	(463)	(11,148,413)	1,298,924	(9,849,489)
5	Amortization of CIAC	8,755,443	0	8,755,443	(820,695)	7,934,748
6	Construction Work in Progress	174,744	(174,744)	0	0	0
7	Working Capital Allowance	0	164,019	164,019	47,237	211,256
8	**Rate Base**	$8,897,285	($362,081)	$8,535,204	$273,635	$8,808,839

Sanlando Utilities Corporation
Schedule of Wastewater Rate Base
Test Year Ended 12/31/13

Schedule No. 1-B
Docket No. 140060-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Comm. Adjust-ments	Comm. Adjusted Test Year
1	Plant in Service	$27,282,234	$4,818,824	$32,101,058	($379,560)	$31,721,498
2	Land and Land Rights	203,894	(14)	203,880	0	203,880
3	Accumulated Depreciation	(15,335,542)	(948,640)	(16,284,182)	11,377	(16,272,805)
4	CIAC	(11,976,178)	(420)	(11,976,598)	68,564	(11,908,034)
5	Amortization of CIAC	10,603,129	0	10,603,129	(552,391)	10,050,738
6	Construction Work in Progress	1,792,058	(1,792,058)	0	0	0
7	Working Capital Allowance	0	215,575	215,575	40,312	255,887
8	**Rate Base**	$12,569,595	$2,293,267	$14,862,862	($811,698)	$14,051,164

Schedule 1-C

Sanlando Utilities Corporation Adjustments to Rate Base Test Year Ended 12/31/13		Schedule No. 1-C Docket No. 140060-WS	
	Explanation	**Water**	**Wastewater**
	Plant In Service		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	($581,651)	($292,605)
2	Reflect appropriate adjustments for Phoenix Project. (Issue 3)	0	0
3	Test year plant adjustments (Issue 4)	(112,706)	(27,535)
4	Reflect the appropriate pro foma plant. (Issue 5)	37,029	(59,420)
	Total	($657,328)	($379,560)
	Accumulated Depreciation		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	$508,937	$355,773
2	Reflect appropriate adjustments for Pheonix Project. (Issue 3)	26,326	20,777
3	Test year plant adjustments. (Issue 4)	(126,680)	(115,219)
4	Reflect the appropriate pro foma accumulated depreciation. (Issue 5)	(3,086)	(249,954)
	Total	$405,497	$11,377
	CIAC		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	$1,314,307	$68,564
2	Test year plant adjustments. (Issue 4)	(15,383)	0
	Total	$1,298,924	$68,564
	Accumulated Amortization of CIAC		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	($802,859)	($527,529)
2	Test year plant adjustments. (Issue 4)	(17,836)	(24,862)
	Total	($820,695)	($552,391)
	Working Capital		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	$27,695	$21,854
2	Reflect appropriate adjustments for Pheonix Project. (Issue 3)	2,496	1,948
3	Reflect appropriate working capital allowance per Rule 25-30.433, F.A.C. (Issue 7)	17,046	16,510
	Total	$47,237	$40,312

Schedule 2

Sanlando Utilities Corporation
Capital Structure-Simple Average
Test Year Ended 12/31/13

Schedule No. 2
Docket No. 140060-WS

	Description	Total Capital	Specific Adjust-ments	Subtotal Adjusted Capital	Prorata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$180,000,000	$0	$180,000,000	($168,894,856)	$11,105,144	47.46%	6.64%	3.15%
2	Short-term Debt	9,315,385	0	9,315,385	(8,740,943)	574,442	2.46%	2.82%	0.07%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	170,208,617	0	170,208,617	(159,708,965)	10,499,652	44.87%	10.53%	4.73%
5	Customer Deposits	49,549	0	49,549	0	49,549	0.21%	6.00%	0.01%
6	Deferred Income Taxes	1,169,279	0	1,169,279	0	1,169,279	5.00%	0.00%	0.00%
7	**Total Capital**	$360,742,830	$0	$360,742,830	($337,344,764)	$23,398,066	100.00%		7.96%
Per Staff									
8	Long-term Debt	$180,000,000	$0	$180,000,000	($169,161,454)	$10,838,546	47.41%	6.64%	3.15%
9	Short-term Debt	9,315,385	0	9,315,385	(8,754,467)	560,918	2.45%	2.82%	0.07%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	170,208,617	0	170,208,617	(159,959,651)	10,248,966	44.83%	10.53%	4.72%
12	Customer Deposits	49,549	0	49,549	0	49,549	0.22%	2.00%	0.00%
13	Deferred Income Taxes	1,169,279	(7,254)	1,162,025	0	1,162,025	5.08%	0.00%	0.00%
14	**Total Capital**	$360,742,830	($7,254)	$360,735,576	($337,875,572)	$22,860,004	100.00%		7.94%

	LOW	HIGH
RETURN ON EQUITY	9.53%	11.53%
OVERALL RATE OF RETURN	7.49%	8.39%

Sanlando Utilities Corporation
Statement of Water Operations
Test Year Ended 12/31/13

Schedule No. 3-A
Docket No. 140060-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:**	$4,076,016	$747,535	$4,823,551	($707,579)	$4,115,972	($221,024) -5.37%	$3,894,948
	Operating Expenses							
2	Operation & Maintenance	$2,054,858	$12,890	$2,067,748	($9,361)	$2,058,387	$0	$2,058,387
3	Depreciation	911,369	(3,903)	907,466	(19,487)	887,979	0	887,979
4	Amortization	0	0	0	(416,853)	(416,853)	0	(416,853)
5	Taxes Other Than Income	478,042	(16,637)	461,405	(36,636)	424,769	(9,946)	414,823
6	Income Taxes	380,867	36,995	417,862	(87,511)	330,351	(79,428)	250,922
7	**Total Operating Expense**	3,825,136	29,345	3,854,481	(569,848)	3,284,633	(89,375)	3,195,259
8	**Operating Income**	$250,880	$718,190	$969,070	($137,731)	$831,339	($131,649)	$699,690
9	**Rate Base**	$8,897,285		$8,535,204		$8,808,839		$8,808,839
10	**Rate of Return**	2.82%		11.35%		9.44%		7.94%

Sanlando Utilities Corporation
Statement of Wastewater Operations
Test Year Ended 12/31/13

Schedule No. 3-B
Docket No. 140060-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:**	$3,888,457	$584,605	$4,473,062	($567,572)	$3,905,490	$832,301 21.31%	$4,737,791
	Operating Expenses							
2	Operation & Maintenance	$2,009,026	$9,667	$2,018,693	($24,414)	$1,994,279	$0	$1,994,279
3	Depreciation	538,829	257,934	796,763	152,576	949,339	0	949,339
4	Amortization	0	0	0	(295,310)	(295,310)	0	(295,310)
5	Taxes Other Than Income	384,902	129,786	514,688	21,001	535,689	37,454	573,142
6	Income Taxes	39	249,466	249,505	(148,355)	101,150	299,101	400,252
7	**Total Operating Expense**	2,932,796	646,853	3,579,649	(294,502)	3,285,147	336,555	3,621,702
8	**Operating Income**	$955,661	($62,248)	$893,413	($273,070)	$620,343	$495,747	$1,116,090
9	**Rate Base**	$12,569,595		$14,862,862		$14,051,164		$14,051,164
10	**Rate of Return**	7.60%		6.01%		4.41%		7.94%

Schedule 3-C

	Sanlando Utilities Corporation **Adjustment to Operating Income** **Test Year Ended 12/31/13**		**Schedule No. 3-C** **Docket No. 140060-WS**
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase	($654,796)	($537,442)
2	To reflect the appropriate amount of annualized revenues.	(52,783)	(30,130)
	Total	($707,579)	($567,572)
	Operation and Maintenance Expense		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	($53,488)	($14,397)
2	Reflect appropriate amount for Salaries, Wages, Pensions and Benefits. (Issue 13)	16,515	13,034
3	Reflect appropriate amount of operating expense. (Issue 14)	34,060	(91,693)
4	Reflect proforma operating expense. (Issue 12)	0	73,731
5	Reflect the appropriate rate case expense. (Issue 15)	(6,449)	(5,090)
	Total	($9,362)	($24,414)
	Depreciation Expense		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	($11,741)	($24,434)
2	Reflect appropriate depreciation expense for Project Phoenix. (Issue 3)	(26,326)	(20,777)
3	Reflect appropriate test year plant adjustments. (Issue 4)	15,494	212,775
4	Reflect corresponding adjustments for proforma plant. (Issue 5)	3,086	(14,988)
	Total	($19,487)	$152,576
	Amortization - Other Expense		
1	Reflect audit adjustments agreed to by Utility and staff. (Issue 2)	($161,182)	($139,245)
2	Reflect revenue impact of regulatory asset for Project Phoenix (Issue 3)	832	649
3	Reflect appropriate test year plant adjustments. (Issue 4)	(256,503)	(159,012)
4	Reflect additional proforma cost to retire Des Pinar WWTP. (Issue 5)	0	2,298
	Total	($416,853)	($295,310)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above.	($31,841)	($25,541)
2	Reflect audit adjustments agreed to by Utility and staff for payroll taxes. (Issue 2)	(7,698)	(6,017)
3	Reflect the appropriate pro foma property taxes. (Issue 5)	527	55,296
4	Reflect increase in property taxes for 2014. (Issue 16)	449	(1,868)
5	Audit Finding 18 - reflect appropriate amount of RAFs. (Issue 16)	1,927	(869)
	Total	($36,636)	$21,001

SANLANDO UTILITIES CORPORATION COMMISSION APPROVED WATER RATE STRUCTURES AND RATES				
Test Year Rate Structure and Rates			Commission Approved Structure and Rates	
Monthly BFC/4-Tier Inclining Block Rate Structure BFC generated from current rates = 24%			$625,000 Revenue Shift Monthly BFC/3-Tier Inclining Block Rate Structure BFC = 21.45%	
BFC	$4.45		BFC	$4.45
0-6 kgals	$0.88		0-6 kgals	$0.94
6-10 kgals	$0.96		6-15 kgals	$1.41
10-15 kgals	$1.44		15+ kgals	$2.35
15+ kgals	$1.91			
Typical Monthly Bills			Typical Monthly Bills	
Consumption (kgals)			Consumption (kgals)	
0	$4.45		0	$4.45
6	$9.73		6	$10.09
10	$13.57		10	$15.73
15	$20.77		15	$22.78
20	$30.32		20	$34.53
30	$44.97		30	$58.03

SANLANDO UTILITIES CORPORATION
MONTHLY WATER RATES
TEST YEAR ENDED DECEMBER 31, 2013

SCHEDULE NO. 4-B
DOCKET NO. 140060-WS

	UTILITY CURRENT RATES (1)	COMMISSION APPROVED INTERIM	UTILITY REQUESTED FINAL	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
Residential and General Service					
Base Facility Charge by Meter Size:					
5/8"X3/4"	$4.45	$4.56	$5.20	$4.45	$0.03
3/4"	$6.69	$6.86	$7.80	$6.68	$0.05
1"	$11.14	$11.42	$13.00	$11.13	$0.08
1-1/2"	$22.29	$22.84	$26.00	$22.25	$0.15
2"	$36.66	$37.57	$41.60	$35.60	$0.24
3"	$71.31	$73.08	$78.00	$71.20	$0.48
4"	$111.43	$114.19	$130.00	$111.25	$0.76
6"	$222.85	$228.38	$260.00	$222.50	$1.51
8"	$401.60	$411.56	$416.00	$356.00	$2.42
Charge per 1,000 Gallons - Residential					
0-6,000 Gallons	$0.88	$0.90	$1.03	$0.94	$.01
6,001-10,000 Gallons	$0.96	$0.98	$1.12	$1.41	$.01
10,001-15,000 Gallons	$1.44	$1.48	$1.67	$1.41	$.01
Over 15,000 Gallons	$1.91	$1.96	$2.22	$2.35	$.02
Charge per 1,000 Gallons - General Service					
	$1.41	$1.44	$1.64	$1.61	$0.01
Private Fire Protection					
1-1/2"	$1.86	$1.91	$2.17	$1.85	$0.01
2"	$2.97	$3.04	$3.46	$2.97	$0.02
4"	$9.28	$9.51	$10.83	$9.27	$0.06
6"	$18.58	$19.04	$21.67	$18.54	$0.13
8"	$33.47	$34.30	$39.00	$29.67	$0.20
Typical Residential 5/8" x 3/4" Meter Bill Comparison					
6,000 Gallons	$9.73	$9.96	$11.38	$10.09	
10,000 Gallons	$13.57	$13.88	$15.86	$15.73	
15,000 Gallons	$20.77	$21.28	$24.21	$22.78	

Schedule 4-C

SANLANDO UTILITIES CORPORATION COMMISSION APPROVED WASTEWATER RATE STRUCTURES AND RATES				
Test Year Rate Structure and Rates			**Commission Approved Rate Structure and Rates**	
Monthly BFC/Uniform Gallonage Rate Structure BFC generated from current rates = 49.93%			$625,000 Revenue Shift Monthly BFC/Uniform Gallonage Rate Structure BFC = 50%	
BFC	$12.45		BFC	$14.98
Per kgal	$1.99		Per kgal	$1.87
(10 kgal cap)			(10 kgal cap)	
Typical Monthly Bills			**Typical Monthly Bills**	
Consumption (kgals)			Consumption (kgals)	
0	$12.45		0	$14.98
1	$14.44		1	$16.85
3	$18.42		3	$20.59
6	$24.39		6	$26.20
8	$28.37		8	$29.94
10	$32.35		10	$33.68

Schedule 4-D

SANLANDO UTILITIES CORPORATION
MONTHLY WASTEWATER RATES
TEST YEAR ENDED DECEMBER 31, 2013

SCHEDULE NO. 4-D
DOCKET NO. 140060-WS

	UTILITY CURRENT RATES (1)	UTILITY REQUESTED FINAL	COMMISSION APPROVED RATES	4 YEAR RATE REDUCTION
Residential				
Base Facility Charge - All Meter Sizes	$12.45	$14.21	$14.98	$0.09
Charge per 1,000 Gallons	$1.99	$2.27	$1.87	$0.01
10,000 gallon cap				
Flat Rate – Seminole County	$26.35	$30.06	$21.78	$0.13
Residential Reuse				
Base Facility Charge - All Meter Sizes	$4.50	$5.13	$4.64	$0.03
Charge per 1,000 Gallons	$0.45	$0.51	$0.47	$0.00
General Service				
Base Facility Charge by Meter Size:				
5/8"X3/4"	$12.45	$14.21	$14.98	$0.09
3/4"	$18.70	$21.32	$22.47	$0.14
1"	$31.15	$35.53	$37.45	$0.23
1-1/2"	$62.28	$71.05	$74.90	$0.45
2"	$99.67	$113.68	$119.84	$0.72
3"	$199.33	$213.15	$239.68	$1.44
4"	$311.45	$355.25	$374.50	$2.25
6"	$622.89	$710.50	$749.00	$4.50
8"	$1,121.97	$1,136.80	$1,198.40	$7.20
Charge per 1,000 Gallons	$2.38	$2.71	$2.24	$0.01
Flat Rate – Seminole County	$26.35	$30.06	$25.87	$0.16
Typical Residential 5/8" x 3/4" Meter Bill Comparison				
6,000 Gallons	$24.39	$27.83	$26.20	
10,000 Gallons	$32.35	$36.91	$33.68	
15,000 Gallons	$32.35	$36.91	$33.68	