

VOTE SHEET

February 13, 2007

Docket No. 060258-WS – Application for increase in water and wastewater rates in Seminole County by Sanlando Utilities Corp.

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

Recommendation: Yes. The utility's overall quality of service is satisfactory.

APPROVED

COMMISSIONERS ASSIGNED: All Commissioners

COMMISSIONERS' SIGNATURES

MAJORITY

DISSENTING

Katrina J. McMurrain
J. Edgar
[Signature]

REMARKS/DISSENTING COMMENTS:

DOCUMENT NUMBER-DATE

01488 FEB 14 07

FPSC-COMMISSION CLERK

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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 \$413,782 for water and by \$275,180 for wastewater; land should be decreased by \$6,800 for water; accumulated depreciation should be decreased by \$90,243 for water and by \$59,654 for wastewater; contributions in aid of construction (CIAC) should be decreased by \$582,949 for water and \$698,756 for wastewater; accumulated amortization of CIAC should be decreased by \$374,213 for water and \$387,964 for wastewater; working capital should be increased by \$125,309 for water and \$58,819 for wastewater; net depreciation expense should be increased by \$29,818 for water and \$46,276 for wastewater; operation and maintenance (O&M) expenses should be decreased by \$50,005 for water and \$240 for wastewater; taxes other than income taxes (TOTI) should be increased by \$3,289 for water and increased by \$4,112 for wastewater; short-term debt should be decreased by \$119,308; common equity should be increased by \$3,093,004; long-term debt rate should be decreased by 7 basis points; and, finally, short-term debt rate should be increased by 13 basis points.

APPROVED

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

Recommendation: The appropriate WSC net rate base allocation for Sanlando is \$75,478 for water and \$57,717 for wastewater. This represents an increase of \$13,600 and \$9,020 for water and wastewater, respectively. WSC depreciation expense should also be reduced by \$405 and \$310, for water and wastewater, respectively. Further, the appropriate UIF rate base allocation for Sanlando is \$106,848 for water and \$99,862 for wastewater. This represents water plant and accumulated depreciation decreases of \$92,400 and \$42,630, respectively, and wastewater plant and accumulated depreciation increases of \$48,065 and \$28,161, respectively. In addition, depreciation expense should be increased by \$3,100 for water and \$1,883 for wastewater.

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Issue 4: What is the appropriate land balance for the utility's water system?

Recommendation: The appropriate land balance for the utility's water system is \$90,312. As such, land should be reduced by \$26,660 to remove the land sold by Sanlando. Further, Sanlando should be required to amortize the \$18,405 gain on sale of land over five years which represents an annual amortization of \$3,681.

APPROVED

Issue 5: Should adjustments be made to the utility's pro forma plant additions?

Recommendation: Yes. Plant should be increased by \$414,721 for water and decreased by \$125,609 for wastewater, and accumulated depreciation should be decreased by \$73,655 for water and \$26,294 for wastewater. In addition, net depreciation expense should be increased by \$20,761 for water and decreased by \$10,598 for wastewater.

APPROVED

Issue 6: What are the used and useful percentages of the utility's reuse and wastewater systems?

Recommendation: Sanlando's water treatment plants are 100% used and useful, the wastewater treatment plants are 100% used and useful, and the water distribution and wastewater collection systems are 100% used and useful as reflected in Attachment A of staff's February 1, 2007, memorandum.

APPROVED

Issue 7: What is the appropriate working capital allowance?

Recommendation: The appropriate working capital allowance is \$295,976 for water and \$431,745 for wastewater. As such, working capital should be increased by \$55,481 for water and \$80,931 for wastewater.

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Issue 8: What is the appropriate rate base for the December 31, 2005, test year?

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base for the test year ending December 31, 2005, is \$4,011,116 for water and \$9,695,430 for wastewater.

APPROVED

Issue 9: 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.

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 8.36%.

APPROVED

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

Recommendation: Yes. Using the incremental increase from the recommended charges addressed in Issue 23 and the historical reconnections and premise visits, miscellaneous service revenues of \$1,565 should be imputed equally among water and wastewater (\$783 each for water and wastewater). Accordingly, water and wastewater regulatory assessment fees (RAFs) should both be increased by \$35.

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Issue 12: What is the appropriate amount of allocated WSC and UIF expenses for Sanlando?

Recommendation: Based on the above audit adjustments and the ERC-only methodology, the appropriate WSC O&M expenses and taxes other than income for Sanlando are \$399,125 and \$18,383, respectively. As such, water and wastewater O&M expenses should be decreased by \$14,217 and \$10,871, respectively, and water and wastewater taxes other than income should be increased by \$4,979 and \$3,808, respectively. Further, the appropriate UIF O&M expenses for Sanlando are \$21,290 for water and \$16,281 for wastewater. As such, water and wastewater O&M expense should be decreased by \$498 and \$381, respectively.

APPROVED

Issue 13: Should an adjustment be made to the utility's pro forma salaries and wages, pensions and benefits, and payroll taxes?

Recommendation: Yes. Sanlando's salaries and wages should be decreased by \$43,936 for water and \$22,352 for wastewater. Accordingly, pensions and benefits should be reduced by \$26 for water and increased by \$120 for wastewater, respectively, and payroll taxes should be reduced by \$2,357 and \$1,803 for water and wastewater, respectively.

APPROVED

Issue 14: What is the appropriate amount of rate case expense?

Recommendation: The appropriate rate case expense is \$155,900. This expense should be recovered over four years for an annual expense of \$38,975. Thus, rate case expense should be decreased by \$1,761 and \$1,848 for water and wastewater, respectively.

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Issue 15: Should an adjustment be made to the utility's pro forma amortization expenses?

Recommendation: Yes. The water and wastewater amortization expenses should be reduced by \$6,600 and \$24,600, respectively. Further, the wastewater O&M expense should be increased by \$32,862.

APPROVED

Issue 16: Should any adjustments be made to property taxes?

Recommendation: Yes. In order to reflect a corresponding increase in property taxes as a result of the recommended pro forma net plant additions, property taxes should be increased by \$18,339 for water and \$13,950 for wastewater.

APPROVED

Issue 17: What is the test year pre-repression water and wastewater operating income before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, staff recommends that the test year pre-repression water operating income before any provision for increased or decreased revenues should be \$94,186 for water and \$414,413 for wastewater.

APPROVED

Issue 18: What is the appropriate pre-repression revenue requirement for the December 31, 2005, test year?

Recommendation: The following pre-repression revenue requirement should be approved.

	<u>Test</u> <u>Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue</u> <u>Requirement</u>	<u>% Increase</u>
Water	\$2,086,740	\$404,581	\$2,491,321	19.39%
Wastewater	\$3,332,467	\$664,394	\$3,996,861	19.94%

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Issue 19: What are the appropriate rate structures for the utility's water and wastewater systems?

Recommendation: The appropriate rate structure for the water system's residential class is a change to a two-tier inclining-block rate structure. The appropriate usage blocks are 0-10 kgal/month in the first usage block, and in excess of 10 kgal/month in the second usage block. The appropriate rate factors are 1.0 and 2.0 respectively. The appropriate rate structure for the water system's nonresidential classes is a continuation of its base facility charge (BFC)/uniform gallonage charge rate structure. The BFC cost recovery percentage for the water system should be set at 30.3%. The entire water system revenue increase should be applied to the gallonage charge. In addition, \$500,000 of the wastewater system revenue requirement associated with the reuse facilities should be reallocated to the water system's gallonage charge. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. The residential wastewater monthly gallonage cap should be set at 10 kgal. The wastewater rates prior to filing should receive an across the board percentage increase of 4.9%.

APPROVED

Issue 20: Are repression adjustments appropriate in this case, and, if so, what are the appropriate adjustments to make for this utility, what are the corresponding expense adjustments to make and what are the final revenue requirements for respective water and wastewater systems

Recommendation: Yes, a repression adjustment to the water system is appropriate for this utility. For the water system, test year kgal sold should be reduced by 176,292 kgal to 2,018,839 kgal, purchased power expense should be reduced by \$32,727, chemicals expenses should be reduced by \$5,415 and RAFs should be reduced by \$1,797. The final post-repression revenue requirement for the water system should be \$2,939,855. Staff recommends no repression adjustment to the wastewater system because it is immaterial. The final revenue requirement for the wastewater system should be \$3,496,864.

In order to monitor the effect of the rate structure and rate changes, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared by customer class, usage block, and meter size. The reports should be filed with 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 should be ordered to file a revised monthly report for that month within 30 days of any revision.

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Issue 21: What are the appropriate monthly rates for the water and wastewater systems for the utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A of staff's February 1, 2007, memorandum. The appropriate wastewater monthly rates are shown on Schedule No. 4-B of staff's February 1, 2007, memorandum. Excluding miscellaneous service charges, the recommended water rates produce revenues of \$2,939,855. Excluding miscellaneous service charges, the recommended wastewater rates produce revenues of \$3,496,864. The utility should file revised water and wastewater tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the water and wastewater systems. 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.

APPROVED

Issue 22: What are the appropriate reuse rates for this utility?

Recommendation: No rate should be established for the utility's large reuse end-users at this time. Sanlando should be encouraged to begin negotiating with its large reuse end-users regarding charging for this service in the future. Within twelve months of the effective date of the final order in this docket, the utility should submit a report outlining the results of its negotiations with its large reuse end-users and provide a copy of all corresponding related to those negotiations. A residential reuse base facility charge of \$3.65 and a gallonage charge of \$0.39 per thousand gallons should be approved for this utility. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C.

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Issue 23: Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected in the analysis portion of staff's February 1, 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 24: In determining whether any portion of 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.

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Issue 25: What is the appropriate amount by which rates should be reduced four years after established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B of staff's February 1, 2007, memorandum to remove \$23,126 of water rate case expense and \$17,685 of wastewater rate case expense (grossed up for regulatory assessment fees). 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 tariff sheets, pursuant to Rule 25-40.475(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 10 days after the date of the notice.

APPROVED

Issue 26: What are the appropriate meter installation fees for the utility's water and reuse customers?

Recommendation: Sanlando should be authorized to collect water and reuse meter installation fees of \$150 for a 5/8"x3/4" meter and actual cost for meters greater than 5/8"x3/4". 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 27: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.116(1)(d)5., F.A.C.?

Recommendation: Yes. Sanlando Utilities, Corp. should be ordered to show cause in writing, within 21 days, why it should not be fined a total of \$500 for its apparent violation of Rule 25-30.116(1)(d)5., F.A.C. The order to show cause should incorporate the conditions stated in the analysis portion of staff's February 1, 2007, memorandum.

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Issue 28: 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, Sanlando 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 29: Should this docket be closed?

Recommendation: No. If no timely protest is filed by a substantially affected person within 21 days of the Proposed Agency Action Order, a Consummating Order should be issued and the corporate undertaking released. However, the docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff.

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