

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Okeechobee County by The Vantage Development Corporation. | DOCKET NO. 070074-SU  
ORDER NO. PSC-07-0789-PAA-SU  
ISSUED: September 27, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman  
MATTHEW M. CARTER II  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASE IN RATES AND CHARGES  
AND  
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year statutory rate reduction and approval of temporary rates in the event of protest, 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.

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### I. Case Background

The Vantage Development Corporation (Vantage or utility) is a Class C wastewater utility in Okeechobee County. According to the utility's 2006 annual report, total gross revenue was \$47,364 and total operating expenses were \$103,651.

The company maintains a recreational vehicle (RV) rental park community, mobile home rental lot operation and a wastewater utility operation (utility). The utility facilities have been in existence since 1976 and currently provide service to customers in portions of the Treasure Island subdivision and The Vantage Oaks RV Park. The utility's customer base consists of 167 mobile homes and a RV Park which contains 171 rental lots, a bathhouse, recreation hall and laundry facility. The 167 mobile homes are individually metered with 5/8" x 3/4" meters and receive water from the Okeechobee Utility Authority (OUA). The RV Park receives water through a 2" master meter, for its 171 rental lots, from the OUA. The bathhouse, recreation hall and laundry facility receive water from private wells. The utility is located in a portion of the South Florida Water Management District which is not considered a critical water supply problem area.

On May 13, 2004, the Okeechobee County Board of County Commissioners (Okeechobee County) adopted Resolution No. 2004-16 declaring the water and wastewater utilities in that county subject to the provisions of Chapter 367, Florida Statutes (F.S.). We acknowledged the resolution by Order No. PSC-04-0593-FOF-WS, issued on June 15, 2004.<sup>1</sup> On July 30, 2004, Vantage applied for a certificate to provide wastewater service in Okeechobee County, which we granted by Order No. PSC-05-0498-FOF-SU, issued May 5, 2005.<sup>2</sup>

On January 24, 2007, the utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee. The official date of filing was established as March 23, 2007. Our staff audited the utility's records for compliance with our rules and orders and determined the components necessary for rate setting. Our staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files,

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<sup>1</sup> In Docket No. 040469-WS, In re: Resolution of the Board of County Commissioners of Okeechobee County declaring Okeechobee County subject to the provision of Chapter 367, F.S.

<sup>2</sup> In Docket No. 040801-SU, In re: Application for grandfather certificate to operate wastewater utility in Okeechobee County by The Vantage Development Corporation.

and rate application was also performed to obtain information about the physical plant operating costs. We selected the historical test year ending December 31, 2006, for this rate case.

We have the authority and jurisdiction to consider this rate case pursuant to Section 367.0814, F.S.

## II. Quality of Service

Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health department officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Our analysis of each of these three components is set forth below.

### A. Quality Of Utility's Product

The wastewater treatment plant (WWTP) at Vantage is regulated by DEP. DEP inspected the utility's WWTP on August 23, 2006. According to DEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

### B. Operational Conditions At The Plant

The operating condition of the wastewater plant is reflective of the quality of product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of its customers. The utility's operating permit was issued on October 29, 2003, and will expire on October 28, 2008. According to DEP's letter dated October 16, 2006, to the utility, the wastewater plant was inspected on August 23, 2006. The effluent appeared clear and no solids were present during the inspection. However, the inspector observed that the surface of the circular clarifier and both of the filter ponds contained excessive solids. While the utility is in compliance status for its effluent quality, the utility is in noncompliance status because of the excessive solids observed in the clarifier and both of the filter ponds. On October 26, 2006, the DEP received correspondence from the utility stating the deficiencies noted during

the August 23, 2006, inspection had been corrected. We believe the utility is cooperating and trying to improve the operational conditions and bring the plant into compliance status.

All things considered, the operational conditions at the wastewater plant shall be considered satisfactory at this time.

### C. Utility's Attempt To Address Customer Satisfaction

An informal customer meeting was held on July 25, 2007 in the Vantage Development Corporation Club House in Okeechobee, Florida. The meeting was open to all customers and twenty-five customers attended. Nine customers went on record with comments and concerns about the utility. Of those customers that attended the meeting, seven came forward with complaints and opinions concerning the rate increase and rate structure. Most of the complaints were about the projected amount of the increase (82.3%), and whether the people within the RV Park were paying their fair share.

All things considered, we believe that the owner of the utility is putting forth a sufficient good faith effort to respond to customer complaints. Therefore, the utility's attempts to resolve customer complaints shall be considered satisfactory. Based on all the above, we find that the overall quality of service provided by Vantage shall be considered satisfactory.

## III. Used and Useful

### A. Wastewater Treatment Plant

The existing WWTP is permitted based on three-month average daily flow (TMADF) to operate at a capacity of 50,000 gallons per day (gpd), utilizing the extended aeration activated sludge process. The three-month average daily flow for the historical test year for the WWTP was measured and calculated to be 44,600 gpd. A regression analysis was performed with an anticipated growth of zero ERCs for the next year which calculates a projection of zero gpd for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. No water consumption data was available to determine the excessive Infiltration or Inflow (I&I). During our staff's site visit, there did not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the excessive I&I was assumed to be zero. In accordance with the formula method and the calculation methodology used (Attachment A, Page 1 of 2), we calculate the used and useful to be 89.21%.

Pursuant to Rule 25-30.432, F.A.C, used and useful percentages for a wastewater treatment plant shall be calculated by comparing test year flows to the DEP permitted capacity, using the same method of measuring flows. The rule further states that the Commission will also consider other factors such as the allowance for growth, infiltration and inflow, whether the service area is built-out, whether the permitted capacity differs from the design capacity, differences between components, and whether the flows have decreased due to conservation or a reduction in the number of customers. Because the utility's service area is built out, the wastewater treatment plant shall be considered 100% used and useful pursuant to Rule 25-30.432, F.A.C.

## B. Wastewater Collection System

The utility's potential customer base is 326 ERCs. The average number of customers for the test year is 323 ERCs. Future growth for the next five years is calculated to be zero ERCs. In accordance with the formula method and the calculation methodology used (Attachment A, Page 2 of 2), we calculate the used and useful percentage to be 99.08%. Because the service area is built out, the wastewater collection system shall also be considered 100% used and useful.

## IV. Rate Base

Although we granted the company its grandfather certificate on July 30, 2004, we have never established rate base for this utility. Our audit staff was able to find documentation and invoices to substantially establish a complete record of the company's utility asset additions since it began operations in 1976. The appropriate components of Vantage's rate base include depreciable utility plant-in-service, land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and a working capital allowance.

At the time of the audit, the utility had not finalized its books for 2006. Therefore, our audit staff relied on the utility's 2005 Annual Report. Using the average historical test year ended December 31, 2006, we adjusted the utility's rate base components using the staff auditor's compilation of original source documents and invoices. A discussion of each component of rate base follows.

A. Utility Plant in Service (UPIS): The utility recorded a balance of \$65,030 for UPIS. Per Audit Finding No. 2, the staff auditor compiled UPIS additions for the period of June 1976 through December 2006 using original source documents and invoices. The plant site was toured to determine whether each asset addition was completed and to ascertain whether any assets needed to be retired. In accordance with Audit Finding No. 2, we determine that UPIS is \$336,870. Therefore, we have increased UPIS by \$271,840.

B. Land: Per Audit Finding No. 3, our staff auditor traced the origin of ownership for the land containing the utility's wastewater treatment plant. The land was originally transferred from H.F. Hazellief to Quillie J. Hazellief on May 22, 1952. The transaction was with a related party and consisted of a large amount of improved pasture land at zero cost. The property, consisting of 9.1 acres, was subsequently transferred from Quillie J. Hazellief to Vantage on August 1, 1976. The sales price was \$45,500 or \$5,000 per acre ( $\$45,500/9.10$ ) and was also a related party transaction. By Order No. PSC-00-1513-TRF-WS,<sup>3</sup> we found as follows:

Related party transactions require heightened scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is

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<sup>3</sup> Issued August 21, 2000, in Docket No. 991835-WS, In Re: Application for allowance for funds prudently invested (AFPI) charge for additional water improvements and for additional lines associated with wastewater extension into George Mayo subdivision in Marion County, by Tradewinds Utilities, Inc.

between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that unfair or excessive profits are being generated, without more evidence to the contrary. The standard is to evaluate affiliate transactions and determine whether those transactions exceed the going market rate or are otherwise unfair.

Per Audit Finding No. 3, the company's president stated that the sales price was the estimated fair market value for the improved vacant land at the time of transfer in 1976. Our staff auditor searched Okeechobee County records and found a non-related party sale of 34 acres of unimproved vacant land next to the utility's service territory. The sale was for \$147,322 or \$4,333 (\$147,322/34) per acre. The difference in price per acre is \$677 (\$5,000 - \$4,333) which can be possibly attributed to real estate market conditions at the time and the difference between improved versus unimproved land value.

According to Audit Finding No. 3, the property transferred to Vantage contains the wastewater treatment plant, a developer maintenance shop facility, and a general storage yard for boats, RVs, and other large equipment. When the land was transferred to Vantage, the warranty deed listed the land as 9.10 acres. However, the land is currently listed with the Okeechobee Property Appraiser as 8.46 acres. The appraiser's office stated that the small difference in property area could be attributed to methods used in 1976 to estimate land area. We believe the 8.46 figure is probably more accurate due to current improved survey and mapping techniques. The wastewater treatment plant is surrounded by a six foot-high chain link fence which circumscribes approximately 2.07 acres of the 8.46 acre property.

Based on the above, Audit Finding No. 3 establishes the original cost for the land occupied by the utility's wastewater treatment plant to be \$10,350 (\$5,000 x 2.07). The utility did not record any land cost in its 2005 Annual Report. Therefore, we increase land by \$10,350.

C. Non-used and Useful Plant: Because we have found both the WWTP and the utility's wastewater collection system to be 100% used and useful, a used and useful adjustment is unnecessary.

D. Contributions-in-Aid-of-Construction (CIAC): The utility's 2005 Annual Report did not reflect a CIAC balance as of December 31, 2005. Rule 25-30.570(1), F.A.C., states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Per Audit Finding No. 4, the company president stated that the original cost of the wastewater collection system was included in the sales price of the lots and should be considered CIAC. Therefore, CIAC additions for the period of June 1976 through December 2006 were

compiled. Based on these compilations, we determine the CIAC balance for the test year ending December 2006, to be \$135,538.

E. Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$65,030 in its 2005 Annual Report. Per Audit Finding No. 2, the utility's UPIS was depreciated at 2.5% from June 1976 through April 30, 2005. Pursuant to Order No. PSC-05-0498-FOF-SU,<sup>4</sup> the utility was put on notice that it would be required to follow the rules of this Commission. Using the prescribed rates in Rule 25-30.140, F.A.C., for May 1, 2005, through December 31, 2006, we have increased this account by \$82,877 to reflect the appropriate depreciation rates. Then, we decreased this account by \$7,616 to reflect an averaging adjustment. Total adjustments of \$75,261 result in accumulated depreciation of \$140,291.

F. Accumulated Amortization of CIAC: The utility did not record any accumulated amortization of CIAC in its 2005 Annual Report. In order to be consistent with the methodology used for accumulated depreciation, accumulated amortization of CIAC was calculated using 2.5% from June 1976 through April 30, 2005 per Audit Finding No. 4. Using composite rates prescribed in Rule 25-30.140, F.A.C., we calculated the amortization of CIAC from May 1, 2005, through December 31, 2006. Based on this calculation, we increased accumulated amortization of CIAC by \$87,287, and then decreased this account by \$1,362 to reflect an averaging adjustment. These adjustments result in accumulated amortization of CIAC of \$85,925.

G. Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C, we used one-eighth of the O&M expense formula approach to calculate a working capital allowance. Applying this formula, we calculate a working capital allowance of \$11,455 (one-eighth of O&M expenses of \$91,643), and working capital has been increased by this amount.

H. Rate Base Summary: Based on the forgoing, we find the appropriate test year rate base to be \$168,771. Our calculation of rate base is shown on Schedule No. 1, with our adjustments shown on Schedule No. 1-A.

#### V. Rate of Return

Audit Finding No. 8 indicated that the utility's capital structure is composed of common stock allocation of \$5,758 and common equity of \$161,947. The company's total common stock was \$12,000 as of December 31, 2005. The allocation of \$5,758 is based on the relative value of the utility's assets to the total company assets per the company's 2005 Federal Tax Return. The total company assets on the 2005 Federal Tax Return are \$323,141 and the utility assets are \$155,052. This results in a 47.98% allocation or \$5,758 ( $\$12,000 \times 47.98\%$ ).

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<sup>4</sup> Docket No. 040801-SU, In re: Application for grandfather certificate to operate wastewater utility in Okeechobee County by The Vantage Development Corporation.

Based on the most recent Commission-approved leverage formula,<sup>5</sup> we calculate the appropriate return on equity to be 9.07%, with a range from 8.07% to 10.07%. Applying a return on equity of 9.07% results in an overall rate of return of 9.07%. Our calculation of the return on equity and overall rate of return is shown on Schedule No. 2.

VI. Test Year Revenues

At the time of the audit, the utility had not finalized its books. Test year revenues were calculated based on the utility's rates and number of customers. The utility's customer base consists of 167 residential mobile home customers and four general service customers. The utility charges a flat fee of \$28.00 a month for residential wastewater service. Therefore, we calculate the residential wastewater service revenue to be \$56,112 (167 x 12 x \$28.00).

Per Audit Finding No. 5, the utility's owner does not charge the four general service customers of the related party for wastewater service. The general service customers consist of: (1) the R/V mobile home park which contains 171 rental lots; (2) a bathhouse; (3) a recreation hall; and (4) a public laundry facility. The residential wastewater flat fee of \$28.00 per month is the cost of service for one equivalent residential connection (ERC). In order to impute revenue for the general service customers, we have estimated the ERCs for the general service customers. The RV Park is being served by a 2" meter which would normally represent eight ERCs. However, we know there are 171 rental lots behind the meter, and these lots place a greater demand on the utility's system than eight ERCs. Based on the usage characteristics of the RV Park lots, we find it is appropriate to consider each rental lot as .75 of an ERC. Therefore, the RV Park shall be considered as 128 ERCs (171 X .75). Also, we estimate one ERC each for the bathhouse and recreational hall. The laundry facility is estimated to be 26 ERCs. Thus, we calculate imputed revenues to be as follows:

<u>General Services Customers Imputed Revenues</u>	<u>ERCs</u>	<u>Rate</u>	<u>Months</u>	<u>Total Annual Revenue</u>
R/V Mobile Home Park (served by 2-inch meter )	128	\$28.00	12	\$43,008.00
Bath House (served by 2" private potable well)	1	\$28.00	12	\$336.00
Recreation Hall (served by 2" private potable well)	1	\$28.00	12	\$336.00
Public Laundry Facility (served by 2" private potable well)	26	\$28.00	12	\$8,736.00
				<u>\$52,416.00</u>

Based on the above, we find test year revenue to be \$108,528 (\$56,112 for residential customers plus \$52,416 for the four general service customers) for wastewater. Our calculation of test year revenue is shown on Schedule No. 3. The related adjustments are shown on Schedule No. 3-A.

<sup>5</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-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), Florida Statutes.



## VII. Operating Expenses

At the time of our audit staff's field work, the utility had not finalized its books. Therefore, the utility recorded operating expenses of \$0 during the test year ending December 31, 2006. The test year O & M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. The utility's accounts payable ledger contains a column that specifies direct expense amounts that were incurred by the utility operations. However, there is no allocation of shared expenses that benefited both utility and non-utility operations. Per Audit Finding No. 6, the staff auditor recorded the utility expenses directly related to the utility operation and those expenses that relate to both non-utility and utility operations were allocated. A summary of adjustments to operating expenses is as follows:

### A. Operation and Maintenance Expenses

1. Salaries and Wages – Employees – (701) – Pursuant to Audit Finding No. 6, the company has one part-time employee that serves as the office manager. She works 15 hours a week at a weekly salary of \$150. Her duties include maintaining the accounts payable and receivable ledgers, billing and collecting for rental and utility operations, paying vendors, customer contact and the overall management of the company's day to day activities. In accordance with Audit Finding No. 6, we estimate that 50 percent of her time is spent performing duties for the utility. Therefore, we have allocated \$75 ( $\$150 \times 50\%$ ) per week or \$3,900 for the year ( $\$75 \times 52$  weeks) for the office manager's salary.

2. Sludge Removal Expense – (711) – The utility needs to regularly pump out and dispose of excess sludge. The company has entered into a contract with U.S. Water Services Corporation (US Water), a management company, to coordinate sludge hauling activities. The contract states that Vantage is responsible for all costs. The company provided invoices from US Water indicating it paid \$17,716 for the removal of 80,000 gallons of sludge for the test year. We find the \$17,716 expense for sludge removal to be reasonable and have made an appropriate adjustment to this account to reflect this expense.

3. Purchased Power – (715) – The utility provided invoices that indicated purchased power for the test year was \$9,516. We find that \$9,516 is reasonable for purchased power and have made an adjustment to increase this account to reflect the appropriate purchased power expense.

4. Chemicals – (718) – US Water is contracted to coordinate the delivery of chemicals to the wastewater treatment plant. The company is responsible for the cost of the chemicals. As invoiced by US Water, the company paid \$2,856 for the purchase of 1,656 gallons of liquid chlorine during the test period. Also, the company paid \$261 during the test year for chemicals used to clear vegetation around the wastewater facilities. We find both these expenses to be reasonable and have increased this account by \$3,117 ( $\$2,856 + \$261 = \$3,117$ ).

5. Materials and Supplies – (720) – The company provided invoices indicating it spent \$767 for parts and supplies to maintain or operate the wastewater system during the test year.

The \$767 spent on parts and supplies appears to be reasonable, and we have increased this account by this amount.

6. Contractual Services – Billing – (730) – Because we are changing the utility’s rate structure to a BFC and gallonage charge rate structure, the utility will need the billing data from the Okeechobee Utility Authority (OUA). The OUA has agreed to provide the billing information to Vantage at a cost of \$30 per month. Therefore, we have increased this account by \$360 to reflect the annual cost for billing.

7. Contractual Services – Professional – (731) – The company paid U.S. Water \$1,433 for analyzing and preparing financial data for submission to the corporate accountant for completion of the annual report as well as for preparing the utility’s regulatory assessment fee form. We find this amount to be reasonable. Further, the company paid the corporate accountant \$2,950 for the completion and filing of its federal tax return, annual report and corporate intangible tax return. In accordance with Audit Finding No. 6, we allocate 50% or \$1,475 of this cost to the utility. Therefore, we have increased this account by \$2,908 ( $\$1,433 + \$1,475 = \$2,908$ ).

8. Contractual Services Testing – (735) – State and local authorities require that several analyses be submitted in accordance with Rule 62-600, F.A.C. For testing, the utility utilizes the services of Short Environmental Laboratories, Inc. The list below includes monthly monitoring and other less frequent tests required by DEP:

<u>TEST REQUIRED BY DEP</u>		
<u>Test</u>	<u>Frequency</u>	<u>Cost per Year</u>
CBOD/TSS (influent)	Monthly	\$564
CBOD/TSS (effluent)	Monthly	\$564
Fecal Coliform	Monthly	\$360
Nitrate, Nitrite	Monthly	\$456
Sludge Analysis	Annual	\$517
Groundwater Monitoring	Annual	\$360
Total		<u>\$2,821</u>

Based on the above, we find the Contractual Services Expense – Testing to be \$2,821.

9. Contractual Services – Other – (736) – During the test year, the company paid US Water a management fee of \$2,075 a month for operator services to the utility. The monthly management fee covers monthly wastewater operation costs and minor repairs. The operator visits the wastewater plant one hour per day five times per week. Any major repairs are considered outside the operator’s basic contract and are contracted separately for parts plus labor. US Water increased its monthly management fee, effective May 1, 2007, to \$2,141. The company also pays a fee for fuel expenses at \$70 per month. We consider these costs to be reasonable and have increased this account by \$26,531 ( $(\$2,141 + \$70) \times 12 = \$26,531$ ).

Per Audit Finding No. 6, the company uses an employee of Hazellief Groves, a related company, for various duties. He works 40 hours a week as a contract employee for a monthly fee of \$2,140. In addition to his salary, the contract employee is provided a rental house at a cost to the company of \$350. The contract employee spends five hours per week maintaining the grounds of the wastewater treatment plant site. He also performs routine maintenance on the wastewater collection system. In accordance with Audit Finding No. 6, we have allocated 12.5% (5 hours/40 hours) of the contract employee's salary and the company's rental cost for the contract employee to the utility. This results in an increase of \$3,750  $((\$2,150 + \$350) \times 12.5\% \times 12)$  to this account. During the test year, Mr. Hazellief was paid an additional \$195 for the cleaning of the percolation ponds. We find this amount is reasonable, and this account shall be increased by that amount.

During the test year, the company contracted for repairs and maintenance to the plant. Contracted repairs were performed by either the contract operator outside of his monthly service agreement or an outside sub-contractor hired for a specific repair. Our staff reviewed available invoices in the utility's files that related to purchased parts and labor for repairs incurred during the test year. Based on this review, it was determined that the utility paid \$13,083 during the test year to US Water for repairs to the wastewater systems such as problems with the wastewater plant, lift stations, manholes, and repairs to pumps and a chlorine contact chamber. We find these costs are reasonable and have increased this account by \$13,083.

Because we are changing the utility's rate structure to a BFC and gallonage charge rate structure, the utility will be dependent on OUA for monthly billing data. OUA is charging the utility a one time set up fee of \$100. This amount shall be amortized over five years, and we have increased this account by \$20 to reflect the five-year amortization period.

Our total adjustment to this account is an increase of \$43,559  $(\$26,531 + \$3,750 + \$195 + \$13,083 + \$20)$ . Based on the above-noted adjustments, we find the correct amount for Contractual Services – Other to be \$43,579.

10. Rents – (740) – Per Audit Finding No. 6, the company's office is located in a building owned by Hazellief Groves and is charged a monthly rental fee of \$250. We find this fee to be reasonable, and, in accordance with Audit Finding No. 6, we allocate 50% of the monthly rental fee to the utility. Based on this allocation, the monthly utility rent expense is \$125  $(\$250 \times 50\%)$ , which equates to a yearly expense of \$1,500  $(\$125 \times 12)$ .

11. Transportation – (750) – Per Audit Finding No. 6, the company owns a 1994 truck that is used exclusively by the contract employee to perform his duties for the company. The company estimates that the truck is used 10% percent of time in the performance of utility business. Therefore, in accordance with Audit Finding No. 6, we have allocated 10% of the fuel expenses for a transportation expense of \$647.

12. Insurance – (755) – In accordance with Audit Finding No. 6, 10% (\$111) of the company's automobile insurance premium shall be allocated to the utility. Also, although the company did not have general liability insurance for the test year, the company purchased a policy in January 2007. The policy cost the company \$11,210. Again, in accordance with Audit

Finding No. 6, the utility's allocation was determined by taking the percentage of the utility's coverage to the total company coverage. The company's total coverage is \$426,200. The utility's coverage is \$40,000. Based on the aforementioned allocation method, the utility's allocation of general liability insurance is 9.39% or \$1,052 ( $\$11,210 \times 9.39\%$ ). Therefore, we have increased this account by \$1,052 for general liability insurance. Based on the above adjustments, we find the insurance expense to be \$1,163 ( $\$111 + \$1,052$ ).

13. Regulatory Commission Expense – (765) – Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Based on a \$1,000 rate case filing fee, we have increased this account by \$250 ( $\$1,000/4$ ). Also, the utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers, and by Rule 25-30.475(1)(a), F.A.C., to mail notices of any rate increase to its customers. For these two notices, we estimate the expense to be \$184 which is broken out as follows: (1) \$133 postage; (2) \$34 for printing; (3) and \$17 for envelopes. This amount shall also be amortized over four years for a yearly expense of \$46 ( $\$184/4$ ). Based on the above-noted expenses, we find Regulatory Commission Expense to be \$296 ( $\$250 + \$46 = \$296$ ).

14. Bad Debt Expense – (770) – Pursuant to Audit Finding No. 10, the staff auditor reviewed prior years general ledgers and determined that the utility has a \$21,095 balance for outstanding customer accounts receivable as of March 31, 2007. In accordance with Audit Finding No. 6, we have increased this account by \$672 for uncollectible accounts receivable.

Further, the utility does not currently have authorization to collect customer deposits. Later in this Order, we are authorizing the utility to implement customer deposits.

15. Miscellaneous Expense – (775) – Consistent with the utility's rent expense allocation, we have included in this account an allocation of 50% of the office expenses to the utility for the following: telephone, supplies, repairs, postages and lawn mower repairs. Based on a total expense of \$4,630 for these items, we increased this account by \$2,315 to reflect the utility's 50% allocation of office expenses. Also, in accordance with Audit Finding No. 6, we have increased this account by \$246 for the contract employee uniform expense based on the 12.5% allocation of his pay. Also, the utility has been allocated \$120 annually for its share of the waste disposal service. Our total adjustment to this account is \$2,681 ( $\$2,315 + \$246 + \$120$ ).

16. Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is an increase of \$91,643. Our calculation of O&M expenses is shown on Schedule No. 3-B.

B. Depreciation Expense (Net of Amortization of CIAC) – Using the rates prescribed in Rule 25-30.140, F.A.C., we calculate test year depreciation to be \$15,231. We also calculate amortization of CIAC to be \$6,128 based on composite rates. Therefore, the net depreciation expense is \$9,103.

C. Taxes Other Than Income

Per Audit Disclosure No. 7, we have included in this account 50% or \$331 for the payroll tax expense related to the employee discussed in salaries and wages – employees. Also, as discussed above, we determined a value of \$10,350 for the land associated with the wastewater plant site. In accordance with Audit Finding No. 7, this account has been increased by \$2,750 to reflect the percentage of the utility's assessed value to the company's total property assessed value using information obtained from the Okeechobee County Property Appraiser's Office. We have increased this account by \$4,884 ( $\$108,528 \times 4.5\%$ ) to reflect regulatory assessment fees on the approved test year revenues.

Based on the above, the total adjustment to this account is an increase of \$7,965.

D. Income Tax

The utility recorded income tax of \$0 for wastewater. The utility is a subchapter 1120S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, no adjustment is made to this account.

E. Operating Revenues

Revenues have been increased by \$16,220 to reflect the change in revenue required to cover expenses and allow the approved return on investment.

F. Taxes Other Than Income

This expense has increased by \$730 to reflect RAFs of 4.5% on the change in revenues.

G. Operating Expenses Summary

The application of all the above adjustments to the audited test year operating expenses results in total operating expenses of \$109,441. Our calculation of operating expenses is shown on Schedule No. 3. The related adjustments are shown on Schedules Nos. 3-A and 3-B.

VII. Revenue Requirement

Our calculations of the revenue requirement are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$168,771
Rate of Return	X            .0907
Return on Rate Base	\$15,308
Adjusted O & M Expense	\$91,643
Depreciation expense (Net)	\$9,103
Taxes Other Than Income	\$8,695
Income Taxes	\$0
Revenue Requirement	<u>\$124,748</u>
Adjusted Test Year Revenues	<u>\$108,528</u>
Percent Increase/(Decrease)	<u>14.95%</u>

Based on the above, the utility shall be allowed an annual increase of \$16,220 (14.95%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.07% return on its investment. Our calculation of the revenue requirement is also shown on Schedule No. 3.

#### IX. Rate Structure

The utility's customer base consists of 167 mobile homes and a RV Park which contains 171 rental lots, a bathhouse, recreation hall and laundry facility. The 167 mobile homes are individually metered with 5/8" x 3/4" meters and receive water from the Okeechobee Utility Authority. The RV Park receives water from a 2" master meter for its 171 rental lots. The bathhouse, recreation hall and laundry facility receive water from private wells. The utility's current rate structure is a flat rate structure and was originally approved by this Commission in 2005 under grandfather provisions. The residential customers pay \$28 per month. As discussed earlier in this Order, the related party general service customers are not being charged for wastewater service.

In its Staff Report, our staff preliminarily recommended the continuation of the utility's flat rate structure. However, after the customer meeting, our staff determined that the flat rate structure would be discriminatory. The mobile home residents believe it is unfair for the RV Park's rate to be based on eight ERCs when there are 171 rental lots behind the meter. The customers believe they are and would continue to subsidize the RV Park. We agree and find that a continuation of the flat rate structure would result in the mobile home residents subsidizing the RV Park.

Pursuant to Rule 25-30.437(6), F.A.C., in proposing rates, the utility shall use the base facility and usage charge rate structure, unless an alternative rate structure is adequately supported. It has been our practice to convert to the base facility and gallonage charge rate structure (BFC rate structure), whenever possible, to promote state conservation goals and to eliminate subsidization of those who use excessive amounts of water by those who do not, and we find it is appropriate to do so here. By changing to this type of rate structure, a mobile home resident outside the RV Park would pay only for actual usage. In order to bill its customers based on actual usage, the OUA has agreed, for a fee of \$30 per month, to provide Vantage the monthly usage data for the 167 customers outside the RV Park. Based on the above, we find the utility's flat rate structure shall be converted to a base facility and gallonage charge rate structure.

#### X. Wastewater Rates

The increased rates are designed to produce revenue of \$124,748, excluding miscellaneous service charges, and are calculated using the number of bills and consumption in the test year. Also, the approved rates for wastewater have been calculated based on 80% of the water used by residential customers being returned to the system, and include a 6,000 gallon monthly gallonage cap for residential wastewater customers.

Under the base facility charge rate structure, the 2" meter serving the RV Park would normally be assessed a BFC for eight ERCs. However, there are 171 rental lots behind the meter, which places a greater demand on the utility's system than eight ERCs. A BFC based solely on the size of the meter would not accurately measure the demand placed upon the utility's system. Based on the usage characteristics of the rental lots, we find it is appropriate to consider each rental lot as three-fourths of an ERC or .75 ERC. Therefore, the BFC for the RV Park shall be based on 128 ERCs (171 X .75). In addition, we find it is appropriate to apply one ERC each for the bathhouse and recreation hall, and 26 ERCs for the laundry facility.

Under Section 367.022(5), F.S., landlords who provide service to their tenants without specific compensation for the service are exempt from the Commission's jurisdiction. Thus, we have no jurisdiction over what the park owner individually charges the customers of the RV Park. The RV Park shall be charged a bulk rate which includes a flat rate for the 171 rental lots, bathhouse, recreation hall, and laundry facilities. To determine the appropriate flat rate for the rental lots, we used a summation of the individual BFC charge each rental lot would pay if it was individually billed by the utility. This results in an approved flat rate of \$2,179.82 (128 ERCs x \$17.03) for the RV Park consisting of 171 rental lots. Although the RV Park as a whole is a general service customer, because of the usage characteristics of the rental lots, we find it shall be charged the residential gallonage charge of \$2.90 for the gallons billed by OUA. The usage shall be capped for the rentals lots. Because OUA charges the RV Park for only the rental lots' usage, the RV Park's gallons shall be capped at 6,000 gallons per rental lot or 1,026,000 gallons (171 X 6,000). This is consistent with the actual usage characteristics of the rental lots. Currently, the average water usage per rental lot is 1,300 gallons per month.

The flat rate incorporated in the bulk rate for the bathhouse, recreation hall and laundry facility includes average usage based on the demand these facilities place on the system. The bathhouse, recreation hall, and laundry facility are each served by a 2-inch potable well. In determining the flat rate for the bathhouse and recreation hall, we have estimated usage of 280 gpd per ERC for each facility. This equates to a monthly average of approximately 8.51 kgal. These gallons were multiplied by the approved general service gallonage charge of \$3.48. The resulting rate for these two facilities is \$46.64 ( $\$17.03 + (\$3.48 \times 8.51)$ ). The laundry facility's flat rate was determined using the same methodology as the bathhouse and recreation hall, except we have estimated usage of 400 gpd per ERC. This equates to a monthly average of 316 kgal. The resulting rate for the laundry facility is \$1,542.66 ( $(\$17.03 \times 26 \text{ ERCs}) + (\$3.48 \times 316)$ ). Based on the above, the approved rate for the RV Park is a bulk rate of \$3,815.76, plus the gallonage charge of \$2.90 per 1,000 gallons capped at 1,026,000 gallons. We have approved a similar methodology for ratesetting in the past.<sup>6</sup>

The approved rates shall be as shown on Schedule No. 4. The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates shall not be implemented until 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 no less than 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

A comparison of the utility's original rates and the approved wastewater rates is shown on Schedule No. 4.

#### XI. Statutory Four-Year Rate Reduction

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is \$310 annually. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

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<sup>6</sup> See Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.



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.

## XII. Temporary Rates

This Order proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the utility, the approved rates shall be approved as temporary rates. The approved rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of the appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$11,192. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.
- 9) This account must specify by whom and on whose behalf such monies were paid.

The utility shall maintain a record of the amount of revenues that are subject to refund. In addition, after any temporary rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The reports shall also indicate the status of the security being used to guarantee repayment of any potential refund.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

### XIII. Customer Deposits

Rule 25-30.311, F.A.C., provides guidelines for collecting, administering and refunding customer deposits. Pursuant to this rule, customer deposits are authorized to be calculated using an average monthly bill for a 2-month period.

Customer deposits are designed to minimize the exposure of bad debt expense for the utility, and ultimately the general body of rate payers. Historically, we have set customer deposits equal to two months of bills based on average consumption. For the initial deposit, the amount is based on the average consumption per residential customer, calculated on the total residential usage divided by the number of residential bills. Therefore, the deposits are calculated specifically by the customer class.

The basis for using two months' consumption relates to the billing cycle. At the point in time when the water meter is actually read by a meter reader, typically a full month of consumption has already passed. This is due to the fact that consumption base charges are retroactive in nature and are based on past consumption. This is referred to as the service period, or the period of time from the previous meter reading to the current meter reading. Typically, this period of time is approximately thirty days if the utility has a monthly billing cycle; however, this period of time may vary between twenty-seven to thirty-three days. The second time frame to be considered is from the meter reading date until the time the bill is prepared and rendered. This varies among utilities, but is usually between 5 to 7 days. Payment is due twenty days from the date the bill has been mailed or presented, consistent with Rule 25-30.335(4), F.A.C. Therefore, the actual payment is due approximately two months after the service is actually rendered.

If payment is not received by the twentieth day, it is considered delinquent pursuant to Rule 25-30.335(4), F.A.C. At that point in time, the utility may begin considering disconnecting service. Pursuant to Rule 25-30.320(2)(g), F.A.C., a utility may discontinue service for nonpayment of bills, provided the customer has been provided at least five working days' written notice, where there has been a diligent attempt to have the customer comply. Thus, the service cannot be disconnected until well after two months subsequent to the bill being rendered. Also, an additional month's usage has already been provided to the delinquent customer, and presumably another month's bill has been issued by the time service can be disconnected.

Not only is collecting a customer deposit to recover this two-month period of service consistent with our past practice, it is also consistent with one of the fundamental principals of ratemaking, which is ensuring that the costs of providing service is recovered from the cost causer.<sup>7</sup> If utilities do not adequately collect deposits to cover the cost of providing service, the result would be an increase in its bad debt expense. Ultimately, the appropriate amount of bad debt expense is included in the utility's revenue requirement, and is, therefore, included in the service rates charged to the general body of ratepayers.

Using our approved rates and the average residential monthly bill for a 2-month period, we calculate customer deposits to be as follows:

<u>Residential</u>	
<u>Meter Size</u>	<u>Deposits</u>
All meter sizes	\$70.00

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<sup>7</sup> See Order Nos. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket No. 951258-WS, In Re: Application for rate increase in Brevard County by Florida Cities Water Company (Barefoot Bay Division); PSC-95-0623-FOF-WU, issued May 22, 1995, in Docket No. 940849-WU, In Re: Application for transfer of Certificate No. 366-W in Lee County from DeAnza Properties-XI, LTD., d/b/a Buccaneer Water Service, to MHC-DeAnza Financing Limited Partnership, d/b/a Buccaneer Water Service; PSC-97-0130-FOF-SU, issued February 10, 1997, in Docket No. 960561-SU, In Re: Application for staff-assisted rate case in Citrus County by Indian Springs Utilities, Inc.; and PSC-97-0832-FOF-WU, issued July 11, 1997, in Docket No. 961249-WU, In Re: Application for grandfather certificate to provide water service in Polk County by Sunrise Water Company, Inc.

General Service

Meter Size

All meter sizes

Deposits

(2 x average bill)

The utility shall file tariff sheets, which are consistent with our decision. Our staff shall administratively approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. If tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date on the tariff sheets, if no protest is filed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that The Vantage Development Corporation's application for increased rates and charges is hereby 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 are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that The Vantage Development Corporation is hereby authorized to charge the new rates and charges as set forth in Schedule No. 4 and as approved in the body of this Order. It is further

ORDERED that The Vantage Development Corporation shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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. The utility shall provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge

shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that the wastewater rates shall be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period at the end of the four-year rate case expense amortization period as set forth in the body of this Order. It is further

ORDERED that the utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate 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 for the reduction in rates due to the amortized rate case expense. 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, Florida Statutes. It is further

ORDERED that, pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall be approved for the utility on a temporary basis, subject to refund with interest as set forth in the body of this Order, in the event of a protest filed by a party other than the utility. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$11,192. Alternatively, the utility could establish an escrow agreement with an independent financial institution. It is further

ORDERED that irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. It is further

ORDERED that The Vantage Development Corporation shall maintain a record of the amount of revenues that are subject to refund. In addition, after any temporary rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the utility shall be authorized to charge customer deposits as set forth in the body of this Order. It is further

ORDERED that the utility shall file tariff sheets, which are consistent with our vote. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. It is further

ORDERED that if the tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, except for the granting of temporary rates, subject to refund, in the event of a protest and the reduction of rates at the end of the four-year amortization period, 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, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a Consummating Order will be issued. The 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 staff. It is further

ORDERED that when the proposed agency action portions of this Order are final and the tariff and notice actions are complete, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 27th day of September, 2007.



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ANN COLE  
Commission Clerk

( S E A L )

RRJ

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, except for the four-year statutory rate reduction and approval of temporary rates in the event of protest, 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 October 18, 2007. 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 approval of the four-year statutory rate reduction and approval of temporary rates in the event of protest, which are issued as 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.

The Vantage Development Corporation Docket No: 070074-SU	Attachment A, Page 1 of 2 Test Year Jan 06 – Dec 07
-------------------------------------------------------------	--------------------------------------------------------

### WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA

1)		<b>Permitted Capacity of Plant (TMADF)</b>	50,000	gallons per day
2)		<b>Three-Month Average Daily Flow (TMADF)</b>	44,600	gallons per day
3)		Growth	0	gallons per day
	a)	Average Connection in ECRs: Projected Test Year: Jan 2006 – Dec 2006	323	ERCs
	b)	Customer Growth in ECRs using Regression Analysis for most recent 5 five years Including Test Year	0	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = $[(3b) \times (3c) \times 2] \div (3a)$	0	gallons per day
4)		<b>Excessive Infiltration or inflow (I&amp;I)</b>	N/A	gallons per day
	a)	Total I & I		gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)		gallons per day
	d)	Excessive Amount		gallons per day

### USED AND USEFUL FORMULA

$$[(2) + (3) - (4)] / (1)$$

$$[44,6000 + 0 - 0 / 50,000 = 89.2\% \text{ Used \& Useful}]$$

\* Since the service area is built out, the used and useful is considered 100%.



**WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA**

1)		<b>Capacity of System (Number of Potential in ERCs)</b>	326	ERCs
2)		<b>Test Year Connections (Customers)</b> Average Test Year in ERC	323	ERCs
3)		Growth	0	
	a)	Customer growth in connections for last 5 years including test year using Regression	0	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	0	ERCs

**USED AND USEFUL FORMULA**

$$[(2) + (3)] / (1) = 99.08\% \text{ Used \& Useful}$$

\* Since the service area is built out, the used and useful is considered 100%.

VANTAGE DEVELOPMENT CORPORATION		SCHEDULE NO. 1	
TEST YEAR ENDING 12/31/2006		DOCKET NO. 070074-SU	
SCHEDULE OF WASTEWATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1. UTILITY PLANT IN SERVICE	\$ 65,030	\$ 271,840	\$ 336,870
2. LAND & LAND RIGHTS	\$ -	\$ 10,350	\$ 10,350
3. NON-USED AND USEFUL COMPONENTS	\$ -	\$ -	\$ -
4. CIAC	\$ -	\$ (135,538)	\$ (135,538)
5. ACCUMULATED DEPRECIATION	\$ (65,030)	\$ (75,261)	\$ (140,291)
6. AMORTIZATION OF CIAC	\$ -	\$ 85,925	\$ 85,925
7. WORKING CAPITAL ALLOWANCE	<u>\$ -</u>	<u>\$ 11,455</u>	<u>\$ 11,455</u>
8. WASTEWATER RATE BASE	<u>\$ -</u>	<u>\$ 168,771</u>	<u>\$ 168,771</u>

**VANTAGE DEVELOPMENT CORPORATION**  
**TEST YEAR ENDING 12/31/2006**  
**ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-A**  
**DOCKET NO. 070074-SU**

**WASTEWATER**

**UTILITY PLANT IN SERVICE**

- |                                          |                  |
|------------------------------------------|------------------|
| 1. To reflect plant balance per AF No. 2 | <u>\$271,840</u> |
|------------------------------------------|------------------|

**LAND AND LAND RIGHTS**

- |                                       |                 |
|---------------------------------------|-----------------|
| 1. To reflect land balance per AF No. | <u>\$10,350</u> |
|---------------------------------------|-----------------|

**NON-USED AND USEFUL PLANT**

- |       |  |            |
|-------|--|------------|
| 1.    |  |            |
| Total |  | <u>\$0</u> |

**CIAC**

- |                                                      |                    |
|------------------------------------------------------|--------------------|
| 1. To reflect the appropriate test year CIAC balance | <u>(\$135,538)</u> |
|------------------------------------------------------|--------------------|

**ACCUMULATED DEPRECIATION**

- |                                                                 |                   |
|-----------------------------------------------------------------|-------------------|
| 1. To reflect accumulated depreciation per Rule 25-30.0140, FAC | (\$82,877)        |
| 2. Averaging adjustment                                         | \$7,616           |
| Total                                                           | <u>(\$75,261)</u> |

**AMORTIZATION OF CIAC**

- |                                                        |                 |
|--------------------------------------------------------|-----------------|
| 1. To reflect the appropriate test year Amort. of CIAC | \$87,287        |
| 2. Averaging adjustment                                | (\$1,362)       |
| Total                                                  | <u>\$85,925</u> |

**WORKING CAPITAL ALLOWANCE**

- |                                                |                 |
|------------------------------------------------|-----------------|
| 1. To reflect 1/8 of test year O & M expenses. | <u>\$11,455</u> |
|------------------------------------------------|-----------------|

VANTAGE DEVELOPMENT CORPORATION  
TEST YEAR ENDING 12/31/2006  
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2  
DOCKET NO. 070074-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$0	\$5,758	\$5,758					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	161,947	161,947					
TOTAL COMMON EQUITY	\$0	\$167,705	167,705	1,066	168,771	100.00%	9.07%	9.07%
LONG TERM DEBT								
5.		0	0	0	0	0.00%	0.00%	0.00%
6.	0		0	0	0	0.00%	0.00%	0.00%
7.	0		0	0	0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%		
8. CUSTOMER DEPOSITS		0	0	0	0	0.00%	0.00%	0.00%
9. TOTAL	\$0	\$167,705	\$167,705	\$1,066	\$168,771	100.00%		9.07%
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						8.07%	10.07%	
OVERALL RATE OF RETURN						8.07%	10.07%	

VANTAGE DEVELOPMENT CORPORATION TEST YEAR ENDING 12/31/2006 SCHEDULE OF WASTEWATER OPERATING INCOME				SCHEDULE NO. 3 DOCKET NO. 070074-SU		
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT	
1. OPERATING REVENUES	\$0	\$108,528	\$108,528	\$16,220 14.95%	\$124,748	
<b>OPERATING EXPENSES:</b>						
2. OPERATION & MAINTENANCE	0	91,643	91,643	0	91,643	
3. DEPRECIATION (NET)	0	9,103	9,103	0	9,103	
4. AMORTIZATION	0	0	0	0	0	
5. TAXES OTHER THAN INCOME	0	7,965	7,965	730	8,695	
6. INCOME TAXES	0	0	0	0	0	
7. TOTAL OPERATING EXPENSES	\$0	\$108,711	\$108,711	\$730	\$109,441	
8. OPERATING INCOME/(LOSS)	\$0		-\$183		\$15,308	
9. WASTEWATER RATE BASE	\$0		\$168,771		\$168,771	
10. RATE OF RETURN	#DIV/0!		-0.11%		9.07%	

**VANTAGE DEVELOPMENT CORPORATION**  
**TEST YEAR ENDING 12/31/2006**  
**ADJUSTMENTS TO OPERATING INCOME**

Schedule No. 3-A  
**DOCKET NO. 070074-SU**  
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**WASTEWATER**

**OPERATING REVENUES**

- |                                                            |                  |
|------------------------------------------------------------|------------------|
| 1. To adjust utility revenues to audited test year amount. | \$108,528        |
| Subtotal                                                   | <u>\$108,528</u> |

**OPERATION AND MAINTENANCE EXPENSES**

- |                                                                      |                 |
|----------------------------------------------------------------------|-----------------|
| 1. Salaries & Wages - Employees                                      |                 |
| a. To reflect the appropriate employee salaries                      | \$3,900         |
| 2. Sludge Removal Expense (711)                                      |                 |
| a. To reflect appropriate sludge removal expense per engineer        | \$17,716        |
| 3. Purchased Power (715)                                             |                 |
| a. To reflect appropriate purchase power expense per engineer        | \$9,516         |
| 4. Chemicals (718)                                                   |                 |
| a. To reflect appropriate chemical expense per engineer              | \$2,856         |
| b. To reflect the appropriate chemicals for groundskeeping           | <u>\$261</u>    |
|                                                                      | <u>\$3,117</u>  |
| 5. Material and Supplies (720)                                       |                 |
| a. To reflect appropriate material and supplies per engineer         | \$767           |
| Contractual Services - Billing (730)                                 |                 |
| a. To reflect expense related to receiving consumption data from OUA | \$360           |
| 6. Contractual Services - Professional (731)                         |                 |
| a. To reflect the appropriate accounting expense per AF No. 8        | \$2,908         |
| 7. Contractual Services - Testing (735)                              |                 |
| To reflect the appropriate testing per engineer                      | \$2,821         |
| 8. Contractual Services - Other (736)                                |                 |
| a. To reflect the appropriate operator services per engineer         | \$26,531        |
| b. To reflect expenses for contract employee                         | \$3,750         |
| c. To reflect normal maintenance per engineer                        | \$13,083        |
| d. To reflect expenses related to cleaning perc. Pond                | \$195           |
| e. To amortize the set fee to OUA (\$100/5)                          | \$20            |
|                                                                      | <u>\$43,579</u> |
| 9. Rents (740)                                                       |                 |
| a. To reflect appropriate rate per AF No. 6                          | \$1,500         |
| 10. Transportation Expense (750)                                     |                 |
| To reflect the utility's 10% allocation of truck expenses            | \$647           |
| 11. Insurance Expenses (755)                                         |                 |
| a. To reflect the utility's 10% allocation of auto insurance         | \$111           |
| b. To include a pro forma general liability insurance                | <u>\$1,052</u>  |
| Subtotal                                                             | <u>\$1,163</u>  |
| 12. Regulatory Expense (665/ 765)                                    |                 |
| a. Amortize Rate Case Filing Fee over 4 years (\$200/4-200)          | \$250           |
| b. Include and amortize notice expense over 4 years                  | 46              |
| Subtotal                                                             | <u>\$296</u>    |
| 13. Bad Debt Expense                                                 |                 |
| a. To reflect expenses related to uncollectible accounts             | \$672           |
| 14. Miscellaneous Expense (675/ 775)                                 |                 |
| a. To reflect the utility's allocated portion of miscellaneous exp.  | <u>\$2,681</u>  |

**TOTAL OPERATION & MAINTENANCE ADJUSTMENTS**

**\$91,643**

**VANTAGE DEVELOPMENT CORPORATION**  
**TEST YEAR ENDING 12/31/2006**  
**ADJUSTMENTS TO OPERATING INCOME**

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**WASTEWATER**

**DEPRECIATION EXPENSE**

1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$15,231
2. To reflect test year CIAC amortization	<u>-\$6,128</u>
Total	<u>\$9,103</u>

**TAXES OTHER THAN INCOME**

1. To reflect the appropriate payroll taxes	\$331
2. To reflect the appropriate property taxes	2,750
3. To reflect the appropriate test year RAFs	4,884
Total	<u>\$7,965</u>

VANTAGE DEVELOPMENT CORPORATION  
TEST YEAR ENDING 12/31/2006  
ANALYSIS OF WASTEWATER OPERATION  
AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	COMMISSION ADJUST- MENT	TOTAL PER COMMISSION
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$3,900	\$3,900
(703) SALARIES AND WAGES - OFFICERS	0	0	\$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	\$0
(710) PURCHASED SEWAGE TREATMENT	0	0	\$0
(711) SLUDGE REMOVAL EXPENSE	0	17,716	\$17,716
(715) PURCHASED POWER	0	9,516	\$9,516
(716) FUEL FOR POWER PRODUCTION	0	0	\$0
(718) CHEMICALS	0	3,117	\$3,117
(720) MATERIALS AND SUPPLIES	0	767	\$767
(730) CONTRACTUAL SERVICES - BILLING	0	360	\$360
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	2,908	\$2,908
(735) CONTRACTUAL SERVICES - TESTING	0	2,821	\$2,821
(736) CONTRACTUAL SERVICES - OTHER	0	43,579	\$43,579
(740) RENTS	0	1,500	\$1,500
(750) TRANSPORTATION EXPENSE	0	647	\$647
(755) INSURANCE EXPENSE	0	1,163	\$1,163
(765) REGULATORY COMMISSION EXPENSES	0	296	\$296
(770) BAD DEBT EXPENSE	0	672	\$672
(775) MISCELLANEOUS EXPENSES	<u>0</u>	<u>2,681</u>	<u>\$2,681</u>
	<u>0</u>	<u>91,643</u>	<u>91,643</u>



<b>VANTAGE DEVELOPMENT CORPORATION</b>		<b>SCHEDULE NO. 4</b>	
<b>TEST YEAR ENDING 12/31/2006</b>		<b>DOCKET NO. 070074-SU</b>	
<b>MONTHLY WASTEWATER RATES</b>			
	<b>UTILITY'S EXISTING RATES</b>	<b>COMMISSION APPROVED RATES</b>	<b>4-YEAR RATE REDUCTION</b>
<b><u>Residential Service</u></b>			
Base Facility Charge All Meter Sizes	\$28.00	\$17.03	\$0.04
<b><u>Gallage Charge</u></b>			
Per 1,000 Gallons (6,000 gallon cap)	\$0.00	\$2.90	\$0.01
<b><u>General Service - Vantage RV Park</u></b>			
Bulk Base Facility Charge			
Bath House	\$28.00	\$46.64	
Recreational Hall	\$28.00	\$46.64	
Laundry	\$28.00	\$1,542.66	
RV Park Lots	\$28.00	\$2,179.82	
Total RV Park Bulk Rate		\$3,815.76	\$9.48
Gallage Charge per 1,000 gallons for RV Park lots (6,000 gallon cap per RV lot)	\$0.00	\$2.90	\$0.01
<b><u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u></b>			
3,000 Gallons	\$28.00	\$25.73	
5,000 Gallons	\$28.00	\$31.53	
10,000 Gallons	\$28.00	\$34.43	