

VOTE SHEET

January 23, 2007

Docket No. 060256-SU – Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc.

Issue 1: Is the quality of service provided by Alafaya Utilities, Inc. satisfactory?

Recommendation: Yes. The utility's overall quality of wastewater service is satisfactory. The reuse service is marginal; although, significant improvements are underway. The utility should be required to meter all existing and new reuse customers by December 31, 2007. The utility should be required to provide quarterly reports beginning March 31, 2007, and ending December 31, 2007, on the reuse improvements, including the progress on metering, the ground storage system, the augmentation wells, and any steps taken to obtain additional reuse from the City of Oviedo.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Handwritten signatures of majority commissioners: Mark J. ... and Katrina ...

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REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

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Issue 2: Should the audit rate base, net operating income and capital structure adjustments, to which the utility agrees, be made?

Recommendation: Yes. Based on audit adjustments agreed to by the utility and staff, plant should be decreased by \$76,749; accumulated depreciation should be increased by \$7,495; net depreciation expense should be decreased by \$694; accumulated amortization of contributions in aid of construction (CIAC) should be increased by \$29,621; working capital be increased by \$85,228; operation and maintenance (O&M) expenses should be decreased by \$49,104; taxes other than income taxes (TOTI) should be increased by \$10,778; short-term debt should be decreased by \$119,308; common equity should be increased by \$3,093,004; long-term debt cost rate should be decreased by 0.07%; and short-term debt cost rate should be decreased by 1.48%.

APPROVED

Issue 3: What are the appropriate Water Service Corporation (WSC) and Utilities, Inc. of Florida (UIF) rate base allocations for Alafaya?

Recommendation: The appropriate WSC net rate base allocation for Alafaya is \$56,853, which represents an increase of \$56,853. WSC depreciation expense should also be increased by \$9,213. Further, the appropriate UIF rate base allocation for Alafaya is \$70,910. This represents plant and accumulated depreciation increases of \$81,966 and \$25,629, respectively. In addition, depreciation expense should be decreased by \$5,430.

APPROVED

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

Recommendation: Yes. Plant should be decreased by \$892,520, and accumulated depreciation should be increased by \$355,866. In addition, CIAC and accumulated amortization of CIAC should be increased by \$128,582 and \$2,990, respectively. Further, net depreciation expense should be decreased by \$43,466.

MODIFIED

as stated at the conference.

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Issue 5: What are the used and useful percentages of the utility's reuse and wastewater systems?

Recommendation: Alafaya's wastewater treatment plant should be considered to be 94% used and useful (U&U), the collection system to be 100% U&U, and the reuse system to be 100% U&U. The appropriate non-U&U rate base component, depreciation expense, and property taxes should be \$170,298, \$7,702, and \$4,407, respectively. Accordingly, rate base and property taxes should be decreased by \$94,730 and \$4,407, respectively, and depreciation expense should be increased by \$8,467.

APPROVED

Issue 6: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$517,906. As such, working capital should be increased by \$207,944.

APPROVED

Issue 7: What is the appropriate rate base for the December 31, 2005, test year?

Recommendation: Consistent with other previously recommended adjustments and the accumulated deferred income taxes adjustment to include \$116,251 in rate base as discussed in Issue 9, the appropriate 13-month average rate base for the test year ending December 31, 2005, is \$7,953,473. Staff's rate base recommended is shown on Schedules 1-A of staff's January 10, 2007, memorandum, with the adjustments shown on Schedule 1-B of staff's memorandum.

APPROVED

Issue 8: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.46% based on the Commission leverage formula currently in effect. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

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Issue 9: What is the appropriate treatment of deferred taxes for Alafaya?

Recommendation: Deferred taxes should be adjusted by a debit of \$137,084, and the resulting deferred tax asset of \$116,251 should be removed from the capital structure and included as a line item in the calculation of rate base.

APPROVED

Issue 10: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ended December 31, 2005?

Recommendation: The appropriate weighted average cost of capital for the test year ended December 31, 2005, is 8.50%.

APPROVED

Issue 11: Should a pro forma miscellaneous service charge revenue adjustment be made to test year revenues?

Recommendation: Yes. Using the incremental increase from the recommended charges and the historical connections, reconnections, and premise visits, miscellaneous service revenues of \$2,118 should be imputed. Accordingly, regulatory assessment fees (RAFs) should be increased by \$95.

APPROVED

Issue 12: Should a pro forma reuse revenue adjustment be made to test year revenues?

Recommendation: Yes. Consistent with staff's recommended reuse charges, the test year reuse revenues should be increased by \$22,638. Accordingly, RAFs should be increased by \$1,019.

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Issue 13: What is the appropriate amount of allocated WSC and UIF expenses for Alafaya?

Recommendation: Based on the audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Alafaya are \$153,841 and \$7,297, respectively. As such, O&M expenses and taxes other than income should be decreased by \$37,053 and \$2,461, respectively. Further, the appropriate UIF O&M expenses for Alafaya is \$12,885, which results in an O&M expense reduction of \$3,950.

APPROVED

Issue 14: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Alafaya's salaries and wages should be decreased by \$12,344. Accordingly, pensions and benefits should be reduced by \$6,332, and payroll taxes should be reduced by \$4,389.

APPROVED

Issue 15: Should an adjustment be made to the test year sludge removal expense?

Recommendation: Yes. Due to a unit disposal cost reduction and a reduction of the annual sludge hauling volume due to the installation of the new digester, sludge removal expense should be decreased by \$300,000.

APPROVED

Issue 16: Should any further adjustments be made to the test year O&M expenses?

Recommendation: Yes. O&M expenses should be decreased by \$20,396 to reflect the appropriate Rental of Building/Real Property expense based on the lease escalation provisions and to remove settlement damage costs from Insurance – Other expense resulting from the utility's failure to timely reopen an elder valve.

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Issue 17: Should an adjustment be made to the utility's pro forma expense adjustments?

Recommendation: Yes. O&M expenses should be decreased by \$32,336 in order to reflect the removal of the utility's CPI adjustments and to reflect the appropriate amortization amount for tank and equipment painting.

APPROVED

Issue 18: What is the appropriate amount of rate case expense?

Recommendation: Consistent with the Commission's previous decision in the utility's last rate proceeding, Regulatory Commission Expense – Rate Case Amortization should be decreased by \$27,977. The appropriate rate case expense for the current docket is \$111,961. This expense should be recovered over four years for an annual expense of \$27,990. Thus, rate case expense should be reduced by \$18,254.

APPROVED

Issue 19: Should any adjustments be made to property taxes?

Recommendation: Yes. In order to reflect the recommended adjustments to pro forma plant, property taxes should be decreased by \$18,120.

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Issue 20: What is the test year wastewater operating income or loss before any revenue increase?

Recommendation: Based on adjustments discussed in previous issues, the test year operating income before any provision for increased revenues is \$357,493.

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Issue 21: What is the appropriate wastewater revenue requirement for the December 31, 2005, test year?

Recommendation: The following wastewater revenue requirement should be approved:

	<u>Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Wastewater	\$2,882,842	\$535,309	\$3,418,151	18.57%

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Issue 22: What are the appropriate monthly wastewater rates?

Recommendation: The appropriate wastewater monthly rates are shown on Schedule No. 4 of staff's January 10, 2007, memorandum. Excluding miscellaneous service charge and reuse revenues, the recommended wastewater rates produce revenues of \$3,251,036. The utility should file revised wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the wastewater system. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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Issue 23: What are the appropriate reuse rates for this utility?

Recommendation: The appropriate residential reuse rate structure is a BFC of \$3.65 and gallonage charge of \$0.39 per thousand gallons. Alafaya's current flat rate should be assessed to all unmetered reuse customers pending the completion of their meter installation. Once the utility has completed all meter installations on or before December 31, 2007, the flat rate should be discontinued. Further, the utility's reuse availability fee should be eliminated and its general service reuse rate should be \$0.60 per thousand gallons.

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Issue 24: Should the utility be authorized to assess miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. There should be no refund for the utility's collection of miscellaneous service charges without a tariff. Further, the utility should be authorized to collect miscellaneous service charges as reflected in the analysis portion of staff's January 10, 2007, memorandum. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent.

APPROVED

Issue 25: In determining whether any portion for the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and other items not in effect during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking should be released.

APPROVED

Issue 26: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4 of staff's January 10, 2007, memorandum to remove \$29,309 of rate case expense, grossed up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised

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tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than ten days after the date of the notice.

APPROVED

Issue 27: What are the appropriate service availability charges and/or policy for the utility?

Recommendation: Consistent with guidelines set forth in Rule 25-30.580, F.A.C., the appropriate plant capacity and meter installation charges are \$1,762 and \$150, respectively, for this utility. If there is no timely protest to the Commission's Proposed Agency Action by a substantially affected person, the utility should file the appropriate revised tariff sheets within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariff is consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the tariff sheets should become effective on or after the stamped approval date. Within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and the authorization to collect donated property. The notice should be approved by Commission staff prior to distribution. The utility should provide proof that the appropriate customers or developers have received notice within 10 days of the date of the notice.

APPROVED

Issue 28: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to: (1) comply with the requirements of Order No. PSC-04-0363-PAA-WS to adjust its books to reflect the adjustments to all the applicable primary accounts required by that Order, and to provide proof within 90 days that such adjustments were made; and, (2) comply with the requirements of Rule 25-30.110(2), F.A.C., in that it appears that schedules provided in the minimum filing requirements are not consistent with and reconcilable with the utility's annual report to the Commission?

Recommendation: Yes. Alafaya Utilities, Inc. should be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$3,000 for its apparent failure to timely comply with the requirements of Order No. PSC-04-0363-PAA-SU, and for its apparent violation of Rule 25-30.110(2), F.A.C. The order to show cause should incorporate the conditions stated in the analysis portion of staff's January 10, 2007, memorandum.

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Issue 29: Should the utility be required to show cause, in writing within 21 days, why it should not be fined \$1,200 for assessing customers miscellaneous service charges without an authorized tariff?

Recommendation: Yes. Alafaya Utilities, Inc. should be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$1,200 for assessing miscellaneous service charges without an approved tariff. The order to show cause should incorporate the conditions stated in the staff analysis.

APPROVED

Issue 30: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Alafaya should 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.

APPROVED

Issue 31: Should this docket be closed?

Recommendation: Yes. If no person whose substantial interests are affected by the proposed agency action issues files a protest within 21 days of the issuance of the order, a consummating order will be issued. If Alafaya pays the \$4,200 in fines, the docket should be closed administratively upon staff's verification of the above items. If the utility timely responds in writing to the Order to show cause, the docket should remain open to allow for the appropriate processing of the response, and this docket should be closed.

APPROVED