

Errata Sheet
Staff Recommendation – Docket Nos. 100330-WS & 080121-WS

Certain errors related to Pro Forma Depreciation, Pro Forma Property Taxes, Non-Used and Useful Adjustments, Cost of Capital, and Lobbying Expense were identified. The corrections for these items and the associated fall-out adjustments result in a net increase in the staff-recommended revenue requirement of \$228,547 for water and wastewater combined. The recommended revenue requirement is now \$2,883,728, or approximately 70 percent of the AUF-requested increase in revenues.

All changes are in type and strike format with the exception of tables and schedules. Changes to table and schedules are highlighted where a number was changed.

Page 6 – Abbreviations

YES YES **Companies** ~~Communities~~, Inc. d/b/a Arredondo Farms

Issue 3 – page 37

Recommendation: Yes. The Utility’s pro-forma plant additions should be decreased by \$410,693 for water and by \$658,663 for wastewater. Accordingly, accumulated depreciation should be **decreased** ~~increased~~ by **\$56,399** ~~\$52,928~~ for water and decreased **\$82,647** ~~\$190,360~~ for wastewater, and depreciation expense should be decreased by **\$31,597** ~~\$29,982~~ for water and **\$38,599** ~~\$56,929~~ for wastewater. Moreover, the Utility’s property taxes should be decreased by **\$11,343** ~~\$33,837~~ for water and **\$13,581** ~~\$40,974~~ for wastewater. The specific rate band and system adjustments are set forth in staff’s analysis below.

Trucks

The Utility included \$200,278 in pro forma plant for 3 trucks. Staff has reviewed the documentation provided by AUF and notes that the documentation provided supports a lower amount than the amount AUF included in its MFRs. Based on staff’s analysis, **\$23,611** ~~\$176,667~~ should be removed for undocumented pro forma trucks. All adjustments for the pro forma trucks are reflected on the below table for each rate band and stand-alone system.

Issue 3 – page 42

Accumulated Depreciation and Depreciation Expense

Based on staff’s recommended adjustments above, staff has recalculated accumulated depreciation and depreciation expense associated with the pro forma additions. Accumulated depreciation should be **decreased** ~~increased~~ by **\$56,399** ~~\$52,928~~ for water and decreased by **\$82,647** ~~\$190,360~~ for wastewater, and depreciation expense should be decreased by **\$31,597** ~~\$29,982~~ for water and **\$38,599** ~~\$56,929~~ for wastewater. All adjustments for accumulated depreciation and depreciation expense are reflected on Tables 3-6 and 3-7, respectively, for each rate band and stand-alone system.

Table 3-6			
Accumulated Depreciation			
Rate Band/System	MFR Amount	Staff Amount	Staff Adjustment
Water Band 1	\$31,871	\$7,697	(\$24,174)
Wastewater Band 1	7,977	(4,959)	(12,936)
Water Band 2	(32,272)	10,476	42,748
Wastewater Band 2	(35,695)	89,466	125,161
Water Band 3	(1,987)	2,960	4,947
Wastewater Band 3	5,841	(2,256)	(8,097)
Water Band 4	(18,361)	20,569	38,930
Wastewater Band 4	14,198	(2,092)	(16,290)
Breeze Hill-Water	411	(310)	(721)
Breeze Hill-Wastewater	2,624	(457)	(3,081)
Fairways- Water	1,539	(591)	(2,130)
Fairways- Wastewater	784	(784)	(1,568)
Peace River- Water	2,591	(610)	(3,201)
Peace River- Wastewater	300	(242)	(542)
Total Adjustments	(\$20,179)	(\$118,868)	\$139,047

Table 3-7			
Depreciation Expense			
Rate Band/System	MFR Amount	Staff Amount	Staff Adjustment
Water Band 1	\$34,070	\$20,314	(\$13,756)
Wastewater Band 1	7,977	6,903	(1,074)
Water Band 2	15,105	11,249	(3,856)
Wastewater Band 2	74,199	54,590	(19,609)
Water Band 3	5,852	4,879	(973)
Wastewater Band 3	5,841	2,256	(3,585)
Water Band 4	51,995	42,013	(9,982)
Wastewater Band 4	14,198	2,092	(12,106)
Breeze Hill-Water	411	310	(101)
Breeze Hill-Wastewater	2,624	457	(2,167)
Fairways- Water	1,539	591	(948)
Fairways- Wastewater	784	784	0
Peace River- Water	2,591	610	(1,981)
Peace River- Wastewater	300	242	(58)
Total Adjustments	\$217,486	\$147,290	(\$70,196)

Issue 3 - pages 43-44

Pro Forma Property Taxes

AUF's filing reflected property taxes relating to pro forma plant additions of \$26,846 \$49,340 for water and \$30,585 \$57,978 for wastewater. Based on the recommend adjustments discussed above, staff has recalculated the property taxes relating to pro forma plant additions based on each system's millage rate reflected in its 2010 property tax documents. Based on staff's recalculation of property taxes, staff recommends the Utility's property taxes be decreased by \$11,343 \$33,837 for water and \$13,581 \$40,974 for wastewater. Based on those adjustments, the total property taxes relating to pro forma plant additions should be \$15,503 for water and \$17,004 for wastewater. All adjustments to property taxes are reflected on Table 3-8 of each rate band and stand-alone system.

<u>Rate Band/System</u>	<u>MFR Amount</u>	<u>Staff Amount</u>	<u>Staff Adjustment</u>
Water Band 1	\$7,150	\$2,875	(\$4,275)
Wastewater Band 1	1,359	1,186	(174)
Water Band 2	4,879	1,980	(2,899)
Wastewater Band 2	20,984	14,814	(6,171)
Water Band 3	572	311	(261)
Wastewater Band 3	2,385	364	(2,021)
Water Band 4	13,408	10,193	(3,215)
Wastewater Band 4	4,141	535	(3,606)
Breeze Hill-Water	0	0	0
Breeze Hill-Wastewater	1,715	105	(1,610)
Fairways- Water	0	0	0
Fairways- Wastewater	0	0	0
Peace River- Water	837	144	(693)
Peace River- Wastewater	0	0	0
Total Adjustments	\$57,431	\$32,507	(\$24,924)

Issue 3 – page 44

Conclusion

In summary, based on staff's recommended adjustments, the Utility's pro forma plant additions should be decreased by \$410,693 for water and decreased by \$658,663 for wastewater. Accordingly, accumulated depreciation should be decreased increased by \$56,399 \$52,928 for water and decreased by \$82,647 \$190,360 for wastewater and depreciation expense should be decreased by \$31,597 \$29,982 for water and \$38,599 \$56,929 for wastewater. The Utility's property taxes should be decreased by \$11,343 \$33,837 for water and \$13,581 \$40,974 for wastewater. The specific rate band and system adjustments are set forth in the table below.

Issue 3 – page 45

Table 3-9					
Summary of Staff Pro Forma Plant Adjustments					
Rate Band/System	Plant	Retirements	Accumulated Depreciation	Depreciation Expense	Property Taxes
Water Band 1	(\$212,265)	(\$27,607)	(\$24,174)	(\$13,756)	(\$4,275)
Wastewater Band 1	(7,280)	(1,944)	(12,936)	(1,074)	(174)
Water Band 2	(81,681)	(21,725)	42,748	(3,856)	(2,899)
Wastewater Band 2	(215,484)	(144,056)	125,161	(19,609)	(6,171)
Water Band 3	9,749	(7,839)	4,947	(973)	(261)
Wastewater Band 3	(124,748)	0	(8,097)	(3,585)	(2,021)
Water Band 4	(78,007)	(62,985)	38,930	(9,982)	(3,215)
Wastewater Band 4	(216,878)	0	(16,290)	(12,106)	(3,606)
Breeze Hill-Water	(612)	0	(721)	(101)	0
Breeze Hill-Wastewater	(93,928)	0	(3,081)	(2,167)	(1,610)
Fairways- Water	(5,684)	0	(2,130)	(948)	0
Fairways- Wastewater	2	0	(1,568)	0	0
Peace River- Water	(42,194)	0	(3,201)	(1,981)	(693)
Peace River- Wastewater	(347)	0	(542)	(58)	0
Total Adjustments	(\$1,069,356)	(\$266,157)	\$139,047	(\$70,196)	(\$24,924)

Issue 9 – page 58

Last sentence of the first paragraph

Table 9-1 shows AUF’s requested and staff’s recommended U&U percentage for the wastewater treatment plants.

Issue 11 – page 61

Table 11-1, total of “Staff Adjustment” column \$14,042 \$93,048.

Issue 13 – page 64

Staff Analysis: In AUF’s filing, the Utility included \$467,872 \$467,658 in its working capital allowance for Deferred Rate Case expense.

Issue 15 – page 67 (fallout calculation)

Recommendation: Consistent with other recommended adjustments, the appropriate 13-month average rate base is \$20,242,872 \$20,250,529 for water and \$13,781,735 \$12,947,459 for wastewater.

Staff Analysis: Based upon the Utility’s adjusted 13-month average test year balances and staff’s recommended adjustments, the appropriate 13-month average rate base is \$20,242,872 \$20,250,529 for water and \$13,781,735 \$12,947,459 for wastewater. Schedules 3-A and 3-B

reflect staff's recommended rate base calculation, as well as Table 15-1 below. Staff's proposed adjustments to rate base are shown on Schedules 3-C.

Rate Band/System	MFR Amount	Staff Amount Staff Adjustment	Staff Adjustment Staff Amount
Band 1-Water	\$6,337,692	(\$532,018)	\$5,805,674
Band 1 -Wastewater	750,530	(79,857)	670,673
Band 2 -Water	4,052,060	(208,804)	3,843,256
Band 2 -Wastewater	8,806,749	(297,113)	8,509,636
Band 3 -Water	1,374,775	(67,213)	1,307,562
Band 3 -Wastewater	2,774,829	(139,398)	2,635,431
Band 4 -Water	9,219,003	(501,291)	8,717,712
Band 4 -Wastewater	1,617,892	(276,006)	1,341,886
Breeze -Water	110,223	(9,759)	100,464
Breeze -Wastewater	165,315	(106,173)	59,142
Fairways -Water	334,888	(23,299)	311,589
Fairways -Wastewater	372,067	(23,024)	349,043
Peace -Water	208,331	(51,717)	156,614
Peace -Wastewater	223,423	(7,498)	215,925
Total:	\$36,347,777	(\$2,323,170)	\$34,024,607

Issue 17 – page 69

Recommendation: The appropriate amount of accumulated deferred income taxes to include in the capital structure is ~~\$2,201,371~~ **\$2,192,385**. This represents an increase of ~~\$744,899~~ **\$735,913** over the amount reflected in the Utility’s filing.

Issue 17 – page 70
Final two sentences.

Based on the aforementioned, staff recommends a consolidated adjustment of ~~\$744,899~~ **\$735,913**. Therefore, the appropriate balance of ADITs to include in AUF’s capital structure is ~~\$2,201,371~~ **\$2,192,385**.

Issue 19 – page 72

Staff Analysis: Section 367.081(4)(f), F.S., authorizes the Commission to establish, not less than once each year, a leverage formula to calculate a reasonable range of returns on equity (ROE) for water and wastewater utilities. The leverage formula methodology currently in use was established in Order No. PSC-01-2514-FOF-WS. The ROE included in the Utility’s filing is 9.67 percent. This return is based on the application of the Commission’s leverage formula approved in Order No. PSC-10-0401-PAA-WS and an equity ratio of ~~61.22~~ **61.31** percent.

Based on the current leverage formula approved in Order No. PSC-10-0401-PAA-WS and an equity ratio of ~~61.31~~ 61.22 percent, the appropriate ROE is 9.67 percent. Staff recommends an allowed range of plus or minus 100 basis points be recognized for ratemaking purposes.

Issue 20 – page 73 (fallout calculation)

Recommendation: The appropriate weighted average cost of capital for AUF is ~~7.39~~ 7.37 percent.

Staff Analysis: The Utility proposed a weighted average cost of capital for the test year ended April 30, 2010, of 7.58 percent. Based upon the decisions in preceding issues and the proper components, amounts and cost rates associated with the capital structure, staff recommends a weighted average cost of capital of ~~7.39~~ 7.37 percent.

As discussed in Issue 17, staff recommends adjustments to the balance of zero cost accumulated deferred taxes resulting in deferred taxes of ~~\$2,192,385~~ \$2,201,371. As reflected in the Utility's filing, the appropriate balance of customer deposits is \$50,700 at a cost rate of 6.00 percent. As discussed in Issue 18, staff's recommended weighted average cost of long-term debt is 5.10 percent. As discussed in Issue 19, staff recommends 9.67 percent as the appropriate mid-point return on common equity. Finally, as discussed in Issue 16, staff recommends the appropriate capital structure to use for ratemaking purposes is the 13-month average capital structure of AUF. The net effect of these adjustments is a decrease to the overall cost of capital from the 7.58 percent return requested by the Utility to the return of ~~7.39~~ 7.37 percent recommended herein.

Based on the proper components, amounts, and cost rates associated with the capital structure for the test year ended April 30, 2010, staff recommends the appropriate weighted average cost of capital for AUF for purposes of setting rates in this proceeding is ~~7.39~~ 7.37 percent, as shown on Schedule 1.

Issue 22 – page 76

Add footnote to end of sentence immediately before the heading Staff Audit.

(Emphasis added). In overturning a prior Commission decision, Florida's Supreme Court enunciated the standard for which the Commission should review affiliate transactions stating, "(w)e believe the standard must be whether the transactions exceed the going market rate or are otherwise inherently unfair."

Footnote: GTE v. Deason, 642 So. 2d 545, 548 (Fla. 1994)

Issue 22 – page 87

Conclusion

Based on staff's recommendations above, Plant, Accumulated Depreciation, O&M expenses, and Depreciation expense should be reduced by \$148,278, \$61,819, \$65,187, and \$163,319, respectively. The recommended allocated overhead from affiliated companies represents approximately 20 percent of staff's total recommended O&M expenses and 12 percent of staff's total recommended revenue requirement of \$16,317,694 ~~\$15,987,163~~. The specific rate band and system adjustments are set forth in the table below.

(Note – there are no changes to table 22-2.)

Issue 24 – page 90

Delete entire issue

Issue 29 – page 101

Last sentence in the paragraph under the heading Sludge Removal

As such, staff recommends reducing the Utility's requested increase ~~decrease~~ in Sludge Hauling expense for the Breeze Hill wastewater system by \$1,688.

Issue 30 – page 107

Table 30-1, total of "Staff Adjustment" column \$83,359 (~~\$83,359~~).

Issue 32 – page 109 (fallout calculation)

Recommendation: The test year pre-repression water and wastewater operating incomes are \$306,074 ~~\$341,466~~ and \$451,682 ~~\$486,722~~, respectively.

Staff Analysis: Based on the adjustments discussed in previous issues, staff recommends that the test year operating incomes before any provision for increased revenues is \$306,074 ~~\$341,466~~ for water and \$451,682 ~~\$486,722~~ for wastewater. The test year operating income ...

Issue 33 – page 110 (fallout calculation)

Recommendation: The appropriate pre-repression revenue requirement for the April 30, 2010, test year is \$10,315,406 ~~\$10,253,458~~ for water and \$6,002,288 ~~\$5,835,689~~ for wastewater. (Mouring)

Staff Analysis: Consistent with staff's recommendation of rate base, cost of capital, and net operating income adjustments, staff recommends the total pre-repression revenue requirement is \$10,315,406 ~~\$10,253,458~~ for water and \$6,002,288 ~~\$5,835,689~~ for wastewater. The pre-repression revenue requirement for each of the Utility's water and wastewater bands and stand-alone systems are reflected in Schedule Nos. 2, 4-A, and 4-B.

Rates and Charges Background Discussion – Page 112

Stand-alone and Fully Consolidated Rates (Revised)				
	Stand-alone System A	Stand-alone System B	Stand-alone System C	Consolidated System A+B+C
Revenue Requirement	\$2,000,000	\$1,500,000	\$1,500,000	\$5,000,000
ERCs	120,000	60,000	20,000	200,000
Kgals	360,000	180,000	60,000	500,000
BFC @ 40% allocation	\$6.67	\$10.00	\$30.00	\$10.00
\$/Kgal	\$3.33	\$5.00	\$15.00	\$6.00
Customer bill @ 7 kgals	\$30.00	\$45.00	\$135.00	\$52.00
Consolidated Bill	\$52.00	\$52.00	\$52.00	
- Stand-alone Bill	- \$30.00	- \$45.00	- \$135.00	
Subsidy Paid/(Received)	\$22.00	\$7.00	(\$85.00)	

As shown in this table, Systems A and B have low to moderate customer bills for 7,000 gallons of consumption per month. However, System C, the very high cost system, has a customer bill of \$135 per month. If the three systems were fully consolidated, the customer bill for all customers would be \$52 \$45 per month. The bottom row in this table shows the subsidies that would result if the three systems were consolidated. While fully consolidating the systems would address the problem of very high rates for System C, it does so by creating a \$22 \$15 per month subsidy that must be paid by the customers of System A. If a \$22 \$15 monthly subsidy is deemed too high, then the capband methodology could provide a reasonable alternative.

Issue 35 – pages 116-117

Recommendation: Staff recommends that the appropriate rate cap thresholds are \$66.50 \$66.25 for the water systems and \$93.00 \$90.00 for the wastewater systems. These rate cap thresholds are based upon residential customer bills with usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems. (Stallcup, Lingo)

Staff Analysis: In the Utility's last rate case, the Commission approved rate cap thresholds of \$65.25 for the water systems at 7 kgals of usage per month and \$82.25 \$90.00 for the wastewater systems at 6 kgals of usage per month. These values were recommended by staff because with a subsidy limit of \$12.50, these rate cap thresholds allowed the Commission to approve rates that were fully compensatory as required by 367.081(2)(a)1., F.S.¹ Staff's recommended rate cap thresholds in the instant case were established in the same manner. The rate cap thresholds of \$66.50 \$66.25 for water and \$93.00 \$90.00 for wastewater are the lowest values for these parameters that do not violate the subsidy limit of \$12.50 discussed in Issue 34 while yielding rates that are fully compensatory.

¹ See Order No. PSC-09-0385-FOF-WS.

Staff's recommended rate consolidation methods are described in Issues 37 and 38. This rate consolidation method utilizes the capband rate consolidation methodology with a subsidy limit of \$12.50 and rate cap thresholds of ~~\$66.50~~ \$66.25 for water and ~~\$93.00~~ \$90.00 for wastewater. This allows for the creation of a single capped rate band and a single uncapped rate band for water. For wastewater, it similarly allows for the creation of a single capped rate band and a single uncapped rate band (excluding a separate uncapped wastewater band that includes two systems with only general service customers). For the water rate bands, there are approximately twice as many residential customers in the capped rate band as there are in the uncapped rate band. ~~This means that for every dollar decrease in the rate cap threshold for water, there must be a two dollar increase in the subsidy limit in order to keep the resulting rates fully compensatory.~~ For the wastewater rate bands, there are approximately five times as many residential customers in the capped rate band as there are in the uncapped rate band. ~~This means that for every dollar decrease in the rate cap threshold for wastewater, there must be a five dollar increase in the wastewater subsidy limit.~~

As a point of comparison, staff calculated the rate cap thresholds that would be required to keep rates compensatory if the Commission approved a maximum subsidy limit of \$10.00 instead of staff's recommended subsidy limit of \$12.50. Under this scenario, the necessary rate cap threshold for water increases to \$68.00 from ~~\$66.50~~ \$66.25, and to ~~\$96.00~~ \$90.75 from ~~\$93.00~~ \$90.00 for wastewater. While staff believes its recommended values for the maximum subsidy limit and rate cap thresholds are appropriate in this case, staff believes this illustration of the trade offs between the maximum subsidy limit and the rate cap thresholds shows the degree of interdependence that exists between these two parameters.

Based on the foregoing, staff recommends that the appropriate rate cap thresholds are ~~\$66.50~~ \$66.25 for the water systems and ~~\$93.00~~ \$90.00 for the wastewater systems. These rate cap thresholds are based upon residential customer bills with usage levels of 7 kgals per month for the water systems and 6 kgals per month for the wastewater systems.

Issue 36 – page 118

Recommendation: Staff recommends that the appropriate rate structure for the Utility's residential water customers is a three-tiered inclining block rate structure with usage blocks for monthly consumption of 0 to 6 kgals, 6.001 to 12 kgals, and all kgals in excess of 12 kgals. For those water systems for which no repression adjustment is made, the recommended usage block rate factors are 1.0, 1.5, and 2.0, respectively. For those water systems for which a repression adjustment is made, the appropriate rate factors are 1.000, ~~1.883, and 2.824~~ 1.866, and 2.798...,

Issue 36 – page 119

Last sentence of the first full paragraph from the top of the page

However, as will be shown in Issue 39, the appropriate post-repression rate factors for those systems with a repression adjustment are 1.000, 1.883, and 2.824 ~~1.866, and 2.798~~.

Issue 36 – page 120

Based on the foregoing, staff recommends that the appropriate rate structure for the Utility’s residential water customers is a three-tiered inclining block rate structure with usage blocks for monthly consumption of 0 to 6 kgals, 6.001 to 12 kgals, and all kgals in excess of 12 kgals. For those water systems for which no repression adjustment is made, the recommended usage block rate factors are 1.0, 1.5, and 2.0, respectively. For those water systems for which a repression is made, the appropriate rate factors are 1.000, 1.883, and 2.824 ~~1.866, and 2.798~~...

Issue 37 – page 121

	Current Band 1	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Fairway	Peace River
Stand-alone Bill	\$36.56	\$59.17	\$55.75	\$92.18	\$95.31	\$40.15	\$81.46
Consolidated Bill	\$58.48	\$58.48	\$58.48	\$58.48	\$58.48	\$58.48	\$58.48
Subsidy	\$21.92	(\$0.69)	\$2.73	(\$33.70)	(\$36.55)	\$18.33	(\$22.98)
Current Bill	\$29.15	\$44.93	\$54.25	\$70.22	\$34.41	\$19.98	\$53.48

Note: The customer bills and resulting subsidies are calculated at a usage level of 7 kgals. The stand-alone bill for the Breeze Hill system is calculated using the stand-alone rate structure described in Issue 42.

Staff notes that for the customers of current Rate Band 4, the Breeze Hill, and the Peace River systems, the stand-alone bills are significantly greater than staff’s recommended rate cap threshold of \$66.50 ~~\$66.25~~. Therefore, ...

Issue 37 – page 122

	Current Band 1	Fairway	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Peace River
New Rate Bands	New Rate Band 1				New Rate Band 4		
Stand-alone Bill	\$36.56	\$40.15	\$59.17	\$55.75	\$92.18	\$95.31	\$81.46
Merged Bill	\$36.11	\$36.11	\$59.17	\$55.75	\$91.53	\$91.53	\$91.53
Subsidy	(\$0.45)	(\$4.04)	\$0.00	\$0.00	(\$0.64)	(\$3.50)	\$10.08
Current Bill	\$29.15	\$19.98	\$44.93	\$54.25	\$70.22	\$34.41	\$53.48

By merging the three stand-alone water systems into the existing 4 water rate bands, staff notes that no customer will have to pay a subsidy greater than the \$12.50 subsidy recommended by staff in Issue 34. However, this approach results in customers of New Rate Band 4 paying bills in excess of the ~~\$66.25~~ \$66.50 maximum bill that results from the application of the capband rate consolidation methodology presented below. Therefore staff does not believe that this approach is appropriate in the case.

Issue 37 – page 123

	Current Band 1	Fairway	Current Band 2	Current Band 3	Current Band 4	Breeze Hill	Peace River
New Capband Rate Bands	New Rate Band 1 (Uncapped)		New Rate Band 2 (Capped)				
Stand-alone Bill	\$36.56	\$40.15	\$59.17	\$55.75	\$92.18	\$95.31	\$81.46
Capband Bill	\$48.79	\$48.79	\$66.50	\$66.50	\$66.50	\$66.50	\$66.50
Subsidy	\$12.24	\$8.65	\$7.33	\$10.75	(\$25.68)	(\$28.53)	(\$14.96)
Current Bill	\$29.15	\$19.98	\$44.93	\$54.25	\$70.22	\$34.41	\$53.48

Staff believes that the customer bills resulting from applying the capband rate consolidation method provide more appropriate results than either the stand-alone or fully consolidated bills presented earlier. With this methodology, the high customer bills that result from the stand-alone rates for customers of current Rate Band 4, the Breeze Hill, and the Peace River systems are reduced to a more reasonable amount of ~~\$66.25~~ \$66.50. Simultaneously, ...

Issue 38 – page 124

	Current Band 1	Current Band 2	Current Band 3	Current Band 4 (GS Only)	Breeze Hill	Fairways	Peace River
Stand-alone Bill	\$61.07	\$83.96	\$207.05	\$137.77	\$100.37	\$86.26	\$108.04
Consol. Bill	\$91.22	\$91.22	\$91.22	\$91.22	\$91.22	\$91.22	\$91.22
Subsidy	\$30.14	\$7.25	(\$115.83)	(\$46.55)	(\$9.15)	\$4.96	(\$16.83)
Current Bill	\$45.63	\$78.10	\$83.35	\$142.97	\$39.38	\$35.45	\$82.25

Note: The customer bills and resulting subsidies are calculated at a usage level of 6 kgals. The bills for current rate band 4 are calculated using rates applicable to General Service customers.

Staff notes that for the customers of current Rate Band 3, the Breeze Hill, and the Peace River systems, the stand-alone bills are significantly greater than staff's recommended rate cap threshold of ~~\$90.00~~ \$93.00. Therefore, ...

Issue 38 – page 124

Footnote 100

AUF's Aqua Utilities Florida, Inc., Application, Exhibit H.

Issue 38 – page 125

	Current Band 1	Current Band 2	Current Band 3	Current Band 4 (GS Only)	Breeze Hill	Fairway	Peace River
New Rate Bands	Rate Band 1	Rate Band 2	Rate Band 3	Rate Band 4	New Rate Band 5		
Stand-alone Bill	\$61.07	\$83.96	\$207.05	\$137.77	\$100.37	\$86.26	\$108.04
Merged Bill	\$61.07	\$83.96	\$207.05	\$137.77	\$91.71	\$91.71	\$91.71
Subsidy	\$0.00	\$0.00	\$0.00	\$0.00	(\$8.65)	\$5.46	(\$16.33)
Current Bill	\$45.63	\$78.10	\$83.35	\$142.97	\$39.38	\$35.45	\$82.25

This approach results in no customer having to pay a subsidy greater than the \$12.50 subsidy recommended by staff in Issue 34. However, this approach results in customers of Rate Band 3 and the three stand-alone systems paying bills in excess of the \$93.00 \$90.00 maximum bill that results from the application of the capband rate consolidation methodology presented below. Therefore staff does not believe that this approach is appropriate in the case.

Issue 38 – page 126

	Current Band 1	Current Band 2	Current Band 3	Breeze Hill	Fairway	Peace River	Current Band 4 (GS Only)
New Capband Rate Bands	New Rate Band 1 (Uncapped)	New Rate Band 2 (Capped)	New Rate Band 3		New Rate Band 4		New Rate Band 5
Stand-alone Bill	\$61.07	\$83.96	\$207.05	\$100.37	\$86.26	\$108.04	\$137.77
Capband Bill	\$72.97	\$93.00	\$93.00	\$93.00	\$93.00	\$93.00	\$137.77
Subsidy	\$11.90	\$9.04	(\$114.05)	(\$7.37)	\$6.74	(\$15.04)	(\$0.00)
Current Bill	\$45.63	\$78.10	\$83.35	\$39.38	\$35.45	\$82.25	\$142.97

Note: The customer bills and resulting subsidies are calculated at a usage level of 6 kgals.

Staff believes that the customer bills resulting from applying the capband rate consolidation method provide more appropriate results than either the stand-alone or fully consolidated bills presented earlier. With this methodology, the high customer bills that result from the stand-alone rates for customers of current Rate Band 3, the Breeze Hill, Fairway, and

the Peace River systems are reduced to a more reasonable amount of ~~\$93.00~~ \$90.00. Simultaneously, the high subsidies that result from fully consolidated rates for customers of current Rate Band 1 are limited to less than \$12.50. Therefore, staff believes that the capband rate consolidation method yields more appropriate customer bills.

Issue 39 – page 127

Table 39-1 (Revised)	
Recommended Repression Adjustments Uncapped Water Systems (Rate Band 1)	
	Uncapped
<u>Water</u>	
Number of Kgals Repressed	49,156
Pre-repression Revenue Requirement	\$3,631,639
Purchased Power Adjustment	(\$2,173)
Chemicals Adjustment	(\$5,778)
Purchased Water Adjustment	(\$23,123)
Regulatory Assessment Fees Adjustment	(\$1,398)
Post-repression Revenue Requirement (1)	\$3,599,166
(1)	May not sum to total due to rounding of individual expense adjustments.

Issue 39 – pages 128-129

Beginning with the last paragraph on page 128 and continuing on page 129

The first step in applying a repression adjustment to water Rate Band 1 is to calculate the pre-repression rates for the rate band using staff’s recommended rate factors of 1.0, 1.5, and 2.0. These new rates, compared to the existing rates for the systems contained in Rate Band 1, allow the percentage change in customer bills to be calculated. The percentage change in customers’ bills, together with the elasticity value of -0.4, allows the expected reduction in consumption to be calculated. The reduction in consumption, priced using the pre-repression rates, shows the revenue shortfall that would result if a repression adjustment were not made. In the case of water Rate Band 1, this revenue shortfall would be approximately ~~\$305,000~~ \$300,000 and represents ~~8.4~~ 8.3 percent of the water rate band’s pre-repression revenue requirement. Because the Commission’s current repression methodology does not apply a repression adjustment to non-discretionary consumption, the entirety of the ~~\$305,000~~ \$300,000 revenue shortfall is allocated for recovery purposes to the two usage blocks above 6 kgals per month. This causes the rates for the two upper usage blocks to increase above their pre-repression levels while leaving the rate for the first usage block at its pre-repression level. According to staff’s calculations, the pre-repression rates of ~~\$3.62, \$5.44, and \$7.25~~ \$3.59, \$5.38, and \$7.17 corresponding to the three usage blocks must change to ~~\$3.62, \$6.82, and \$10.24~~ \$3.59, \$6.69, and \$10.04 in order for the post-repression rates to be compensatory. The relative amounts of these rates give rise to staff’s recommended rate factors of 1.000, ~~1.883, and 2.824~~ 1.866, and 2.798 presented in Issue 36.

Issue 40 – page 130

Recommendation: The appropriate monthly water rates are shown on Schedule 4-A, and the appropriate monthly wastewater rates are shown on Schedule 4-B. Excluding miscellaneous service charges, the recommended water rates produce revenues of ~~\$10,010,973~~ \$9,981,498, and the recommended wastewater rates produce revenues of ~~\$6,001,265~~ \$5,835,689. The Utility...

Staff Analysis: The appropriate post-repression revenue requirement, excluding miscellaneous service charges, is ~~\$10,010,973~~ \$9,981,498 for the water system and ~~\$6,001,265~~ \$5,835,689 for the wastewater system. As discussed in Issue 36, staff recommends that the appropriate rate structure for the water system’s residential class is a three-tier inclining-block rate structure, with usage blocks of: a) 0-6 kgal; b) 6.001-12 kgal; and c) all usage in excess of 12 kgal in the third usage block. The usage block rate factors should be 1.000, ~~1.883~~, and ~~2.824~~ 1.866, and 2.798, respectively. The BFC cost recovery percentage should be set at 40 percent. Staff recommends that the traditional BFC/uniform gallonage charge rate structure be applied to all non-residential rate classes. As discussed in Issue 39, staff recommends that a repression adjustment be made to the water systems. Applying these rate designs and repression adjustments to the recommended pre-repression revenue requirements results in the final rates contained in Schedule 4-A. These rates are designed to recover a post-repression revenue requirement of ~~\$10,010,973~~ \$9,981,498 for the water system.

As discussed in Issue 36, staff recommends that the appropriate rate structure for the wastewater systems is a BFC/gallonage charge rate structure, with the general service gallonage charge set at 1.2 times the corresponding residential gallonage charge. The BFC cost recovery percentage should be set at 50 percent. As discussed in Issue 39, staff recommends that no repression adjustment be made to the wastewater systems. Applying these rate designs and no repression adjustment to the recommended pre-repression revenue requirements for the wastewater systems results in the final rates contained in Schedule 4-B. These rates are designed to recover a post-repression revenue requirement of ~~\$6,001,265~~ \$5,835,689 for the wastewater system.

Issue 42 – page 138

Table 42-6					
Allowance for Funds Prudently Invested					
Calculation of Carrying Cost Per ERC Per Month:					
	2011	2012	2013	2014	2015
January	1.19	15.59	30.91	47.20	64.56
February	2.39	16.86	32.26	48.64	66.09
March	3.58	18.13	33.61	50.08	67.63
April	4.78	19.40	34.96	51.52	69.16
May	5.97	20.67	36.31	52.96	70.69
June	7.16	21.94	37.66	54.39	72.22
July	8.36	23.21	39.01	55.83	73.75
August	9.55	24.48	40.36	57.27	75.29
September	10.74	25.75	41.71	58.71	76.82
October	11.94	27.02	43.06	60.15	78.35
November	13.13	28.29	44.41	61.59	79.88
December	14.33	29.56	45.76	63.03	81.41

Issue 44 – page 144

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. In Docket No. 080121-WS, the Commission approved rate case expense for the current water and wastewater rate bands, as well as the rate reduction to occur pursuant to Section 367.0816, F.S. The rates became effective April 1, 2009, and the four-year rate case expense reduction will not occur until March 31, ~~2013~~ 2012. As such, the previously-approved rate case expense for the current rate bands are embedded in the recommended revenue requirements. Because staff is recommending consolidation of the current rate bands and the stand-alone systems into two water and wastewater rate bands, staff believes it necessitates a recalculation of the four-year rate reduction. Also, staff believes the across-the-board rate decrease should be calculated by taking the grossed-up rate case expense approved in the last case and dividing it by the corresponding recommended revenue requirement in this instant case, as illustrated in Table 44-1 below.

<u>Recomm. Bands</u>	<u>Current Bands</u>	<u>Annual RCE Amort.</u>	<u>RAF Factor</u>	<u>Grossed-up RCE</u>	<u>Recomm. Rev. Req.</u>	<u>Across-the-Board Decrease</u>
New Water Band 1	Old Water Band 1	\$86,810	0.955	\$90,901	\$2,642,758	3.44%
New Water Band 2	Old Water Band 2	\$38,944	0.955	\$40,779		
	Old Water Band 3	24,214	0.955	25,355		
	Old Water Band 4	10,183	0.955	10,663		
		<u>\$73,341</u>		<u>\$76,797</u>	\$7,323,309	1.05%
New Wastewater Band 1	Old Wastewater Band 1	\$11,172	0.955	\$11,698	\$490,355	2.39%
New Wastewater Band 2	Old Wastewater Band 2	\$43,690	0.955	\$45,749		
	Old Wastewater Band 3	1,364	0.955	1,428		
		<u>\$45,054</u>		<u>\$47,177</u>	\$4,657,486	1.01%
New Wastewater Band 3	Old Wastewater Band 4	\$1,492	0.955	\$1,562	\$504,850	0.31%

Issue 44 – page 145

Based on the above recommended across-the-board decreases, the recommended rate reductions effective as of March 31, ~~2012~~ 2013, for the rate case expense approved in Docket No. 080121-WS, for water and wastewater are shown on Tables 44-2 and 44-3, respectively.

Table 44-2				
WATER	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction
<u>RS, GS, Multi, Irrig</u>	BFC		BFC	
5/8" x 3/4"	\$20.22	\$0.70	\$18.95	\$0.20
3/4"	\$30.33	\$1.04	\$28.42	\$0.30
1"	\$50.56	\$1.74	\$47.37	\$0.50
1 1/2"	\$101.11	\$3.48	\$94.73	\$0.99
2"	\$161.78	\$5.56	\$151.57	\$1.59
3"	\$323.56	\$11.13	\$303.14	\$3.18
4"	\$505.56	\$17.39	\$473.66	\$4.97
6"	\$1,011.12	\$34.78	\$947.32	\$9.93
8"	\$1,617.80	\$55.65	\$1,515.71	\$15.89
10"	\$2,325.58	\$79.99	\$2,178.83	\$22.85
<u>Residential kgal chgs:</u>				
0-6 kgals	\$3.62	\$0.12	\$6.34	\$0.07
6.001 - 12 kgals	\$6.82	\$0.23	\$9.51	\$0.10
12.001 +	\$10.24	\$0.35	\$12.68	\$0.13
Gen. Service kgal chg:	\$5.17	\$0.18	\$7.16	\$0.08
<u>Private Fire Protection</u>				
BFC by Meter Size				
2"	\$13.48	\$0.46	\$12.63	\$0.13
3"	\$26.96	\$0.93	\$25.26	\$0.26
4"	\$42.13	\$1.45	\$39.47	\$0.41
6"	\$84.26	\$2.90	\$78.94	\$0.83
8"	\$134.82	\$4.64	\$126.31	\$1.32
10"	\$193.80	\$6.67	\$181.57	\$1.90
<u>Typical Residential Bills</u>				
3,000 gallons	\$31.10	\$1.07	\$37.97	\$0.40
5,000 gallons	\$38.35	\$1.32	\$50.65	\$0.53
10,000 gallons	\$69.27	\$2.38	\$95.03	\$1.00
(1) Rate Band One includes Old Rate Band One and Fairways.				
(2) Rate Band Two includes all other water Bands and Systems.				

Issue 44 – page 146

Table 44-3

<u>WASTEWATER</u>	New Rate Band One (1)	080121-WS 4-Yr Reduction	New Rate Band Two (2)	080121-WS 4-Yr Reduction	New Rate Band Three (3)	080121-WS 4-Yr Reduction
<u>Residential</u>						
BFC - All Meter Sizes	\$24.10	\$0.58	\$36.52	\$0.37	\$79.24	\$0.25
Kgal Charge - 6,000 Cap	\$8.14	\$0.19	\$9.41	\$0.10	\$7.97	\$0.02
<u>General Service</u>						
5/8" x 3/4"	\$24.10	\$0.58	\$36.52	\$0.37	\$79.24	\$0.25
3/4"	\$36.15	\$0.86	\$54.79	\$0.55	\$118.86	\$0.37
1"	\$60.26	\$1.44	\$91.31	\$0.92	\$198.09	\$0.61
1 1/2"	\$120.51	\$2.88	\$182.62	\$1.85	\$396.19	\$1.23
2"	\$192.82	\$4.60	\$292.19	\$2.96	\$633.90	\$1.96
3"	\$385.63	\$9.20	\$584.38	\$5.92	\$1,267.79	\$3.92
4"	\$602.55	\$14.38	\$913.10	\$9.25	\$1,980.93	\$6.13
6"	\$1,205.11	\$28.75	\$1,826.19	\$18.50	\$3,961.85	\$12.26
8"	\$1,928.17	\$46.00	\$2,921.91	\$29.60	\$6,338.97	\$19.62
10"	\$2,771.74	\$66.13	\$4,200.24	\$42.55	\$9,112.27	\$28.20
Kgal Charge	\$9.77	\$0.23	\$11.30	\$0.11	\$9.57	\$0.03
<u>Flat Rate Residential</u>	\$47.77	\$1.14	\$62.93	\$0.64	N/A	N/A
<u>Flat Rate General Service</u>	N/A	N/A	\$120.16	\$1.22	N/A	N/A
<u>Reuse per Sprinkler Head</u>	\$0.50	\$0.01	\$0.50	\$0.01	\$0.50	\$0.00
<u>Typical Residential Bills</u>						
3,000 gallons	\$48.54	\$1.16	\$64.76	\$0.66	\$103.16	\$0.32
5,000 gallons	\$64.82	\$1.55	\$83.59	\$0.85	\$119.11	\$0.37
10,000 gallons	\$72.97	\$1.74	\$93.00	\$0.94	\$127.08	\$0.39
(Wastewater Gallonage Cap - 6,000 gallons)						
Rate Band One consists of Old Rate Band One only.						
Rate Band Two consists of Old Rate Bands 2 and 3, and the Breeze Hill, Fairways, and Peace River Systems.						
Rate Band 3 consists of Old Rate Band 4 (GS Only).						

Table 45-1						
		RAF	Interim	Interim		
	Recom.	Grossed	Period	Rev. Req.	Interim	
Band/System	Rev. Req.	RCE	Rev. Req.	Per Order	Excess	Refund %
Water Band 1	\$2,642,758	\$47,556	\$2,595,203	\$2,559,477	(\$35,726)	No Refund
Water Band 2	\$1,508,849	\$21,140	\$1,487,710	\$1,432,357	(\$55,353)	No Refund
Water Band 3	\$916,643	\$12,912	\$903,731	\$930,090	\$26,359	2.92%
Water Band 4	\$4,897,817	\$58,751	\$4,839,066	\$3,816,182	(\$1,022,884)	No Refund
Wastewater Band 1	\$490,355	\$8,453	\$481,902	\$473,692	(\$8,210)	No Refund
Wastewater Band 2	\$3,736,437	\$38,770	\$3,697,667	\$3,546,600	(\$151,067)	No Refund
Wastewater Band 3	\$921,049	\$4,760	\$916,289	\$484,040	(\$432,249)	No Refund
Wastewater Band 4	\$504,850	\$2,359	\$502,491	\$533,651	\$31,160	6.20%
Breeze Hill Water	\$64,438	\$1,000	\$63,437	\$53,069	(\$10,368)	No Refund
Breeze Hill Wastewater	\$65,807	\$1,000	\$64,807	\$73,949	\$9,142	14.11%
Fairways Water	\$182,743	\$3,651	\$179,092	\$189,399	\$10,307	5.75%
Fairways Wastewater	\$184,260	\$1,884	\$182,376	\$181,739	(\$637)	No Refund
Peace River Water	\$102,157	\$775	\$101,382	\$82,317	(\$19,065)	No Refund
Peace River Wastewater	\$99,530	\$725	\$98,804	\$97,667	(\$1,137)	No Refund